THE PLAN OF THE NATIONAL MONETARY COMMISSION FOR THE REVISION OF OUR BANKING AND CURRENCY LAWS

SPEECH

OF

HON. EDWARD B. VREELAND

OF NEW YORK

IN THE

HOUSE OF REPRESENTATIVES

FEBRUARY 6, 1912

WASHINGTON
1912

31082—10611

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The House being in Committee of the Whole House on the state of the Union and having under consideration the bill (H. R. 18956) making appropriations for the support of the Army for the fiscal year ending June 30, 1913—

Mr. VREELAND said:

Mr. CHAIRMAN: Through the courtesy of the House I have been given an hour and a half in which to discuss the banking and currency legislation recently proposed by the National Monetary Commission.

Three and a half years ago Congress appointed a National Monetary Commission for the purpose of investigating the monetary systems of our country and of the other great nations of the earth, with directions to report back to Congress such changes as may be needed in our banking and currency system. In pursuance of that command the Monetary Commission has reported a bill in detail, which it recommends should be placed on the statute books. That commission was composed of 9 Members of the House and 9 Members of the Senate. There are 16 remaining Members at the conclusion of three and one-half years of investigation. The report of the commission and the recommendations are signed by every man on that commission. They have made a unanimous report. That means, Mr. Chairman, that in the opinion of all the members of the Monetary Commission the bill which they propose and recommend is for the advantage of all parts of this great country, because the 16 members signing the report represent not only both of the great political parties, but they represent every section of our country.

I want to say, Mr. Chairman, that this bill is not the work of any one man. It is not the work of any ten men nor of any hundred men. It is the result of the discussion and study that has gone on among thousands of people competent to discuss the subject during the past three years. It is the composite opinion of all those who have taken part in the discussion.

Mr. Chairman, this plan has been approved by practically all of the bankers of the United States. It has been approved by practically all of the political economists and professors of political economy in the colleges of the United States. That is, we have both the practical men who conduct the business, and the theoretical men who study principles and experiences, agreed in the main upon the principles which we embody in this legislation.

Mr. Chairman, those who approve of this legislation and those who disapprove of it alike agree that our banking and currency system is antiquated and dangerous. While nearly every other great nation, during the last 50 years, has revolutionized its banking and currency system, the United States still retains the system adopted in 1863, while in the throes of civil war.

There is another thing which intelligent people generally agree upon, and that is that this is the most important legislation that is pending before the American people for settlement. The President of the United States during the past summer declared it as his opinion that it is more important than the tariff, more important than conservation, more important than the question of trusts, and more important than any political legislation that has been presented.

Why is it the most important question presented to the American people? It is because, Mr. Chairman, upon the banking and currency system of the country rests every other great business. When the banking and currency system breaks down, as it has often done, every other business in the country necessarily breaks down with it. It is the most important, because once in about every 10 years during the past half century this great country has been visited by devastating money panics, sweeping over the land, leaving enormous losses and widespread suffering in their wake.

I need not describe panics. We are only too familiar with them. The American people have come to consider them as a sort of dispensation of Providence, as they do earthquakes and cyclones, which are unavoidable. We are all familiar with them. Something starts to frighten the people in some part of the country; credit may already be strained too much by lack of a system that will restrain business from going too fast through rising rates of interest, and a panic starts in New York or Chicago or some other great center; and then the closing of banks, the falling away of confidence, the suspension of cash payments, the breaking down of domestic exchange, followed by shutting down of factories, railroads in receivers' hands, business men unable to carry on their business; finally, hundreds of thousands and sometimes millions of men thrown out of employment.

This is a familiar story to us all, and yet we can not guard against them. No banker can be so conservative and conduct his business upon such lines that he may be sure that he is protected. He may keep the best bonds the country affords in his vaults; they are useless in time of panic. He may keep great quantities of cash in the vaults of his corresponding banks; he is unable to get them after panic sets in. Suppose he keeps every dollar of reserve in his own safe. What good will that do if lack of confidence affects the community in which he lives? What does it matter whether he has 10 per cent or 20 per cent of cash in his safe to pay off 100 per cent of deposits if his depositors are alarmed and panic-stricken? It means that it will only take a day or two longer to pay it out.

The bankers of our country have no way to protect themselves, because there is no place where their sound assets can be turned into either cash or credit. It is this fact more than any other which makes our banking and currency system so likely to break down and which makes it so dangerous to the business of the whole country.

PANICS ARE PREVENTABLE.

Mr. Chairman, I stand here to say that, in the opinion of all intelligent men who have studied the question, both here and abroad, these money panics are entirely due to a defective banking and currency system and to nothing else. If that is so, is it not almost a crime for the Congress of the United States to wait a moment longer than necessary before putting upon the statute books a system which will safely carry the business of this great country? I believe these panics have caused greater losses and suffering to the people of the United States than all the wars in which we have been engaged, barring alone the loss of life and limb.

NO MONEY PANICS ABROAD.

What right have I to say that these money panics are due to a defective banking and currency system? I say it, Mr. Chairman, because when we turn to every other great nation on the face of the earth, our competitors for the trade and commerce of the world, with their longer experience and, as I believe, with the sounder principles upon which their banking and currency systems rest, we find that no one of them has had a money panic for more than 50 years.

Am I not justified, then, in saying that when we, the greatest and richest in our resources of all the nations of earth, when we alone have these disastrous and devastating money panics on an average once every 10 years, am I not right in saying it is due to a defective banking and currency system?

We have had money panics in 1873, 1884, 1893, and 1907. We have had semipanics at the commencement of the crop-moving season in many other years, when credit was strained almost to the breaking point, ruinous rates of interest prevailed, and it only needed an incident like the closing of some great bank or business house to start a panic throughout the country.

It remained for the panic of 1907 to convince the American people that panics are due to a bad banking and currency system. There was no possible excuse for it, except the breaking down of our system. It came in the midst of peace and plenty. It came when there was nothing within the country or without to alarm our people. At no time in our history had business of all kinds been more active and prosperous. Everywhere the railroads were unable to carry the freight offered them, factories were running more than full time, wage earners were all employed at high wages. It came like a bolt out of a clear sky to most of our people.

Gentlemen may say that the panic occurred because adventurous business men got possession of some of the great banks of New York City. But so long as the world lasts speculative business men will obtain important positions in the business world. Why should the whole country suffer therefrom? Why should it not be limited to the institutions which permit these men to get control of them?

It may be said that credit was strained almost to the breaking point, and it was the knowledge of this condition which permitted panic to spread so rapidly, and that the business of the country had grown too fast for its capital. This, quite likely, is true, but that is one of the prime defects in our system which we wish to cure. We should have a banking and currency system which gives warning, through rising rates of interest, that we are going too fast. The American people are quite likely to go too fast. They are optimistic and energetic. Under any proper banking and currency system the business people and the bankers of the country would receive notice of too great business expansion through rising rates of interest, instead of going ahead at full speed until they run into a smash up like an express train running off the track.

I have said, Mr. Chairman, that we are the only great country in the world that has money panics. I want you to understand clearly what I mean. Of course, I do not mean that we can escape business depressions arising from natural causes. If we should have a failure, or a partial failure, of crops in the United States, it would mean a depression in business which would affect the whole country. The country would have less money to spend and could, therefore, buy less of the necessities and luxuries of life. If there was an alarm of war, or actual war, it would, of course, depress many kinds of business.

The point I wish to make clear is that business depressions in our country too often run into money panics. There are runs upon solvent banks in all parts of the country. Finally there is the disgrace of suspension of cash payments throughout the country and the breaking down of domestic exchange. The banks are among the first to become frightened, because they know from experience the weakness of our system. Ten thousand bankers all at once endeavor to draw their money from the money centers where it is deposited. They commence calling loans. They refuse credit to solvent parties. They do the very things which bring on the panic which they fear. They do it, prompted by the instinct of self-preservation. Our system compels every bank to try to protect itself, regardless of the interests of the country, of other banks, or even of its own customers.

The great countries abroad have failure of crops much more often than do we. They have wars and rumors of wars more often than do we. But their business depressions are not followed by runs upon banks, the suspension of cash payments, and the breaking down of their credit systems. It is the money panic in the United States and the loss of confidence resulting therefrom from which it takes the country so long to recover.

NOT LEGISLATION FOR BANKERS.

Mr. Chairman, I want to impress upon the House that this legislation is not a bankers' proposition. It is far beyond that. It is much wider than that. It is a bankers' proposition only in the sense that remedial legislation must be applied to the banking and currency system. I go further than that. I maintain that among all the great businesses of our country the bankers themselves are least concerned and interested in this reform from the standpoint of losses incurred during panic. The bankers are best able to take care of themselves.

The banker often can see the storm coming afar off. That is his business. The bank is a close organization. The banker can quickly take in sail. He can stop loaning. He can call in his loans, especially those that are out of town. He can even suspend payment behind the walls of a clearing house and refuse to pay his depositors the money which belongs to them, and he escapes insolvency proceedings for so doing, because people know he has no place to procure either cash or credit in time of general panic. The most that happens to all except an insignificant percentage of our banks in time of panic is that their earnings are decreased.

It is different with business men and manufacturers. The failure to obtain cash or credit by them may mean the stopping of their factories or of their business. It may, and frequently does, mean their financial ruin. The manufacturer may have to purchase his raw material, carry along his pay rolls, and make up his finished stock for six months or a year before he puts it upon the market. He must depend absolutely upon having a market for it six months or a year away.

Mr. Chairman, suppose that every 10 years the railroads of this country should stop running, or partially stop running, leaving the products of the farm to rot in the field and threatening the cities with starvation. It is evident that legislation would have to be applied to the railroads, but the railroads would not be more interested than all the rest of our people. Not only that, but in regulating railroads as we have we continue to leave the conduct of the railroad business in the hands of railroad men, merely protecting the general public against oppressive charges and providing by statute that all of the people shall receive equitable treatment under like circumstances.

So, in providing for the reform of our banking and currency system, we need to consider bankers only to the extent of providing that they shall not be able to make undue profits, and that we shall not give to them privileges except those which are to be exercised for the benefit of all the people.

When we remember the losses to farmers during and after panics we can readily see that they are more interested than bankers. When we remember the hundreds of thousands and sometimes millions of wage earners who are thrown out of employment by panics, and that they have no opportunity to foresee or to protect themselves if they could; that when they lose a day's work it is gone forever, we can understand their vital interest in banking and currency reform.

While bankers dread panic as sailors dread shipwreck, yet it has happened in the past that an exceedingly small percentage of our banks failed to pay their usual dividends.

Mr. PALMER. Will the gentleman yield?

Mr. VREELAND. Certainly.

Mr. PALMER. The gentleman has said that bankers were not interested in this matter. I ask this for information: Is it not true, as alleged, that the bankers of the country have raised an enormous fund for the purpose of educating public opinion in this matter?

Mr. VREELAND. I do not understand so. I understand that the National Citizens' League, with branches in many of the States, composed entirely of business and professional men of high standing, have asked for contributions for the purpose of circulating literature and have formed an organization in the different States in favor of banking and currency reform.

Mr. PALMER. Is it not true that, by the committee or some other organization, various banks in the cities of the country have been assesssed a certain figure and have donated large sums for this purpose?

Mr. VREELAND. I understand that anyone can become a member of the National Citizens' League by paying $1, and will then receive the literature published by them. Without knowing much about it, I have also understood that contributions have been asked in various cities, one-half to be made by business men generally and one-half by bankers. I do not know to what extent the banks are responding. My information is that the banks of New York have declined to pay. I do not know to what extent they have responded elsewhere.

Mr. PALMER. What I am trying to find out is whether or not the banks of the country are not behind this proposition.

Mr. VREELAND. I hope so; they ought to be. We have been trying for years to get the banks behind some proposition. It took the panic of 1907 to convince the bankers as well as other people that we had a system antiquated and dangerous and liable to inflict enormous losses upon the country at any time.

Mr. PALMER. My information is received from a Philadelphia banker, that the banks all over the country had been assessed, that the city of Philadelphia had been assessed in the sum of $50,000, and that the banks had actually contributed that amount, and that a large fund, running into several million dollars, had been contributed, intended to educate public opinion on this matter.

Mr. VREELAND. I hope the gentleman from Pennsylvania is correct, but I am afraid the story has been greatly exaggerated. I have understood that the league has been very insufficiently supplied with money to carry on this purpose. I hope the bankers will be willing to contribute with the other business interests of the country in trying to educate the people along scientific lines of banking and currency reform. Certainly the country needs it badly enough. In the great countries beyond the sea legislatures make economic laws, guided by the advice of experts. In our country legislatures are guided by the voice of public opinion, and we all understand that in so great and complicated a matter as a banking and currency system for a Nation like ours a tremendous amount of organized and systematic effort must be made in order to get an intelligent public opinion in favor of such legislation.

In endeavoring to procure such legislation the bankers should take the lead, because it is their business or profession. They ought to feel the disgrace of suspending payment, of putting themselves in shape where they may be proceeded against for insolvency under the law of the land, because they are obliged to inflict enormous losses upon their customers through their inability to perform their proper functions as banks.

Mr. PRINCE. Will the gentleman yield?

