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BY

SENATOR NELSON W. ALDRICH

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ON

THE WORK OF THE NATIONAL
MONETARY COMMISSION



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NATIONAL MONETARY COMMISSION.

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THE WORK OF THE NATIONAL MONETARY COMMISSION.



Mr. ALDRICH. Mr. President and Gentlemen of the Economic Club:

I shall ask your attention to an examination, which must necessarily be incomplete, of some of the methods employed in modern times in the great commercial nations of Europe to prevent financial panics or to relieve congestion and dangerous pressure in the money markets.

Credit furnishes a vital element in all healthy economic life. Credit is based upon confidence; and confidence in a monetary system rests upon belief in the strength, stability, and efficiency of financial institutions. To secure an organization of capital and credit by which confidence can be firmly established, and credit maintained under all circumstances and conditions, is the task committed to the National Monetary Commission.

The immediate occasion which led to the appointment of the commission was the financial crisis of 1907, whose disastrous results can never be measured, and whose destructive influences were felt throughout the world. The shrinkage in the value of property and securities which then took place, together with losses arising from a paralysis or suspension of business, amounted to thousands of millions of dollars. The country escaped by the narrowest possible margin from a total collapse of all credit and a wholesale destruction of all values.

To the great majority of the people of the country the blow came without a warning. Most of our banking institutions were in excellent condition, business of every kind was prosperous, labor was fully employed at satisfactory

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wages, industries of every kind were flourishing. Our people were full of hope and confidence for the future. Suddenly the banks of the country suspended payment, and acknowledged their inability to meet their current obligations on demand. The results of this suspension were felt at once; it became impossible in many cases to secure funds or credit to move crops or to carry on ordinary business operations; a complete disruption of domestic exchanges took place; disorganization and financial embarrassment affected seriously every industry; thousands of men were thrown out of employment, and the wages of the employed were reduced. The men engaged in legitimate business and the management of industrial enterprises and the wage-earners throughout the country, who were in no sense responsible for the crisis, were the greatest sufferers.

As an indication of its effect upon the business of the country I will refer to the falling off in the production of pig iron, it being understood by economists and students that in a certain sense the production of iron and steel is a barometer of general business conditions. The production of pig iron in 1907 was, in round numbers, 25,000,000 tons, and in 1908 it was 15,000,000 tons, or a reduction of 40 per cent.

Possibly a corresponding reduction did not occur in all industries and in all kinds of business, but the blight which this crisis created was felt in nearly every household. The farmer, with his crops unsold and for the time unsalable, the men employed in all industries, alike felt its injurious effects.

The crisis of 1907 was one of a series. I remember very well—although probably few of you do—the financial crash of 1873. I am sure you all remember that of 1893, from the effects of which the country did not recover for many years. Between 1900 and 1907 we had recurring periods of depression, of dangerous perturbations in the money

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market, when the Secretary of the Treasury was frantically called upon for assistance, and felt obliged to adopt the very questionable policy of making large deposits of public money in banks to relieve threatening situations.

If we should undertake to measure in dollars and cents the effects of these recurring periods of depression and of crisis, it would be an extremely difficult task. It is evident, however, that while our country has natural advantages greater than those of any other, its normal growth and development have been greatly retarded by this periodical destruction of credit and confidence.

I believe that no one can carefully study the experience of the other great commercial nations without being convinced that disastrous results of recurring financial crises have been successfully prevented by a proper organization of capital and by the adoption of wise methods of banking and of currency.

Of course, until human nature is changed, it will not be possible to prevent, by legislation or otherwise, periods of overspeculation, with undue inflation of values and overextension of credit. When we consider the characteristics of the American people, whose unrivaled energy and enterprise are not always confined by the limits of prudence, it is certain that we in the United States shall always have periods of speculative inflation, with the evil results which are sure to follow. Other countries, however, have been able to prevent disastrous panics and to confine the evil results of overspeculation and inflation in the main to the people directly interested—that is, to the people who have violated the fundamental laws of business and to their financial backers and supporters.

There has been no general suspension of banking