Mr. VREELAND. Certainly.

Mr. PRINCE. Do I understand that in this free banking system in the United States the banks are political organizations?

Mr. VREELAND. No; I understand just the contrary. I will say to the gentleman from Illinois that the national banks are not political organizations. They are owned by men of all political parties and they do not take part in politics. I think we have a statute on the books forbidding national banks to make contributions for political purposes.

PRESENT BANKING AND CURRENCY SYSTEM.

Now, Mr. Chairman, what is our present system? In order to correct it we must first find out what is the matter with it.

Why does it shut up every 8 or 10 years, while the country sits down and waits for confidence to come back to the people? I can not go into this deeply. I can only touch on two or three of the principal defects of our system. I refer gentlemen to the report of the Monetary Commission for a fuller enumeration of the details of the trouble.

A few days ago Andrew Carnegie told a special committee of this House that he thought our system was the worst in the world. In some respects he is right. It is a system which compels panic. It is inefficient and costly during normal times. But in some respects, I believe, it is the best system in the world to meet the needs of the people of the United States. We have 25,000 or 26,000 banks of all kinds—7,200 national banks and over 18,000 State institutions. We have a free banking system in both State and Nation; that is, we do not have to go to a legislative body and obtain a charter before starting a bank. We simply apply for a charter under conditions which the law lays down. Our banks are local and home owned. The people of any city or town can get together; they can associate their capital; they can start a bank in that city or town, which exists primarily for the benefit of that community. They elect as their officers men in whom the community has confidence. We have more individual banking units than all the rest of the world put together. This has been one of the great reasons for the upbuilding of this country. We have nearly 40 per cent of the banking resources of the world. We have more gold than any other two great countries in the world.

In contrast to our system, all the other great countries have branch banking. Their systems consist of a few great banks, located largely in some financial center, covering the country with their branches. Canada has 29 banks, not one of them owned west of the longitude of Buffalo. England has 40 or 50 great joint-stock banks, all but two of them in London. France has only three great commercial banks besides the Bank of France, covering the country with their branches. Much may be said in favor of branch banking from an economic standpoint, but our people would never accept it. Under branch banking in 20 years a few great banks in a few of our great cities would own the banking system of the country. Our people are satisfied with our system of home-owned banks. We do not desire to change it in that respect.

But the great trouble with our system is that with our 25,000 banking units there is nothing to bind them together. With 40 per cent of the banking resources of the world, we are unable to unite the strength of our resources in time of need. The trouble with our system is that it falls apart in time of severe stress and strain. There is no cohesion in our system. We have no system under which our banks can cooperate in warding off panic and disaster. We have no keystone to our banking arch. Our system is all right when the sun shines and skies are clear, but when trouble looms up on the horizon it is unable to protect itself or its customers. Every bank commences looking after its own interests. The instinct of self-preservation impels every individual banker to try to protect himself regardless of anyone else, even his customers.

The keynote of banking reform is cooperation among the banks, so that their united resources may be used to ward off distrust and lack of confidence among the people. Give them the power of cooperation under a law which tells them exactly when and how they may cooperate.

LEADERSHIP UNDER THE LAW.

In order to enable 25,000 banks, scattered over a continent, to cooperate for the general good we must have leadership—leadership under the regulation of law, leadership under the searchlight of publicity.

Let me give you an example of what I mean. In 1892 one of the great banks of the world, the Baring Bros., of London, was in financial trouble, and the news spread about London that this great bank, whose business reached into every civilized country, was about to close its doors. But they have leadership under the law in Great Britain. The Bank of England came to the assistance of Baring Bros.; they borrowed fifteen millions of gold from the Bank of France; they gathered around them the great joint-stock banks of London; they made a plan for taking over and assuming the liabilities of Baring Bros., and a great panic was averted. The great bank was saved and is doing business to-day.

In 1907, during our money panic in the United States, we lacked leadership under the law, leadership that would be recognized and responsible to the people, and in the midst of that crisis in the city of New York, where the panic raged, Mr. Morgan, a great financier and business man, was called by common consent to assume the leadership and endeavor to stay the panic. It was said to the American people that in order to stay the panic, in order to relieve one of the great banks of that city and prevent its failure, it was necessary that the United States Steel Co. should absorb one of its great rivals. I am not here to say that it was necessary or that it was not necessary, because I have no knowledge upon the subject, but I do say that in the course of the action said to be necessary to stay the panic it was a great misfortune that this competitor of the United States Steel Co. was absorbed by that institution, because millions of our countrymen have been led to believe the statement, made by prominent men, that that panic and the distress of the people were made the excuse for absorbing the Tennessee Coal & Iron Co. by the United States Steel Co.

We should have leadership that the people know is disinterested, that is disassociated from money making, that is responsible under the law for the performance of its duties. When the Bank of England or the Bank of France raises its rate of discount, it gives notice of conditions in business which all the people can heed and accept.

LACK OF ELASTICITY.

Nearly every man who takes up the study of banking and currency legislation in this country starts out with the idea that elasticity in our cash is the main proposition. That results from our experience with money panics. But under a scientific system we never should reach the point of having a money panic. In fact, the better banking and currency system a country has the less of actual cash they use and the more they use different forms of credit representing cash.

Elasticity of cash is important in our country, but elasticity of credit is of vastly greater importance. Ninety-five per cent of our business transactions are done with instruments other than currency. The banking part of our problem is vastly more important than the currency part of it, and yet they are closely bound together.

Elasticity of currency is important in a country which produces eight and a half billion dollars' worth of crops annually. It is stated that we need from one hundred and fifty to two hundred and fifty millions of actual cash to move our crops, and that we do not need cash to that amount during the winter and spring. Everyone knows that there is no elasticity in our system. First, we have a shortage of money, and then we have a redundancy, and one is about as bad as the other.

Where should we get this extension of cash needed to move our crops? We should get it from the expansion of our bank-note issues, with gold and short-time commercial paper as a basis. That is where every other great nation gets it, but, unfortunately, the expansion of our bank-note issues in this country bears no relation whatever to the needs of business. We all know that our bank-note issues are increased or decreased solely as a matter of profit to the national banks, that profit depending largely upon the price of Government bonds.

What is our money made up of in this country? And I use the word "money" in its broadest sense. First, we have gold—about one thousand seven hundred millions. But gold is not a money which we can import and export to supply elasticity to our system and to move our crops. It is rather the basis of bank-note circulation to supply our needs. Next we have silver—about $740,000,000. That amount is fixed and unchangeable. We have greenbacks and Treasury notes amounting to about $350,000,000. That is absolutely fixed. Then it is evident that if we have elasticity in our currency it must come and should come from our bank-note circulation safely anchored to gold. Our bank-note circulation should increase when business increases and decrease in the same way.

Suppose the First National Bank of Washington is considering the question of issuing $100,000 of additional bank notes, will the officers say to the directors of the bank that the crop-moving season is coming on and the country is going to need more money for the purpose of moving the crops, and therefore the bank should buy more bonds and put out $100,000 more of circulation against them? Do they say that? Not at all. They are not charged with the responsibility of moving the crops. They are running their private business for the benefit of their stockholders. What do they say? They say, "At the present price of Government bonds will it be profitable to this bank to buy $100,000 worth of bonds and issue bank-note circulation against them? Will it pay the bank? If it does, we will do it. If not, we will not do it."

The mere statement shows that this is a vicious system, one that depends not upon the business of the country, but absolutely upon the profits of the banks which have the right to issue these bank notes. We never can have elasticity so long as we have a system resting upon bonds.

Our bank-note circulation should rest upon gold and upon the consumable products of the country—products of the farm and of the factory on their way to market—and when they have been marketed and paid for the bank notes have performed their function and go out of existence until needed again.

EXAMPLE OF JAPAN.

Mr. Chairman, there is no other nation in the world that bases its bank-note circulation upon bonds. The Japanese, because of their great admiration and liking for the United States, adopted our national-bank system along about 1882. But the Japanese are a shrewd and practical people, and they soon saw it was a poor system, unsuited to the needs of business. They appointed a royal commission, and as a result of their report they abolished our banking system and adopted the system which every other great country on earth uses except our own.

Let me give you some examples of the movement of our bank-note circulation in years gone by. You remember that after the resumption of specie payments in 1879 the United States started out on a magnificent career of expanding business. From 1881 to 1893 business advanced by leaps and bounds, increasing more than 100 per cent in many lines. That was the time when our bank-note issue should have expanded, securely anchored to gold, to meet the rising needs of business. What did happen? Did our bank-note issues increase? Far from it. You will find that it actually decreased during those years nearly $300,000,000. What an eccentric system this is. In 1893 we had a money panic, followed by a period of hard times. The banks were stuffed with money for which there was no need; they did not know what to do with it. During the period from 1893 to 1897, when business was prostrate and the country was full of idle money, this eccentric system of ours increased our bank-note circulation nearly $100,000,000.

We must divorce our bank-note circulation from United States bonds or any other kind of bonds. Its volume must depend upon the needs of the country, resting upon and safeguarded by from 33⅓ per cent to 50 per cent of actual gold, and the balance of commercial paper made by individuals and corporations of undoubted credit and guaranteed by solvent banks.

RESERVES OF BANKS AGAINST DEPOSITS.

The United States has no reserve system worthy of the name. As a method of safeguarding our bank deposits in time of stress it is a total failure. Our reserve system has proved to be the greatest defect in our monetary system, permitting and even inviting money panics. Instead of providing for our safety, our present system of reserves is a standing menace to the banks and to the country. As I have before stated, no bank in the country is able to protect itself against its deposit liabilities unless it locks up its money in its safe, and then it would not be a bank, but a safety deposit storage vault.

What is our reserve system? We have more than 15 billions of deposits in the banks of the United States, largely payable on demand. For the purpose of supplying depositors with cash when called for, the national banks are required by law to keep reserves of from 15 per cent to 25 per cent of their deposits on hand, and cash reserves of from 6 per cent to 25 per cent actual cash in their vaults. The laws of various States differ, and, on the whole, State institutions keep somewhat less reserves than the national banks. I suppose we have in cash altogether in all of our banks something like

9 per cent or 10 per cent—let us say nearly a billion and a half dollars, that the banks carry as reserves against this enormous deposit liability. A billion and a half dollars is an enormous sum of money. A billion and a half dollars in reserves, properly placed where it could be used in unlimited quantities wherever and whenever actually needed, would be much more than sufficient to meet any emergency that could possibly arise.

Turn again to the experience of the other great countries of the world. There is no one of them where the law requires that any cash reserve at all shall be kept in the banks. Go to England, Austria, France, Germany—any great country abroad—not one of them by law requires a bank to keep a dollar of reserve on hand. What do they do with their cash reserves—which, of course, any good banker would maintain, whether the law requires it or not? Aside from mere till money—the actual cash needed from day to day—they keep their money in what they call their central bank. They make a reservoir of their reserves. They put them literally into one mass, where they can be used here, there, anywhere, whereever needed and in any amount. We are the only country in the world where the law requires the banks to keep great cash reserves in their vaults, and we are the only country in the world where the system breaks down every time the strain becomes severe enough. What do practical, intelligent Americans want any more than the mere statement of that fact to convince them that our reserve system is a delusion and a snare? The effect of our reserve system is almost to compel panic. Warned by previous experience, every banker in the United States to-day has his eye on every point of the financial horizon, trying to scan the future and trying to protect himself.

Suppose to-morrow there should be danger of war, due, perhaps, to some racial disturbance on the Pacific coast. Then it is likely that 10,000 bankers from here to the Pacific coast would all at once and in the same mail draw on New York and Chicago for their funds there. Every one of them, regardless of the interests of the country as a whole and driven by the instinct of self-preservation—every one of them would try to get hold of every dollar that he could and put it in his vaults, not because he would need it, but because he fears that he may need it; and when the time comes that he actually does need it he may not be able to get a dollar from any place on earth.

The great banks in the centers can not meet such enormous demands for cash any more than a single bank could pay if a large proportion of its depositors appeared unexpectedly and demanded their money. No system can stand such a strain as that.

We have less than three and a half billion dollars of money of all kinds in the United States with which to pay deposits of $16,000,000,000, besides the billions of dollars of debts of other kinds, and yet we have more money of all kinds and more money per capita than any other nation. It would be impossible to devise a system under which we could suddenly brush aside the 95 per cent of credit instruments used in the place of cash in doing our business and attempt to go upon a basis where cash only could be used. Under the systems abroad, no matter what the trouble may be, no banker would draw from the central reservoir for funds until he actually needed them, resting secure in the certainty that in case of need a solvent bank with liquid assets could obtain all the funds needed. For 50 years or more this system has worked in the countries abroad and they have been free from money panics.

Our reserves are scattered around in 25,000 piles throughout the country, differing in size, of course, but every bank in the country having a portion of them. Let me illustrate the weakness of our system. Suppose we should become engaged in war with Great Britain—an almost unthinkable supposition, and I use it merely for the purpose of argument—and suppose that under the cover of its great fleet Great Britain should land 200,000 regulars in Canada for the invasion of the United States.

The United States, with its 90,000,000 people, would issue a call for a million volunteers to add to its Regular Army of less than 100,000 men. But suppose that instead of concentrating our strength in the best position for defense or attack, presumably upon or near the border, each one of our 48 States should say, "We will put our quota of troops on our State border, and when the British Army approaches our State line we will fight them and endeavor to beat them back." And so New York would put its quota of 100,000 men on her northern border, and South Carolina would put her quota upon her border, and Texas and California and Colorado and Georgia would put their quota each upon the frontier of the State, and so we would have our 1,000,000 volunteers divided into 48 groups scattered across a continent. What sort of defense would we be able to make? The British would advance and overcome the troops of New York because they would outnumber them and the troops of no other State would come to their support. And then they would march on and destroy the next quota, and the next, and the next, and in the end our Army of a million men, strong enough to take the invaders by the nape of the neck and throw them into the sea, would be overcome and destroyed through lack of cooperation and concentration of their strength. You say that would be an idiotic proposition. It is, and yet I say to you, Mr. Chairman, in all seriousness that that is the system which prevails to-day as to the reserves of the banks of the United States against their enormous deposit liabilities. That has been their history in every panic which we have had.

Whenever panic has broken out in any part of the country, instead of being able to mass our reserves and stop the panic before it has a chance to spread, we not only do not go to its relief, but actually try to draw away every dollar that we can from the city so attacked by lack of confidence and mistrust. Our reserve system compels panic whenever any clouds are in the finanical sky. It compels every banker to turn his hand against his neighbor and to fight for self-preservation.

When the United States Treasury has been full to overflowing, as in some years gone by, that has helped us out; and many a year we have been saved from a money panic by money from the United States Treasury deposited with the banks at the commencement of the crop-moving season. To-day the Treasury is not in condition to meet these demands; and the

Treasury ought never to be in condition where it is so overflowing that it can take money and deposit it with favored banks throughout the United States. We ought never to depend upon conditions which may happen to exist in the National Treasury to supply us with money to avert panic.

NEW YORK ACTS AS CENTRAL BANK.

To-day the banks of New York City act as a central bank for the country, and five or six of the great banks of New York hold three-fourths of the reserves of banks deposited in that city. Under existing conditions the banks of New York are charged with the responsibility of maintaining credit and of maintaining cash payment in the United States. New York holds the ultimate reserves of the country. The surplus money of banks may be deposited in San Francisco or New Orleans or St. Louis or Chicago, but ultimately those not needed at home find their way to the banks of New York. This is true because New York has the only real call market in the United States. It is a real call market 9 years out of 10, but in the tenth year they often call in vain.

The banks of New York City are not equipped by law to perform the duties of holding the reserves of the banks of the United States, nor of maintaining the credit of the country. I say this with every assurance, because it does not depend upon my statement. It is a matter of history; whenever in the past great financial strain and stress have been put upon them they have broken down under the burden and have been obliged to suspend cash payments and take refuge behind the walls of the clearing house, and that means the suspension of cash payment practically throughout the United States.

They are not fitted to perform the duties of a central bank, and it is a legislative impossibility to give them powers which would enable them to perform this great function. The banks of New York are great money-making machines. That is what they are organized for—to make as much money for their stockholders as possible. The president of a great New York bank is successful if he can pile up great deposits and earn great dividends for his stockholders. Expenses in New York are large and competition is keen, and a New York banker can not afford to keep more than 25 per cent of his deposits on hand in cash, which the law requires. Indeed, it rarely happens that all of the New York banks have on hand the requisite 25 per cent. I will guarantee that, year in and year out, you will rarely find that they will average 1 per cent above the 25 per cent they are obliged to keep on hand in cash in their vaults.

In 1909, at the commencement of the crop-moving season, the three central reserve cities—New York, Chicago, and St. Louis—had 25.4 per cent reserves on hand. That is, they had four-tenths of 1 per cent above the legal requirement at the commencement of the crop-moving season. If a sudden call had come upon them for $50,000,000 in money, it probably would have meant suspension of cash payment and the issuance of clearing-house certificates.

I have no criticism to make against the banks of New York. They are great institutions, admittedly well managed from the money-making standpoint. They have doubtless performed their duties in caring for the ultimate reserves of the country as well as they could under existing law. But I insist and experience has shown that they are not equipped and we can not equip them by law for safely carrying the reserves of the United States. They can not afford to carry great reserves of from 40 to 60 per cent when business is good, in order to release them when business is bad. We can not equip them by law with the power of additional note issue based on gold and commercial paper. It is a legislative impossibility.

For these reasons, under our present system we are constantly exposed to having our system break down, as it has so many times in the past. Every time it breaks down it is more likely to break down in the future.

The lesson from all this is that we must have an institution to hold our reserves which is not a money-making institution. The idea of profit must be eliminated from its management. We must have an institution which can carry 45, 50, or 60 per cent of reserves. We must have an institution which we can endow for the benefit of the whole business of the country with the function of issuing bank notes in any amount needed, provided they are based upon from 33⅓ to 50 per cent or even a greater percentage of gold and the balance upon commercial paper indorsed by solvent banks.

Let me give you an example: During the panic of 1907 our banks, at great expense, imported over $100,000,000 of gold from abroad. That is a small sum compared with $15,000,000,000 of deposits, but it helped a great deal in working upon the imaginations of the people and helping to restore confidence. When that $100,000,000 of gold reached our shores it was not worth a penny more to pay off the debts of the banks than greenbacks or national-bank notes. But suppose that $100,000,000 in gold had gone to Germany. Immediately, with that $100,000,000 in gold as a basis for one-third and the remaining two-thirds commercial paper indorsed by banks, the great German Reichsbank would have been able to create $300,000,000 in cash or credit for the relief of that country. Even upon a basis of 40 per cent gold the National Reserve Association, which we are proposing to create, would have been able to turn that $100,000,000 of gold into $250,000,000 to pay the debts of the country. That is the reason the banks of New York City are not equipped with the proper function to enable them to perform the duties of carrying the ultimate reserves of our banks.

CONFIDENCE IN BANKING.

Any banking and currency system in the world worthy of the name rests upon confidence. I do not mean blind confidence, but I mean intelligent confidence which is familiar with every detail of the system and knows that it will stand up in time of need.

I have shown that we have less than three and a half billions of money of all kinds against sixteen billions of deposits, and yet we have more than sufficient money to meet the necessary wants of the people. It is only when a multitude of people demand a great amount of money against their deposits for which they have no need that our system breaks down.

We must inspire confidence in the individual depositor and in the banker that we have a system which will furnish them money in any amount whenever they actually need it. Then they will not break down our system by demanding money in great quantities for which they have no need, but only fear that if they wait they may not be able to secure it when they do actually need it.

The trouble with our present system is that the bankers themselves have no confidence in it. The bankers themselves are the great hoarders. The bankers themselves constitute the greatest menace to our system. I do not blame them for it; it is the fault of the system. It is because we have no system of cooperation through which our bankers can mass together their mighty resources for common defense.

We have all heard of the old lady who goes to the bank window in time of financial excitement and says to the teller, "If they have her money all safe she don't want it, but if they have not got it she wants it right off."

Mr. Chairman, that illustrates the principle upon which the whole banking fabric in every country in the world rests. The bankers in the United States or elsewhere are just like the old lady. If they know they can get their money in New York or Chicago or New Orleans, then they do not want it; they go on about their business and keep the wheels of business turning. But instil in their minds the slightest fear that they can not get it and they all commence trying to get it home.

EXAMPLES OF CONFIDENCE.

Mr. Chairman, I want to give you two or three instances of what confidence in a banking system means, confidence on the part of the banks and of the people.

A subcommittee of the National Monetary Commission visited France during our investigation. We went into a great bank there called the Credit Lyonnaise. It was then, I believe, the greatest bank in the world. It had something like 14,000 employees on its pay roll at its head office and at its branches. It had $75,000,000 or $80,000,000 of capital and surplus and over $300,000,000 of deposits. It covers France with a network of branches; the governor of this great institution was very affable and considerate in giving us all information desired. I asked him: "How much cash do you carry in your vaults and in the Bank of France against these great deposits?" He called in his bookkeeper, and told us that on that morning they had in actual cash in their vaults and in the Bank of France about 5½ per cent of their deposits, the greater portion of it in the vaults of the Bank of France. I said to him: "Do you ever have runs upon banks in France, and do your people ever become excited about money matters?" He answered: "We have not had a run in a good many years; but the French people are the most excitable people on the face of the earth in relation to money matters. No other people compare with them in that respect." We said to him: "With the most excitable people on earth, how do you feel safe in carrying this small reserve of 5½ per cent against these great deposits of $300,000,000?" The governor said: "Gentlemen, to-morrow morning, in case of need of cash, we can take out of our vaults $20,000,000 worth of such paper as the Bank of France accepts, as decreed by the great Napoleon more than a century ago; that is. paper having upon it three solvent names. We can take twenty millions of that paper, we can take fifty millions, we can take one hundred millions, we can take one hundred and fifty millions of that paper from our vaults over to the Bank of France and bring back the notes of the Bank of France, good as gold from one end of this country to the other. If I could not do that I could not sleep nights; if I could not do that I would not be governor of this institution."

That illustrates the confidence of a great French banker in their system and of the French people in their system—that it will supply them money in any amount whenever legitimately needed. The result is that France has not had a money panic in a century. Perhaps our bankers and our people are braver than they are, or else we have become accustomed to the disgrace of a great country suspending cash payments because our bankers and our people seem to be able to sleep nights, although they know we have no place on earth to turn our credits into cash in time of need.

Mr. FORNES. In France they hold in their vaults 1½ per cent and about 4 per cent in the Government bank, or call it 6 per cent in all. In our central reserve cities they must keep 25 per cent in cash. Then 19 per cent more of their money than ours is in use, or, in other words, the public has the benefit of using that money by borrowing it from the bank. In this country we are at a disadvantage, then, of 19 per cent in keeping idle money on hand according to our system. Is that not true?

Mr. VREELAND. The gentleman is absolutely correct. I have been trying to illustrate the point, that with the enormous cash reserves we carry, the extravagant and needlessly great reserves, which are a loss to the people of the country and to the business of the country, in spite of that we are unable to prevent our credit system from breaking down and precipitating the country into panic whenever a great strain comes upon it.

Mr. ADAIR. Our national-bank system requires a reserve of only 15 per cent. Is that not true?

Mr. VREELAND. That applies to what we call country banks. The three central reserve cities—New York, Chicago, and St. Louis—must at all times have 25 per cent of their deposits in cash in their vaults. The reserve cities must keep 25 per cent reserve, but may keep one-half of it in deposits with central reserve cities. The country banks must keep 15 per cent reserve, but may keep 9 per cent with reserve cities.

Mr. Chairman, let me give you another example of what confidence in a banking system means. I have already referred to the fact that during the panic of 1907 this great country of ours, with its enormous banking and commercial resources, was obliged to turn to a little island across the sea for help, and we commenced importing gold from England to relieve our great necessities. When we commenced to import gold the Bank of England had in its vaults altogether about $165,000,000 in gold. That was all they had. What did it stand for? What was it? It stood first for the accounts of corporations and individuals which keep their accounts with the Bank of England. It stood next for the gold against which the bank notes of England are circulated among the people. Besides this, it stood for the reserves of all the great joint stock banks of England, because the banks there keep only till money in their own vaults and keep the great bulk of their reserves with the Bank of England. Driven by our necessities, we commenced to draw upon that gold. We drew away $5,000,000 a week, $10,000,000 a week, $15,000,000 a week, until we had drawn from the vaults of the Bank of England more than $100,000,000 in gold. What did they do? What happened over there? They had $165,000,000 in gold, and we had drawn away more than $100,000,000 of it. Could there be a greater example of the confidence of the people and of the bankers in their system of banking and currency? Nothing happened. Did the holders of their bank notes, seeing the gold against which they were issued disappear, rush in and demand payment? Not at all. Did the business people demand payment of their accounts? Not at all. Did the people and the bankers of England become alarmed when they saw the gold reserves against their deposits disappear in a yellow stream across the Atlantic? Did they rush in and try to draw out the reserves? Not at all.

The great bank simply commenced to raise the rate of interest—raise the discount rate—3 per cent, 3½ per cent, 4, 5, 6, 7 per cent, 7½ per cent, I think, and they drew gold from 23 different countries of the world to take the place of that which we had drawn away from them; and at the very moment when we were drawing away from this little hoard of the Bank of England we had in the Treasury alone of our great country more than a billion dollars in shining gold, more than England and France together possessed. It has been truly called the greatest and most useless hoard of gold in the world.

Under any modern and scientific use of that great golden treasure the United States could sustain itself against any possible financial contingency which could arise.

Let me give you one more, and a more recent, example of what a modern banking and currency system can do under great stress. We all remember that last fall for many months war was supposed to be imminent between France and Germany. You know that we would not have been surprised any morning to read that troops were already on their way toward the borders. Germany is a country not to be compared with the United States in accumulated wealth or strength of banking capital and resources. At that time when war seemed imminent Germany owed to France and England, mostly to France, about one hundred and fifty millions of money, payable on demand, and payment of this money was demanded, relentlessly and remorselessly. Nearly $150,000,000 demand money was called within six days, and, Mr. Chairman, within six days, with their modern banking system, that great country paid more than $145,000,000 to Paris and London, and the bank-note issue of the great Reichsbank during those six days increased $154,000,000. With their modern system they paid this great demand made upon them and war supposed to be imminent with every day that came along.

What would have happened to us, gentlemen, in like circumstances? How would we meet a sudden demand for $150,000,000 or $100,000,000 or $50,000,000, if such a demand were made upon us, with the danger of war lurking in the background? When President Cleveland sent his famous Venezuela message to Congress a panic ensued on the stock exchange and it required a great effort to prevent it spreading over the country, because of the mere possibility that war might grow out of it.

Other examples could be given. They show the confidence of the people of those countries and of the bankers of those countries in their banking system. They show why those countries have ceased to have money panics. They illustrate how the liquid assets of the solvent banks can be turned into cash or credit to meet any demands made upon them. The knowledge of the banks and of the people that they can always get money or credit at some rate of interest prevents them from asking it until they actually need it in the ordinary course of business; and the weekly rates of discount published by the central banks abroad are great business barometers which all may read and believe, knowing that they are not based on selfish or money-making interests.

I will not stop to talk longer about the defects of our system. There are many others, and they are important. There is a lack of a discount market and any form of standardized commercial paper. There is our antiquated and expensive subtreasury system. There is the lack of power of our banks to finance the cotton and the wheat which we send abroad. The coffee which we purchase from Brazil is financed through London or German banks. The report of the Monetary Commission enumerates a large number of these existing faults in our system. The country is generally agreed upon that point.

Then, how shall we correct it? The National Monetary Commission has proceeded upon the theory that we will disturb as little as possible the business of the existing banks, that the work shall be one of evolution and not of revolution.

VALUE OF EXPERIENCE.

Mr. Chairman, there is no field of human endeavor in which experience is of so much value as in the financial field. Here it is especially true that an ounce of experience is worth a good many pounds of theory. Why should we not turn to the experience of the world? The great countries across the sea have had hundreds of years of experience in trying out financial theories. Suppose the steel mills of Europe were able to make steel of much better quality than the mills of our country. If that were true, every greyhound that crosses the sea would be crowded with experts going over to learn the secrets of their manufacture. Why should we not profit by their financial experience? When we learn that the great countries of Europe have not had a money panic in from 50 to 100 years why should we not endeavor to understand the principles upon which their systems rest and profit by them?

Is it not a remarkable fact, Mr. Chairman, that all of the other great independent countries of the earth, as a result of their longer experience, have adopted practically the same system of banking and currency? I mean by that the principles upon which their systems rest are the same, although their methods of applying those principles may widely differ.

ONLY TWO SYSTEMS OF BANKING AND CURRENCY.

Sometimes we hear people talk as if there were a great variety of banking and currency systems in the world, and that we have only to pick out the best.

Why, Mr. Chairman, in all the history of this world since civilization commenced there have been but two systems of currency found that have stood the test of experience and are in existence to-day. Of course, I mean outside the United States, where, as has been well said, we have a series of banks but no banking system.

One is the system which prevails in Canada and Scotland, and the other is the system which prevails in every other great civilized nation on earth except the United States. Under the system prevailing in Canada and Scotland they have a comparatively small number of large banks—Canada has 29, Scotland 8—which are given the right to issue bank-note circulation against their assets and the right to establish an unlimited number of branches throughout the country. Each one of these large banks endeavors to put out all of its notes possible, on account of the profit there is in it for them. In order to keep out as many of its own notes as possible, it sends in the notes of all other banks for redemption, the same as we, in our banks, return checks to the banks upon which they are drawn. This competition between the banks trying to put out their own notes and to retire the notes of the other banks prevents their volume of bank notes from becoming either redundant or deficient. The banks collectively can keep out whatever volume of bank notes the business of the country requires. The Scotch-Canadian system rests upon the element of profit to the banks and can only be used successfully under the branch-bank system.

In every other civilized country they use the central system; that is, their bank-note issue is centralized in one institution, under Government regulation, and the element of profit is largely taken out of it, and the business of the country automatically decides how much currency is needed in business. Business indicates its need by presenting its commercial paper and asking in exchange for it bank notes or credit.

We can not adopt the Scotch-Canadian system. Why? We can not adopt it because it is based upon branch banking, and because our present system of individual banks, owned in each community, is too firmly established in the regard of our people to admit of change. An attempt to establish that system with us would simply mean a great inflation of the currency and little more elasticity than we have at the present time, provided the notes issued were considered as good as our present bond-secured notes by the bankers and by the people. Under our system of banking it would fail in its redemption features. What interest would 18,000 State banks have in selecting out and sorting and doing up into bundles and shipping away by express for redemption bank notes issued under the Canadian system by our thousands of individual banks, provided our banks had entire confidence that the notes were good? We can not adopt the Scotch-Canadian system unless we adopt branch banking with it, and even if we could it would afford no relief to 18,000 State banks.

Then, as a result of the examination of the experience of all history, we find ourselves reduced by a process of elimination to the other method, of having notes issued by one central authority under regulation of law. Commencing with England in 1844, every other great independent country in the world has taken away from individual banks the right of note issue and given it to a central institution under government regulation. France took the same action in 1848, Belgium in 1850, the Netherlands in 1860, Spain in 1874, Germany in 1875, Austria in 1878, the Balkan States in 1877, Russia in 1879, Japan in 1882, Portugal in 1891, Norway and Sweden in 1897, and Switzerland in 1907; and, Mr. Chairman, in considering these historical facts, we must remember this: Most of these countries have banking systems consisting of a few large, well-managed banks, great joint stock banks like those of England, Germany, and Austria, that are able to employ the best talent that can be had and pay large salaries to men of the greatest ability in financial affairs. Under these circumstances the issue of asset currency by individual banks would be infinitely safer than in the United States, where we have 25,000 large and small banks scattered over a continent.

As a result, then, of the experience of the whole world, extending over a great many years, tested in countries doing a great volume of business, meeting the different conditions in different countries, we find two great financial principles which every independent country on earth except ours has adopted.

First. The centralization of bank-note issue in one institution under government regulation and control, such bank notes resting upon gold and commercial paper indorsed by banks, and automatically increasing and decreasing according to the needs of business.

Second. The mobilization in part of the cash reserves of banks against their deposits in one institution, such institution carrying large reserves and having the right, under regulation of law, to expand its note issue and credit liability based upon gold and commercial paper.

At the commencement of the panic of 1907 in New York City, the Secretary of the Treasury fortunately had about $30,000,000 which he could deposit in banks, largely in the city of New York. Had it not been for this cash, immediately available, aided by the work of some of the great bankers of New York City, this country would have had such a financial smash up as never before happened in history.

I have said that the banks of this country carry nearly a billion and a half dollars in cash reserves. Suppose when the Knickerbocker Trust Co. closed its doors, or when the surging mass of excited depositors was clamoring for its money, we had been able to take one hundred millions or two hundred millions of this great cash reserve and throw it into that panic-stricken city; it would have put out the panic like throwing a bucket of water on a match. It never would have passed outside the city limits. I am not sure but that even the knowledge that such a great cash reserve existed, and which could be used, would have been sufficient to stay the panic without actually using a dollar of it.

Mr. Chairman, I am going to venture to say that I do not believe that any intelligent man can take up the study of banking and currency, study it thoroughly, examine the experience of our own and of the other great countries of earth, and arrive at any other conclusion than that we must have a mobilization of our reserves and centralization of our note issues under some form of organization.

NOT A CENTRAL BANK.

Mr. Chairman, what do we learn from all of these experiences which I have cited in the countries beyond the sea? Do I mean that we must set up a central bank here fashioned after the central banks abroad? Do I mean that we should bring to life the central bank of Andrew Jackson's time? Do I mean that we should set up here a bank like the Bank of France or the Reichsbank of Germany? I mean none of those things.

The lesson that we should learn from experience is that we should adopt these financial principles, which have stood the test of experience for a century among great populations, in carrying on great business. We should adopt these principles and build around them the machinery to adapt them to American conditions.

Mr. Chairman, principles know no State lines; they know no National lines. This great body of ours can pass a thousand resolutions and not change a single law of health, nor can it change one single law of economics. We are proposing to take principles that have been found safe and practicable and adapt them to the different conditions and needs which we have here in the United States. The Bank of France or of Germany would not be suitable for this country. They are perfectly adapted to the countries where they are. People over there are accustomed to being governed both financially and politically from one center.

The people of England and the people of France are perfectly content that there shall be a financial concentration of banking capital and a concentration of management in London and Paris. We are not accustomed to that here, and it would not suit the genius of our people. Many of our people believe that there is already too great a concentration of financial power in one or two great centers. We believe that the control of our banking resources should to a greater extent be decentralized. Our country covers a continent. Some of our States are larger than England or France. Different parts of the country are unequally developed. For all of these reasons no central bank which ever has existed or which is in existence to-day would be suitable for the needs of the United States.

NATIONAL RESERVE ASSOCIATION AN AMERICAN INSTITUTION.

What we want is an American institution. We want to adopt financial principles tested by experience, and upon them erect an institution adapted to the needs of the United States. And I want to say to you, Mr. Chairman, that it is the belief of thousands of our countrymen, who have reached that opinion after disinterested study, regardless of the party to which they belong or the section of the country in which they live, that the plan proposed by the National Monetary Commission would create an American institution which is not only economically sound, but one in which all sections of the country would have their proper and equal say as to the management of our financial affairs.

We have built up an institution, using the framework of our country as its model, building from the bottom up, the town, the county, the State, and the Nation. The individual local bank corresponds to the town, the local association of banks which we create corresponds to the county, the 15 branches or districts into which we would divide the country correspond to the States, and the National Reserve Association at Washington corresponds to the National Government.

NATIONAL RESERVE ASSOCIATION.

I must hurry along, and I want to go over briefly the main features of the National Reserve Association which we are proposing to establish. I can only stop to give you a general idea of it without going too much into detail.

Mr. ADAIR. Before the gentleman takes up that feature of the question I would like to ask him how many panics we have had during the last 50 years which he believes to have been money panics, or which he places in the class of money panics. Does the gentleman believe that more than one panic could properly be termed a money panic—that of 1907?

Mr. VREELAND. What I want to impress upon the minds of everyone is that in our country, no matter what the cause of a business or industrial depression may be, no matter what the scare is produced by, it frequently ends in a money panic. The panic of 1873 is said to have been caused by excessive railroad building—tying up too much of our available capital in railroads—and because we were getting down from the inflated values of war times toward a gold basis. This would naturally result in depressed business and what we call "hard times." Houses like Jay Cook & Co., whose credit was too much extended, would have to fail; but why should the failure of Jay Cook & Co. produce runs all over the country upon banks which were not concerned in railroad building and which were solvent and safe? That, as I have endeavored to show, was the fault of our defective banking and currency system.

It is the same with the panic of 1893. Republicans generally would say that the industrial panic was caused by the election of Mr. Cleveland in 1892 with both branches of Congress, which meant changing our tariff system to one of tariff for revenue only. Others would say it was caused by the silver-purchasing act. Anyone would concede that a change from one tariff system to a lower one would mean a slackening of business throughout the country until it could be found what the results of that change would be. Merchants would buy less goods, factories would run on shorter time, and people would economize until they could find out the effect of the change. That would mean for a time a depression in business—less goods manufactured and bought and sold.

With a sound banking system it should mean nothing more than that. But with us this state of depression was rapidly followed by runs upon solvent banks throughout the United States, the closing of hundreds of banks which could not immediately respond with cash, general suspension of cash payment throughout the country and the issuance of clearing-house certificates, and an absolute destruction of confidence in the minds of business men and of the people. This is what I mean by a money panic. This is where we differ from all of the other great countries. I am not claiming that we can prevent business depressions when reasons for them exist, but a sound banking and currency system will greatly mitigate their severity and will absolutely prevent the money panics which, too frequently, follow our business depressions. I speak confidently because this has been the effect in every other great country.

LOCATION.

It is proposed that the National Reserve Association shall be located at Washington. This is to avoid a Kilkenny fight between New York and Chicago. If that should get started we would never be able to proceed any further with the proposition. [Laughter.] In as much as the country is divided into 15 districts, and a branch is located in some city in each district where the business for that district is actually done, it matters little where the head office is located.

CAPITAL.

Its capital shall be 10 per cent of the capital of national and State banks which are eligible for membership in the association. Its capital must be $100,000,000, paid in when it commences business, and within a year it ought to be $150,000,000. We provide that banks shall subscribe 20 per cent of the capital, but the purpose of the second 10 per cent is really to provide a double liability, the same as with national banks. The second 10 per cent is to be called only to meet obligations of the association.

STOCK.

The stock held by each subscribing bank shall equal 10 per cent of its own capital, with, as I have stated, a double liability. That is, a bank having a capital of $100,000 would take $10,000 stock of the reserve association.

MEMBERSHIP.

Both National and State banks may have membership in this organization. It is proposed that stockholders of the institution shall be banks only; that it shall be a bank of banks; that it shall be the keystone of our banking arch. No bank may join with a smaller capital than $25,000. Its stock is nontransferable by statute. It can not be sold. If a bank goes out of business it can turn its stock in to the reserve association and receive its book value. It can not be voted by proxy. A principal officer of every bank must vote its stock or it must go unvoted.

BUSINESS.

We confine its business to the banks which are its stockholders, to the Government of the United States, and to the purchase of foreign exchange. The principal business of the association will be the purchase of short-time commercial paper maturing within 28 days, made by solvent parties and indorsed by banks which are is stockholders. It can discount paper having a longer time to run when indorsed by the local association to which the bank offering it belongs. It is permitted to purchase no stocks or bonds, except bonds of the United States, and of the several States maturing within one year; nor may it loan money upon the stocks or bonds of railroads or other corporations. For the first time in our history commercial business, commercial paper representing the consumable products of the country—the cotton, the corn, the wheat, the cattle, and the products of the factory—will take precedence over the stock exchanges in the power to borrow the surplus reserves of the country.

Mr. NORRIS. I should like to ask the gentleman why the time of these notes was fixed at 28 days?

Mr. VREELAND. That is a banking question about which I am unable to stop and go into detail. It is evident that the assets of this great institution must be kept as nearly liquid as possible. It is evident that they want no notes which represent investments of a permanent character; they should represent the products of the farm and of the factory on their way to market. The bankers have thoroughly discussed this proposition at great length and have agreed that the acceptance of notes maturing within 28 days, together with the provision for discounting notes of longer time through the local associations will be ample for the purposes of banks as well as being a great check upon the undue inflation of credits.

Mr. PRINCE. Is it not based upon the experience of the banks abroad?

Mr. VREELAND. It is. Twenty-eight days is somewhat longer than the average time that paper runs which is discounted by the Bank of England or the Bank of France or the Bank of Germany.

Mr. FORNES. Is 28 days the limit, or does it permit an extension of the loaning time?

Mr. VREELAND. That is for the board of directors of each district to determine. I should say as a matter of practice that banks would send in other paper to replace that maturing in case of need.

Mr. FORNES. Is it intended by this system to loan upon commercial paper at a fixed rate of interest?

Mr. VREELAND. It is proposed that the reserve association shall loan at a rate which shall be published weekly with its statement of condition. That statement will be the great business barometer, not only for the banks but for all the people of the United States, showing the condition and tendencies of business. If its weekly statement should show that the reserves of the reserve association were steadily diminishing, if there were indications of overexpansion or of overspeculation, they would advance the rate, and the reason for it would be apparent to everybody in their weekly statement of condition.

Mr. FORNES. Is this system the same as that of England or France?

Mr. VREELAND. All of the State banks abroad issue weekly statements and publish their discount rate.

Mr. MADDEN. If this system is adopted, does it contemplate taking all the banks in the United States, State and National? Is it obligatory on the part of the banks to become members of the association?

Mr. VREELAND. There is nothing obligatory in this system touching the banks. The banks do not join unless they choose.

Mr. MADDEN. What effect would it have on a bank not in the association if it chose to remain outside?

Mr. VREELAND. That would be a question of judgment with the bank itself. My opinion is that a bank which was a stockholder in the association would have an advantage over banks which were not members, because the depositors of that bank would know without fail, in any emergency which could arise, their bank could turn to the reserve association and receive advances upon its commercial paper. This would give it an advantage, in my opinion, over a bank which could not avail itself of that privilege.

Mr. MADDEN. If any considerable part of the banking capital of the United States thought it proper to remain outside the reserve association would that mean that we would have two banking systems or would it remain one?

Mr. VREELAND. If we enact this proposed legislation we provide the banks of the United States with a sound and safe banking system, which will free them from the danger of money panics and will enable them at all times to extend credit to solvent customers at some rate of discount. We are taking away nothing that we have at present. We do not oblige the banks to join it. We merely authorize the banks to put in a reasonable amount of capital and create another institution, under limitation of law, for the safety of themselves and the benefit of the people. If they refuse to put in the capital and avail themselves of the means of safety which we provide, I should then say that the next time they suspend payment and refuse the money due their depositors public opinion would compel the Comptroller of the Currency to say to them that they must fulfill their obligations or shut up their doors.

Mr. BULKLEY. Will it not be possible for banks, under the proposed reserve association, to borrow of the reserve association on stocks of the stock exchange or investment securities under the provisions of section 28?

Mr. VREELAND. I have already alluded to that. In no case can a bank borrow of the reserve association on corporation stocks or bonds. Under section 28 the direct obligation of a bank, if indorsed and guaranteed by the local association, may be accepted by the reserve association. In that case the local association is required to take of such bank ample security for its indorsement and guaranty. The security taken might consist of any assets of the bank satisfactory to the officers of the local association.

Mr. BULKLEY. Some of those assets might be investment securities?

Mr. VREELAND. Yes.

Mr. BORLAND. I do not want to take up the gentleman's time, but I desire to inquire as to the right of new banks to enter into this reserve association.

Mr. VREELAND. New banks or any banks, old or new, have the right to join the reserve association at any time, provided such bank comes up to the standard fixed.

Mr. LITTLETON. I desire to ask the gentleman one question for information. Do I understand the gentleman to say you could not borrow upon bonds or stocks if you want to do so, but rather upon commercial paper? Does that mean that you can not borrow from any member of the association upon stocks or bonds?

Mr. VREELAND. It means that you can do anything with stocks and bonds which you can do now. But it also means that, so far as the reserve association is concerned, it can only purchase from banks short-time commercial paper.

NO INTEREST ON DEPOSITS.

The reserve association shall pay no interest on deposits.

DIVIDENDS.

The dividends which the reserve association may pay are limited to 5 per cent, and the balance of its earnings are to be paid into the Treasury of the United States. This is a vital part of this plan. We do not intend to create a money-making institution. We must make the dividends which it may pay to its stockholders so small that they will be earned automatically without effort on the part of its management. We do not wish the control of this institution to be influenced in the slightest degree by desire or power of its directors to increase its dividends. We want the management of this great organization to be guided entirely by the welfare and the needs of the business of the United States.

I have stated that we must let the bankers run the banking business of the country. We can not turn it over to the butcher or the baker, but we should provide by law that the banker may make no undue profits and receive no privileges detrimental to the public welfare in the creation of the reserve association. The rate of interest which we provide would be considered by everyone, I think, as a small return upon bank capital. It should also be noted that the national banks are losing the profit upon bank circulation, which at the present time probably amounts in the aggregate to $10,000,000 a year. This will go to the reserve association and with its other profits above 5 per cent into the United States Treasury.

Mr. BULKLEY. Will the gentleman state to whom the 20 per cent, which it is proposed to accumulate, would go upon the dissolution of the association. If it will go to the banks, then it would be 20 per cent profit in addition to the 5 per cent.

Mr. VREELAND. It would be an additional profit, but rather a limited kind. A bank could only realize upon that if it should go into liquidation and turn in its stock to the reserve association. It is rather a safety fund for the benefit of the association than a profit to the banks.

Mr. BULKLEY. Will the gentleman say whether that will prevent the reserve association toward the end of the 50-year period calling the other 10 per cent as payment on the capital stock and adding a 20 per cent surplus to that?

Mr. VREELAND. The additional 10 per cent of stock can not be called except to meet obligations. That, at the very least, would mean that the reserve association would have dissipated its surplus and impaired its capital. Nothing less than this would justify a call for the additional 10 per cent of stock.

RATE OF DISCOUNT.

We provide that the rate of discount of the National Reserve Association shall be uniform throughout the United States. This provision will be of enormous benefit to the South and West, where great development will take place in the years to come, and where capital at reasonable rates of interest is greatly needed. The effect of this provision undoubtedly will be lower rates of interest in the undeveloped portions of the country and more uniform rates in all parts of the country.

While farmers and business men will receive the benefits of lower discount rates, it does not mean that the earnings of the banks need to decrease. Our commission found last fall that the banks of Denver were carrying from 40 per cent to 50 per cent cash reserves. That means that millions of dollars were lying idle which might be used in the development of that section of the country. With a branch of the reserve association at Denver, where a bank could instantly obtain cash or credit in case of need, the banks would be able to loan a much larger percentage of their deposits at lower rates of interest than now obtained without decreasing their net earnings.

Under the workings of the reserve association, I am confident that it will be found in a few years that the reserves of national banks will be needlessly large and may be safely reduced. Under our present system they are not large enough and can not be made large enough to insure safety.

Mr. ADAIR. Does this plan fix any given amount of deposit which a stockholding bank in the reserve association must carry with the reserve association?

Mr. VREELAND. It does not; no, sir.

NOTE ISSUE.

It is proposed that national banks may turn over to the reserve association the 2 per cent United States bonds, amounting to about $740,000,000, against which the bank notes of national banks are now issued. Let us assume that all of these bonds are sold to the reserve association at not less than par. The reserve association would then issue its own notes in place of the present national-bank notes against these bonds. There would be behind these notes the same security which they have at the present time, besides much additional security.

It goes without saying that no one can bring forward any proposition which will receive the slightest consideration from the people, unless the safety of the bank notes proposed to be issued shall be absolutely beyond question. That is the one and only virtue of our present bank-note circulation—it is good from one end of the country to the other. Any note which we put in its place must be equally good.

Those who remember the "wildcat" and "red dog" State bank circulation before the war appreciate a bank-note circulation good without discount in any part of the country, and even abroad. But they have not always been entirely good as compared with gold. During nearly one-third of the life of our national-bank system national-bank notes have been below par. From 1863, when they were first issued, until the resumption of specie payment in 1879, they were below par as compared with gold. During the Civil War they were worth less than 50 cents on the dollar as compared with gold.

Those who think this element of safety in our bank-note circulation should cover a multitude of shortcomings should study the bank-note circulation of other countries. They will find that where the bank notes are secured by gold and commercial paper they are equally as good as ours, and yet they are entirely elastic to meet the varying needs of business. The notes issued by the Bank of France have been good for more than 100 years. They have been good in war and good in peace. Our notes were far below par, as compared with gold, at the close of the Civil War, when the future of the country was assured. The notes of the Bank of France were not to exceed 4 per cent below par when Prussian armies were marching through the streets of Paris, the Government in the hands of the Commune, and its future uncertain.

The notes issued by the reserve association will have much more security behind them than the Government bonds which are behind our present note issue, although we consider that ample. We provide that the reserve association must at all times keep at least 50 per cent of gold or legal tender against all demand liabilities, deposits as well as bank-note circulation. If it falls below that we provide for a tax until it is restored. We permit the reserve association, however, to subtract one-half the Government bonds owned by it from its demand liabilities. The effect of that would be that it would have 50 per cent or more of gold against all demand liabilities, bank notes and deposits, except the bank notes issued against the

Government bonds. These notes would be secured by Government bonds of equal amount and 25 per cent of gold in addition. The security of the note issue under this plan is unquestioned by bankers here or abroad.

ORGANIZATION AND MANAGEMENT.

The supreme test of the reserve association in the minds of people generally will be its plan of management and control. Is it possible for a few able and ambitious financiers to get control of it, or is its organization such that it will be managed equitably for people from all parts of the United States? This is the crux of the whole proposition. The people will be content to let experts pass upon the banking questions, but they will want to be sure that it can not fall under the control of some great financial interest to be used for its own benefit.

Mr. FORNES. Just one more question before going into that. I understood the gentleman to say, in answer to a previous question, that the reserve association can only buy commercial paper. Suppose in time of financial stringency an institution like a savings bank, which has no commercial paper, should offer its investments, say railroad bonds or municipal stock, will it be able to obtain currency?

Mr. VREELAND. Mutual savings banks in the East have no capital stock, and would not, therefore, be able to become stockholders in the reserve association.

Mr. FORNES. Could they get any relief?

Mr. VREELAND. They would get relief, but not directly. Mutual savings banks do not have commercial customers to take care of. They simply invest, according to law, deposits that are made with them. They usually have no trouble except in time of general panic. I think they easily take care of themselves at other times.

Now, Mr. Chairman, we provide that the United States shall be divided into 15 districts. We provide that these districts shall be formed around cities which are existing commercial centers. You understand that the business of this institution is to be done at these branches in each one of the 15 districts. No money is loaned at the main office in Washington. All the money that is loaned is loaned through one of these branches and under the direction and control of the directors of each district or branch. The main office at Washington merely exercises a general supervisory and advisory power—as, for example, to indicate the rate of discount each week, based upon the condition of the reserve association.

Mr. GLASS. May I ask my colleague if the plan proposed by the National Monetary Commission is not the same plan presented by ex-Representative Fowler, of New Jersey?

Mr. VREELAND. I should say that it is far different. The plan presented by Mr. Fowler was to give the right of issuing asset currency to the 7,000 national banks of the United States.

Mr. GLASS. Did he not propose, just as you propose, to divide the country into districts and create a national reserve bank here in Washington?

Mr. VREELAND. Mr. Fowler divided the country into some number of zones, but I do not understand that he created a bank at all. I refer to the bill known as the Fowler bill, reported by the Banking and Currency Committee of the Sixtieth Congress. If Mr. Fowler introduced a later bill, I do not remember ever to have read it.

Mr. GLASS. I think in a later bill you will find that he created a reserve bank at Washington.

Mr. VREELAND. We have named in the law the number of these branches to be placed in the different geographical divisions of the country. We have provided that one branch shall be located in the New England States, which shall constitute one district. We have provided that the Eastern States, comprising New York, New Jersey, Pennsylvania, and Delaware, shall have two cities designated as branches. We have provided that the States of the South, counting Maryland as a Southern State, shall have four branches and four districts. We have provided that the States of the Middle West shall be constituted into four districts with four branches. We have provided that the Pacific Coast States and the Western States together shall make four districts and have four branches.

We have been criticized, by some of the New York papers particularly, for dividing the country in the way we have. These papers seem to assume that the banking capital and resources of the different sections of the country should have been used as a basis for making these districts. I noticed recently in the Wall Street Journal—by the way, a very excellent and conservative paper and a frequent critic of Wall Street—an article severely criticizing the Monetary Commission upon its division of the country into districts. I will read briefly from their article:

> Heretofore the Monetary Commission has adhered rather closely to sound propositions having to do with the main purpose of its arduous task, and it has consistently refrained from doing things that would appeal to this or that party or faction in politics. Accordingly, it is the more surprising to see that body make a sheer change of front and appeal to the foes of capital for support. Who could have suggested a more drastic or commercially lawless proceeding than that the New York banks—call it "Wall Street" if you like—which possess fully 30 per cent of the banking capital of the United States, shall be shorn of their fair representation in the central association, which at most is less than one-third of the total banking capital, so that their natural and regular share of control or voice will be less than 10 per cent? In other words, a dollar of New York capital would count for but 30 cents, while a dollar of southern capital would count for $2.30 or thereabouts. That this scheme of hamstringing New York capital is a concession to popular prejudice is virtually openly avowed in the explanation that is offered to the effect that by providing for such a method of organization it is expected to safeguard the proposed institution "against Wall Street control."

I want to say that the writer of that article evidently misapprehended the theory upon which these districts are formed, according to the idea of the National Monetary Commission. Our action was not an appeal to the foes of capital, nor was the division of the country into districts the result of any compromises among members of the commission. No one speaking for the commission has ever indicated that banking capital or banking resources should be the basis upon which the country should be divided into districts. These districts, formed around natural commercial centers, are made for the convenience of carrying on the business and commerce of the United States. The population, the terrritory covered, the natural lines of trade and commerce, probability of future growth—all of these things are to be taken into consideration as well as the banking capital and banking resources. It was our desire that there should be no bank in the United States more than 24 hours by mail from the nearest branch. The members of the commission were unanimous in fixing these districts and the number of branches in each geographical division.

Let me point out these districts and the cities where branches would probably be located. Of course, this is only my individual opinion and in some cases might change after a study of the situation. Let me say at this point that the plan provides for a commission, consisting of three Cabinet officers and the Comptroller of the Currency, to lay out these districts and locate the branches. [Showing map.]

We provide one branch for New England, and it would be located at Boston. There would be, I suppose, no dispute over that. What necessity would there be for another branch in New England? Boston is within 10 or 12 hours of every bank in New England. Then there is New York, 240 miles from Boston; Philadelphia, 90 miles from New York; and Baltimore, which would probably be selected, 95 miles from Philadelphia. What need would there be for having more branches in this part of the country? Certainly the needs of business would not require it. The plan directs that there shall be four in the Southern States, including Maryland; Baltimore would probably be selected; New Orleans, quite likely; and some city in Texas; the fourth branch would seem to fall to the Middle Atlantic section, perhaps Atlanta. Four branches would be needed in this large and growing portion of the United States. We provide that the great Middle West shall have four branches. Chicago would pass without challenge, and Minneapolis-St. Paul also. There might be some chance for difference of opinion between St. Louis and Kansas City. My personal opinion would be that St. Louis would be entitled to be selected and that Kansas City would be the center of the next district created, because we give to the directors of the reserve association the power to create new districts when needed by the development of the country. Cincinnati, Cleveland, and Detroit might be considered for the fourth branch, with the chances favoring Cincinnati on account of its central location, and the fact that it already has a subtreasury. In the West and Pacific States Denver would doubtless pass without question. Portland or Seattle should be designated—probably San Francisco—and Los Angeles or Salt Lake City; or it might be decided upon study by the commission that one of the branches should go to the rapidly growing section around Oklahoma or to the territory of which Omaha is the center.

Mr. MARTIN of Colorado. Did the New York banking interests make any objection to this distribution plan?

Mr. VREELAND. There was no chance for objection to the plan by anybody, because it was adopted in the closing days of our sitting and not given to the public.

Mr. MARTIN of Colorado. I would like to ask a question for information. While there might be a nominal distribution of control by means of your district plan, it would not alter the real control, which would be where the money is; that is, in New York; so that New York would exercise just as much actual control in this apparent distribution as though it was centered there in the plan itself.

Mr. VREELAND. I should venture to disagree with the gentleman on that proposition. Of course, New York City is a great financial center. It was not made so by law any more than New Orleans was made a cotton center by law. Every country has its financial center. In making a banking and currency law we can not take away from New York the advantage of the billions of dollars of banking capital which are owned in New York and, therefore, controlled there. Its influence we can not take away nor do we seek to take it away; but we seek to take away from the great banks of New York City the responsibility of maintaining credit and cash payment. We seek to transfer this great power to an institution under strict regulation and limitation by law and with every part of the country having an equitable voice in its management. I maintain that under this plan we disassociate the commercial business of the country from the stock exchanges. I maintain that under this plan the bank reserves of the country will be no longer dependent upon the fluctuations of the stock market.

Mr. Chairman, it seems to me that any dozen gentlemen who will take a map of the United States and locate the cities where these branches of the reserve association should be placed for the convenience of the business of the United States will agree upon probably 13 out of the 15 cities. To locate them strictly according to the distribution of banking capital and resources of the country would mean a huddle of branches located in cities in the eastern part of the United States, within an hour or two by rail from each other, while the branches in the West and South would be so few and far between as to make it extremely inconvenient for the business and banks of those sections of the country.

Our theory of creating the National Reserve Association, with the limitations of law with which we have hedged it about, is that there is no advantage in having the control of it to any section of the country nor to any financial interest. I am a business man and a country banker in the State of New York. Now, in New York State there are 30 per cent of the banking resources of the country. As we have arranged the districts, New York has 8 per cent of representation in the board of directors of this institution. I have no objection to make to that, because, in my belief and in my judgment, it would make no difference if all of its directors were selected from the district of which Minneapolis-St. Paul would be the branch, provided the men selected were men of ability and integrity and high standing in the business life of that district. I maintain that the character and integrity and ability of the men chosen as directors to manage this great institution, as the law directs that it shall be managed, are of vastly more importance than the sections of the country in which they may happen to live.

I shall endeavor to show that the control of the reserve association by selfish financial interests would be useless and profitless under the restrictions which we have placed in the statute. Under this plan New England, with 12 per cent of the banking resources, would have 8 per cent representation in the association; the Eastern States, with 41 per cent of the resources, would have 15 per cent representation; the Middle Western States, with 24 per cent of resources, would have 31 per cent of representation; the Southern States, with 11 per cent of the resources, would have 23 per cent of representation; and the

Western and Pacific States, with 12 per cent of resources, would have 23 per cent of representation.

As I have said, the placing of branches in the different geographical sections of the country was made entirely with a view to convenience and efficiency in doing the business of the country, around natural existing centers, and the representation of different geographical sections according to banking capital and resources is merely incidental to such a division.

Mr. FORNES. I am much interested in the distribution of power in the system, and I may say that I favor it, and that I introduced in 1907 a bill for a bank having the same fundamental principles as in this one. After the thorough investigations made by the Monetary Commission, it has simply strengthened in my mind the system of banking I advocated in 1907.

The CHAIRMAN. The time of the gentleman has expired.

Mr. MANN. I ask unanimous consent that the gentleman may proceed for 30 minutes.

There was no objection.

Mr. VREELAND. Now, Mr. Chairman, let us turn our attention to the building up of this reserve association. We do not commence at the top and build down, but we commence at the bottom in every locality and build up.

Mr. TILSON. Before the gentleman passes along from the districts, I would like to ask if the districts are fixed by hard and fast geographical lines, or if a bank in a certain community can go to its natural business center?

Mr. VREELAND. There are no geographical lines in forming these districts. The idea of the commission is that these districts will be built around branches which are natural, existing business centers. For example, if a portion of the State of Connecticut or all of the State of Connecticut is now doing business with New York and prefers to continue doing its business there, it would probably be put into the district of which New York is the branch. This refers, of course, only to the business which they do with the reserve association. The banks of Connecticut probably do business with both Boston and New York, and would continue to do so. But so far as their business with the reserve association is concerned, I should expect existing lines of business and the preferences of communities to be followed.

As I have stated, it is built up like our Government. The local bank is the unit with which we commence to build. The local bank corresponds to the township; the local association, which is a group of local banks, corresponds to the county; these groups of local associations united into the district correspond to the States, and the reserve association, consisting of the 15 united districts, corresponds to the National Government.

Let me refer for a moment to a local bank, one of the 25,000 or 26,000 banking units scattered throughout the country. I want to say that, in my opinion, nothing is more representative of the community than a local bank situated therein. Ninety-nine per cent of the ownership of these banks is in the communities where they exist. Their stockholders and directors and officers live there. All their interests are there; their deposits come from the communities where they are located; they loan their money there so far as they are able to; there is no outside interest of any description which compares for a moment in importance with their local interests.

The idea sometimes expressed that local banks are controlled in the conduct of their business by larger banks in distant cities is entirely unfounded. Local banks keep deposits in financial centers for the convenience of their customers. They also keep a portion of their reserves in financial centers. There is keen competition among the banks of the financial centers to obtain the accounts and deposits of local banks. Whatever obligation there is rests with the banks in the financial centers toward the local banks which are its customers and depositors. Of course, I am not describing the great banks in a city like New York, which draw their deposits and business from all over the United States, but the business of the hundred banks even in New York City is largely local and only a few of the great banks there draw as much as half of their deposits from outside the city.

We are building, then, upon institutions which are rooted in the soil of every town, village, and city throughout the United States. No outside interest of any description can compare in importance to them with their local interests. In every town and city of the country they are competing sharply with each other. It would be destruction to a local bank to desert or betray the interest of the people where it is located.

These local banking units in every district in the United States will control in the framing of this institution. Let us take a concrete example, if you please. The State of New York would probably form one of the 15 districts, with New York City as its branch. New York State has over 800 banks eligible for membership. Let us assume that New York State would be divided into 10 local associations. That would average 80 banks in each association. These local associations would be formed around some natural business center. Let us take the local association formed in western New York, where my home is, and of which Buffalo is the largest city. These local associations have important duties to perform, but I can only stop to speak of them in connection with building up the institution. Each local association has its own officers and board of directors.

Let us assume that this local association decides in its bylaws to have 10 directors. Our plan provides that three-fifths of these directors shall be elected by the banks voting as units; that would be 6 out of the 10. Two-fifths, or 4, of the directors are elected by the banks voting according to stock. Of the 80 banks in this local association, probably three-quarters are outside the city of Buffalo. In electing a majority of the directors, then, the banks voting as units control; that is, a bank having $25,000 capital in a village has the same vote as a bank with $1,000,000 capital in a city.

Each one of the 10 local associations in the State would elect its officers and board of directors in the same way.

Mr. ADAIR. Will the gentleman yield?

Mr. VREELAND. Yes.

Mr. ADAIR. If it is a good idea to elect 6 of the directors by the unit vote, would it not be a good idea to elect 10 in the same way?

Mr. VREELAND. Ordinarily in the formation of corporations the directors are elected entirely by the stock. This institution is created for special purposes, and we conceived it to be a happy solution to provide that the directors shall be elected in part by stock and in part by banking units. The same idea prevails in our Government, where the States, regardless of size, have an equal vote in the Senate, but are represented according to population in the House.

Mr. COOPER. Will the gentleman yield for a question?

Mr. VREELAND. I will.

Mr. COOPER. What is to prevent the large stockholders of the large banks from owning all of these 25,000 little banks?

Mr. VREELAND. In the first place, I think they would find it difficult to buy up the local banks. They would have to pay a good deal more than they are worth; next we have a very stringent provision in the law providing that banks which own 40 per cent or more of stock in another bank have only one vote.

Mr. COOPER. I know it will prevent banks, but what will prevent the individual, the bank stockholder?

Mr. VREELAND. The gentleman has in mind the chain of banks?

Mr. COOPER. Yes.

Mr. VREELAND. We provide in the law that whenever 40 per cent or more of the stock of two or more banks is owned by any individual, trustee, or any form of holding company, that it shall count as one unit and have but one vote, so that 100 banks under such circumstances would be entitled to one vote.

Mr. Chairman, I have shown how the 10 local associations in New York would be formed and how their boards of directors would be elected. Then each of the 10 local boards elects a voting proxy or representative. These voting proxies elect the board of directors of the district or branch comprising the whole State. Let us suppose that the branch has 12 directors. It could have a larger number if it desired. One-half of these directors, or six, would be elected by these voting proxies or representatives from each branch, voting as units; one-third, or four, directors would be elected by the same proxies voting according to the stock owned in each local association; one-sixth, or two, of the directors would be business men, not bankers. That makes up the 12 directors of the district. A deputy manager of the district or branch is added to the board ex officio. He is appointed by the governor of the National Reserve Association, and his selection must be approved by the board of directors of the district and he must be a resident thereof.

You will remember, Mr. Chairman, that this board of directors in each district does the actual business of the reserve association. All discounts made for local banks in each district are passed upon by this board. They are the ones to whom complaint would first be made if some bank did not receive the "equitable treatment" which the proposed law requires that every bank shall receive. The banks in the New Orleans district would have nothing to do with Washington, but would do their business in New Orleans, passed upon by a board of directors elected in their own section of the country, familiar with their needs and familiar with the character and reputation of every bank. Here we have local self-government in the highest degree conducive to safety.

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Let us now elect the 46 directors of the National Reserve Association. The board of directors of each of the 15 districts elects a voting proxy or representative. These voting proxies elect 15 directors, 1 from each district, who is a banker; they then elect 15 directors who are not bankers and shall have no connection with banks during their term of office, representing the agricultural, industrial, and commercial interests of the country. Not more than 1 of these can come from one district. The same voting proxies then elect 9 additional directors, each voting proxy voting according to the total amount of stock held in the district which he represents. Not more than 1 of these can come from one district. We then provide for 7 directors ex officio, consisting of the Secretaries of Agriculture, Commerce and Labor, the Treasury, and the Comptroller of the Currency, the governor and two deputy governors. This comprises the 46 directors of the association.

The governor is appointed by the President of the United States from a list of names furnished by the national board of directors. The two deputy governors are elected by the national board of directors.

It was considered proper that the United States should be represented to this degree on the board of directors, not only because we are creating it a fiscal agent of the Government, and the Government will be, perhaps, the largest single depositor in the association, but because the United States should have representatives upon its board to see that the laws controlling it are faithfully carried into effect.

Mr. Chairman, can any man fairly say that this institution, so built up, will not fairly represent all the business interests of all parts of the United States? Probably 15,000 banks, located in every part of the country, would own the stock of the National Reserve Association. Outside of two or three financial centers these banks are local institutions, owned and managed in all the cities and towns of the country. Their interests are identical with those of the communities in which they exist. This institution has been organized, so far as human ingenuity can provide, along lines which make it secure against either political control or the control of any financial interest. We have made its earnings so small as to be automatic, and no effort on the part of the management can increase the profits of its stockholders. It is an institution in which the success of those who manage it must depend upon serving the business interests of all of the people of the United States.

We may fairly assume that the very best men obtainable would be selected as directors in the various boards of this institution, just as men of high standing are selected as officers in the clearing houses of the country.

A position as governor or director of the National Reserve Association will carry with it great honor and great responsibility. It is natural for all men to desire to achieve success in the eyes of their countrymen. They can only achieve success as officers of this institution by conducting its affairs for the benefit of all the people of the country.

When a subcommittee of the National Monetary Commission was abroad we interviewed the governor of the Bank of France, one of the most able and eminent financiers in Europe. We asked him:

What do you consider the province of the Bank of France, and what do you consider your duty as its governor?

He replied:

Gentlemen, the Bank of France was created by the great Napoleon more than 100 years ago to serve all of the business interests of France. It has existed under Emperor, under King, and under Republic; it continued to fulfill its mission when Prussian armies were marching in the streets of Paris. It has been the leader not only of the banking, but of all of the great business interests of this country. It has never been controlled by politics nor by the great financial interests of France. My duty is to continue the business of the bank as it has existed for more than a century. I could not achieve success by piling up great deposits, because the Bank of France is becoming less and less a competitor of other banks. I could not achieve success by earning great dividends, because these would largely go to the Government. When I lay down the reins of the management of this great institution my administration will be known as successful if I have conducted it for the best interests of all the people of France.

Mr. Chairman, it is an institution which will be conducted along such lines that we are planning to build for the United States, and we believe that we have placed such provisions and limitations in the law that it will not lie in the power of any man or set of men in charge of it to deflect from it.

You understand, Mr. Chairman, that I am not seeking to-day to discuss fully the banking details of this plan. It would take too much time. I am trying rather to give the House a general view of banking and currency conditions and to present in a general way the remedy we are proposing. There are many interesting banking details which I can not discuss at present for lack of time. I wish, however, to present, in a concrete way, the power of this institution to relieve business conditions and to inspire confidence in the minds of the bankers and of the people.

I present herewith a statement of the probable condition of the National Reserve Association, say two years after it has commenced business. This is not my statement, which would be of little value, but a statement made by Mr. James B. Forgan, president of the First National Bank of Chicago, in my opinion one of the greatest bankers in the United States, presented to the convention of the American Bankers' Association at New Orleans.

Mr. Forgan assumes that it would have—

Capital paid in in gold or legal tender		$150,000,000
Government deposits	$100,000,000	
Bank deposits	500,000,000	
Bank-note circulation against Government bonds taken over from national banks	700,000,000	
Total liabilities, outside of capital		1,300,000,000
Total liabilities		1,450,000,000

Against these liabilities it would acquire—

Gold or legal-tender money for its capital	$150,000,000
Gold or legal-tender money for its deposits	600,000,000
Government bonds against circulation	700,000,000
Total resources	1,450,000,000

Let us assume that it has rediscounted paper for banks and acquired foreign exchange and that its total investments amount to $275,000,000. A normal balance sheet on this basis would be:

ASSETS.	
Gold or legal-tender money	$750, 000, 000
Government bonds	700, 000, 000
Loans and investments	275, 000, 000
Total	1, 725, 000, 000
LIABILITIES.	
Capital	150, 000, 000
Government deposits	100, 000, 000
Bank deposits (originally deposited in gold or lawful money)	500, 000, 000
Bank circulation	700, 000, 000
Bank deposits created by, or bank-note circulation issued against, loans and investments (immaterial which)	275, 000, 000
Total liabilities	1, 725, 000, 000

And a statement of liabilities and legal reserve against them would be:

Gross liabilities	$1, 725, 000, 000
Deduct capital	150, 000, 000
	1, 575, 000, 000
Deduct 50 per cent of Government bonds	350, 000, 000
Net demand liabilities	1, 225, 000, 000
Legal reserve money, 61.22 per cent	750, 000, 000

Suppose, now, to avert a crisis $250,000,000 more loans should be needed. The reserve association could rediscount paper for banks and give therefor its notes or credit in any of its branches and still have 50.84 per cent gold or legal-tender money against all demand liabilities. Or it could loan $500,-000,000 in the same way and still have 43.47 per cent gold or legal-tender money actually in its vaults. This would not by any means exhaust its power of note or credit expansion to meet any possible crisis.

These figures are such as to inspire confidence in the minds of the bankers and of the people, and when we once acquire confidence neither the banks nor the people will demand money until they actually need it, and our money panics will be at an end.

Let us see now if the security behind this bank-note circulation would also inspire confidence. You will remember that the note liability is made a first lien against all of the assets of the association. Suppose this $500,000,000 in loans were put out entirely in the bank notes of the reserve association. It has already issued $700,000,000 against 2 per cent Government bonds, and its bank-note liability, we will say, would be $1,200,-000,000. There would be in the vaults of the association to secure these notes—

Gold	$750, 000, 000
United States bonds	700, 000, 000
Capital	150, 000, 000
Commercial paper indorsed by banks	775, 000, 000
Add to this (double liability stockholding banks)	150, 000, 000
Total to secure outstanding notes	2, 525, 000, 000

These figures show that bank notes of the reserve association, even when it is greatly expanded, have vastly greater security behind them than the present bank-note circulation, against which not the slightest suspicion arises even in time of panic.

Let us use the statement of assets and liabilities given above, showing loans and investments on the part of the reserve association to the amount of only $275,000,000, to indicate what the earning capacity of the association will be. You will notice in this statement that the reserve association has a cash reserve of 61.22 per cent. Again, I am using Mr. Forgan's statement:

INCOME.		
3 per cent on Government bonds		$21,000,000
$3\frac{1}{2}$ per cent on loans and investments		9,625,000
Total income		30,625,000
EXPENSES.		
Operating expense	$5,000,000	
Expenses connected with note issue	2,000,000	
Franchise tax (equal to $1\frac{1}{2}$ per cent on $700,000,000 Government bonds taken over from national banks with privilege of circulation)	10,500,000	
		$17,500,000
Net profits		13,125,000
Dividend on capital stock, 4 per cent		6,000,000
Applicable for division between surplus and the Government (besides franchise tax of $10,500,000)		7,125,000
When the maximum dividend of 5 per cent is paid to stockholders and the surplus of the association is 20 per cent of its capital the distribution of profits would be as follows:		
Net profits as above		13,125,000
5 per cent maximum dividend to stockholders		7,500,000
Balance going to Government (beside franchise tax)		5,625,000

I consider that Mr. Forgan's figures are very conservative. The items of expense are considerably larger than I would make them, and at the end of five years I should anticipate much larger earnings for the association; but these figures are sufficiently accurate to show a large income going to the Government.

We are giving to this association great powers of expansion, but in a Nation of 90,000,000 people, with enormous deposits and an enormous volume of business, the institution which is to maintain our credit must have great power. We have also hedged it about with limitations of law unknown in the countries of Europe. We have limited its dividends so that there can be no temptation to expand its business for the sake of profits. We provide that it must keep a gold reserve of 50 per cent of its demand liabilities, less one-half its Government bonds, and if its reserve falls below 50 per cent we provide a tax upon the deficiency. We may be sure that its management will be of the highest order of ability, and they can only achieve success by managing it along safe and conservative lines.

ALDRICH-VREELAND EMERGENCY BILL.

I suppose I ought to refer for a moment to the so-called Aldrich-Vreeland emergency bill, which was passed by Congress in 1908 and which expires by limitation in a little over two years. There was a good deal of opposition to this bill when it passed because its purpose was not understood. But those who advocated the emergency bill also advocated the appointment of a commission to make a comprehensive study of the whole subject, and that has now been done.

I think the country would be reluctant to see this law expire with nothing to take its place. It is a rather crude and awkward provision of law, because the system to which we attach it is crude and awkward; but I believe the fact that $500,000,000, in case of a great impending crisis, could immediately be brought into circulation would prevent the fear of a money famine. The mere fact that it is on the books and can be used gives a measure of confidence along this line.

I have likened this law to a town or village which has a large number of frame buildings and where, on that account, fire is likely to break out at any time and destroy the town and the trustees think it wise to buy a fire engine to put out the fire when it starts and before it becomes a conflagration. That is what we did in passing the emergency law. We know from experience that we have a very inflammable condition in the United States, and I thought we needed a fire engine so that we could pour out some of that $500,000,000 to stop the fire before it got beyond control. It is necessary to have such a law so long as we have frame buildings, but that is not the proper remedy. The proper remedy is to remove the frame buildings and build up a fireproof structure, so that a fire will not gain headway.

I want to quote what I said about the emergency law when it was before Congress:

> In my judgment the greatest benefit of this bill will lie in the fact that it is on the statute books of the United States and can be used if necessary. In my judgment the fact that a great fund of $500,000,000 can be called out in less than a week's time in case of impending crisis—the very fact that it can be done does away with the probability that we will ever be obliged to use it.

CENTRAL BANK OF JACKSON'S TIME.

Mr. Chairman, some people say that this is a central bank or a central bank in disguise. Every enemy of this proposed association calls it a central bank. Why do they do that? Because they wish to appeal to the prejudice which still remains in the minds of the American people growing out of the United States central bank which Andrew Jackson strangled. And unless its charter could have been radically changed when renewed, perhaps it ought to have been strangled.

But this proposed reserve association is no more like the central bank of Jackson's time than black is like white. The United States bank of Andrew Jackson's day was simply a great private monopoly. It would be prosecuted to-day under the Sherman Antitrust Act. It was the enemy and competitor of every independent bank in the United States from the time it was born. It established branches in all of the principal cities of the country and competed with the other banks for business. It had a monopoly of note issue, and there was no limit upon the amount of notes which it could put out, nor was there any limit upon the dividends which it could pay to its stockholders. It had the prestige of having the United States as a stockholder. There was little control over it by the Government of the United States. It was run solely as a money-making institution for the benefit of its stockholders. A renewal of its charter was refused because it was a contest between a great military hero, supported by the State banks on one side, and a monopolistic money corporation upon the other.

Nobody would propose such a bank to-day, and yet, Mr. Chairman, in 1840, four years after a renewal of its charter was refused, the people of the United States elected a President upon a platform which called for another Bank of the United States. Do you know that Congress twice passed bills to inaugurate such a bank, and that both were vetoed by President Tyler under the influence of the State banks, showing that with all its crudeness and monopoly from the standpoint of to-day it had given the people the best banking facilities they had had up to that time?

ANTIMONOPOLY.

Sometimes gentlemen who have not studied this plan say that they fear we are creating a monopoly. Why, Mr. Chairman, we are acting upon just the opposite principle. We are proposing a preventive of monopoly. We are proposing an institution which has no incentive to monopolize. You can not have a monopoly where dividends are limited to 5 per cent. We are decentralizing the power which exists in our banking system at present and distributing it throughout the United States.

Suppose that the Standard Oil Co. had been chartered by the National Government and its dividends to stockholders limited to 5 per cent, or even 10 per cent, the balance of their earnings to go to the Treasury of the United States. Do you suppose that the Standard Oil Co. would ever have grown to be a monopoly? Monopolies exist for the purpose of earning larger dividends for those who own them, and when we limit their dividends to a nominal sum we take away every incentive to reach out and absorb and monopolize business.

POLITICAL CONTROL.

Some good people are afraid that if we establish the National Reserve Association it will get into politics. I suppose they mean by this that it will become the subject of attack by one political party and of defense by another political party. Why do they fear this? Because 75 years ago, in Jackson's time, a central bank existed and a political contest arose over the renewal of its charter.

I have no fear of political contention over an institution established along the lines of the reserve association. But if it were possible to again set up to-day the central bank of Andrew Jackson's time it would as surely become the subject of bitter political contention as it did then. The difference is that one was a huge monopoly, competing with and antagonizing a large and important element in our population; the other is a cooperative association with limited earnings, powers carefully limited by law, its control decentralized, democratic in principle and operation, created to benefit all of the people of the country.

Upon some questions there is bound to be political agitation which is taken up by political parties—for example, the tariff. There are irreconcilable differences between groups of people in the United States upon the question of the tariff, based upon personal and sectional interests. The importers, an influential body of business men, would desire to have no tariff, or one so low that they could bring in foreign products without hindrance, thereby increasing their business and their profits. On the other hand, the manufacturers would desire to have a tariff so high that all foreign products would be shut out, so that their business and profits would increase. These differences can not be reconciled, but both the importer and the manufacturer would agree that we ought to have the best banking and currency system that we can devise.

The trusts are a political question. They are attacked by their independent competitors and by the consumers of their products, who believe, whether right or wrong, that prices are being increased by monopoly.

But there would be neither competitors nor consumers to attack the reserve association, and it is generally agreed that the effect of the association would be toward lower and more uniform interest rates throughout the United States.

Under our banking system the State and National banks are not in politics. That was not true in Jackson's time. Then banks came into existence as a matter of political favor. In those days charters for banks were issued by legislative bodies, and in New York State in Jackson's time men who went to Albany to ask for a charter for a bank did not get it unless they were in accord with the political party then in control. Bank charters were given as a matter of patronage.

All that is changed. The stockholders of banks belong to all political parties. Probably there are few banks in the United States in which every stockholder belongs to the same political party.

The Comptroller of the Currency at Washington has control over 7,200 national banks. He has only to point the finger of suspicion at almost any national bank in the United States in order to impair its standing in the community and perhaps start a run upon it by its depositors. Yet even in the heat of a presidential campaign no one has ever heard it charged that any Comptroller of the Currency has ever attempted to use his great powers for political purposes. The reason is that banks are owned by men of all political faiths. The managers of them are careful to keep them free from political entanglements.

The officers and directors of the reserve association will be selected on account of their standing as bankers or business men, just as officers of clearing houses are selected.

It is my belief that if the reserve association should be in existence for two years it would become so intrenched in the favor of the people that no political interest would dare attack it, because the people will see lower and more uniform rates of interest; they will be relieved of the fear of money panics; they will see the earnings of the association, beyond a modest dividend, flowing into the Treasury of the United States; they will see the commercial business of the country separated from the stock exchanges; they will see the power, so largely centralized at present, decentralized and placed in 15 commercial centers of the country.

Financial operations and financial control are little understood by people generally and therefore they are suspicious of them. We are setting up a financial control which will be open to the light of publicity, all of its operations understood and published to the world, and its officers and managers responsible to the law.

FINANCIAL CONTROL.

Some critics say that the Standard Oil group or the Morgan group or both of them will get control of this institution. Mr. Chairman, the American people have prided themselves upon their ability to originate and conduct great enterprises. They have prided themselves upon their inventive genius and their new and modern methods of doing business. In our monetary system alone we are behind every other great country. Must we admit that we are not able to originate a banking and currency system, embodying the principles tested by experience, which shall be safe from ambitious financial interests? If so, then we will have to go along and suffer under our present system.

But I am not willing to admit that the American people, with their energy, inventiveness, and originality, are not smart enough to write upon the statute books, in terms which all may read and understand, the provisions and regulations of an institution which shall be safe from this danger.

I want to ask those gentlemen who fear that the Standard Oil group or the Morgan group will control, Who is in control of the financial field at present? Who has not noted the amalgamation of banks in New York and Chicago which is constantly taking place? Every few months some colossal bank emerges from the unification of two or more banks in those great cities. Why, Mr. Chairman, it is not left for us to decide whether we will have centralization in the financial field or not. We have it to-day. We will have it in increasing degree as the years go by. The only question is, What kind of centralization shall we have? At present we have centralization of power and management and a decentralization of reserves and bank-note issues.

What we are proposing in its place is a decentralization of power and management and a centralization of a portion of our reserves and of our bank-note circulation under strict regulation of law.

We have to-day centralization in one or two of the great cities of the country, existing for private and for selfish interests, with no limitation of the profits which may be levied upon the business of the country. We would substitute for it cooperation for the general welfare, with limited earnings, in the full light of publicity.

Mr. FOWLER. Mr. Chairman, will the gentleman yield?

Mr. VREELAND. Yes.

Mr. FOWLER. I wanted to ask if there is any way for a bank to get out of the organization when it is once in?

Mr. VREELAND. We make no provision for their getting out unless the bank should go into liquidation. We think an institution charged with such great responsibilities as this one should be made as stable as possible, and that it would not be stable if banks could withdraw at pleasure.

I believe that any man who will study and understand the provisions of this plan will admit that the Monetary Commission has placed it beyond possibility of selfish financial control. We have provided that there shall be no sale of stock and no voting proxies upon stock. We have given to the tens of thousands of country banks, whose interests are identical with the communities in which they are located, the power to elect the directors in the local associations in the 15 districts and finally in the national board. We have given to the board of directors in each one of the 15 branches control over its own affairs except as to rate of discount. We have provided against one bank holding the stock of another. We have provided that so-called chains of banks under one control shall have but one vote. We have declared in the law that every bank shall have equitable treatment. We have made the earnings so low as not to be attractive to large interests. There could be no speculation in its stock, because it could not be sold.

No great financial interest would dare to attempt to secure control of it in view of the experiences of the last few years. Any act by any director of any district board or of the national board which indicated that he was acting for selfish or personal interests would excite criticism, and he would fail of reelection as a director and retire in disgrace.

But while these restrictions make it certain that no great financial interest could control the reserve association or any of its branches, and would never dare even try to do so, the limitation of the powers of the reserve association make it certain that no special interests would desire to obtain control if it were within their power. How would it benefit them? What could they do with it? Does anyone suppose that the Morgan group or the Standard Oil group desire to borrow money upon commercial paper which has 28 days or less to run, and which must be indorsed by a bank and upon which they would have to pay the same rate of discount as every other bank in the United States?

But some one says that great financial interests in New York bought the Equitable Life Insurance Society, paying $2,500,000 for 51,000 shares of its stock, which carried control of the election of the directors of that institution. But, Mr. Chairman, that was a very different proposition, at least before the change in the law of the State of New York limiting investments of life insurance companies. The Equitable Life Insurance Co., at the time of its purchase, had assets of $500,000,000; it had an annual income of $75,000,000 or $100,000,000. Its enormous assets and its enormous income could be invested in the stocks and bonds of railroads, in the stocks of banks and trust companies, and, I think, in the stocks and bonds of industrial corporations. It would be a tremendous implement of power in the hands of men who deal in great financial affairs.

But under the law the reserve association could not purchase railroad stocks or bonds, or bonds of any description except bonds of the United States and of the several States maturing within a year, and of some foreign countries. It can not even loan its money upon stocks and bonds, and its rate of discount is uniform throughout the United States. So there is no parallel between the two cases.

It is only proper to state that in the case of the Equitable Life Insurance Co. no advantage has ever been taken of the control so purchased. Voting trustees were selected from among men of the very highest standing in the country, and that great and beneficent society has always been and is to-day managed entirely by committees representing its policy holders.

It is evident, then, that no great financial interest could afford to invest any capital or spend any time in trying to get control of the reserve association for the purpose of using its funds to gain control of railroads and industrial corporations, or of banks and trust companies, through the ownership of stocks and bonds. The reserve association can be used for none of these purposes. Its money can only be used to purchase commercial paper indorsed by a bank and at a uniform discount rate.

The CHAIRMAN. The time of the gentleman has again expired.

Mr. MANN. I ask unanimous consent that the gentleman may proceed for 15 minutes more.

There was no objection.

Mr. SHERLEY. Will the gentleman permit me?

Mr. VREELAND. Yes.

Mr. SHERLEY. I am inclined to believe that under the limitations of the proposed law outside control would be impossible. But assuming, as the gentleman does, that the control is there, then I think the gentleman's statement is too broad, that no advantage would result from such control.

Mr. VREELAND. Perhaps I should modify it by saying that no advantage could come through such control which would be at all commensurate with the tremendous and continued efforts necessary to obtain it. Individual banks could not be discriminated against, because we put the clear direction in the statute that all banks shall have equitable treatment. The bank would have the right of appeal to the court. I am sure that the gentleman from Kentucky, with his acute and analytical mind, will agree with this position when he comes to make a thorough study of it.

Mr. COX of Ohio. I would like to know if under this system there is a larger measure of protection to the depositors than under the present system?

Mr. VREELAND. We think very much more. We think, in the first place, that no solvent bank ever need close its doors with this association in existence. We think the protection to depositors of all banks is greatly enlarged, because these local associations, groups of local banks, will become thoroughly familiar with each other, and watching and scrutinizing the condition of each other, because they may be called upon to guarantee for each other. We think that in itself would be conducive to much greater safety than we have under the existing system. When Congress takes up this bill for review it may, perhaps, find, as the gentleman suggests, where additional features can be added for the safety of depositors.

Mr. DAVIS of Minnesota. I assume from the gentleman's statement that this reserve association is, to a certain extent, the fiscal agent of the Government as well.

Mr. VREELAND. Yes, sir.

Mr. DAVIS of Minnesota. I will not assume that it is possible for any set of men to get control of the board of directors; but, in any event, would they not control the destiny of this Government from a monetary standpoint in case the Congress declared war? Would it not be in the power of this reserve association to determine whether the Government should raise money to carry on this war, and would this not be a dangerous power to place in their hands?

Mr. VREELAND. If any such power existed, it would be a dangerous power; but nothing of the kind does exist. On the contrary, it would be of the very greatest assistance to the Government in case of sudden war. It takes time to issue and sell bonds, and if we had no large surplus in the Treasury the reserve association would be in position to immediately advance to the Government, say, $50,000,000, probably taking therefor obligations of the Government maturing within a year. It would, then, free of cost, act for the Government in selling its bonds, instead of paying a commission to large New York banking houses which have usually handled Government issues. In the past, in the wars which we have had, bankers have usually been as patriotic as any other class of citizens in assisting the Government.

Mr. Chairman, I have already consumed more than two hours and I do not wish to ask further time. It is too great a subject to discuss in one speech. I must leave unanswered in the minds of gentlemen many questions—important questions in the details of the bill.

KEEP IT OUT OF POLITICS.

I desire to add but one thought further, and that is, if we ever get a banking and currency system worthy of our country and of its people, it must be kept out of discussion along political lines.

It must not be made a football for partisan and political advantage.

I have said that not even this great body can change well-settled principles, established and settled by the experience of mankind. This great body, representing 90,000,000 of people, should take up this question with a patriotic determination to place upon the statute books the best and most scientific banking and currency system possible to devise.

We do not present this as a perfect bill. The further study by Congress and by the country may give us light for further improvement. For three and a half years this question has been kept out of politics. It has been discussed by the commission, by State associations of bankers, by currency committees appointed by boards of trade in all of the leading cities of the country, by political economists and financial writers solely upon its merits from a scientific and economic standpoint.

Let us hope that the Congress of the United States will keep the discussion on this high plane. I would much rather see this legislation go upon the statute books with the control of the Government divided between the political parties.

I sincerely hope that it will not require the losses and suffering of another great money panic to induce Congress to act.

Our present banking and currency system is like the old confederacy which existed after the close of the Revolutionary War—weak and flabby, without consistency or power, because there was no cohesion, because the States were unable to use their great resources and power as a unit. You will remember that it took all of the influence and power of Washington and Jefferson, of Madison and Hamilton, to induce the people to lay aside that weak and flabby confederacy and adopt the Constitution of the United States, under which we have grown so great and powerful.

The adoption of the Constitution was the greatest event in our history; it created, we hope for all time, a Nation.

So it will be an epoch in our commercial history when we place upon the statute books a banking and currency system commensurate with the greatness and power and resources of our country. [Applause.]

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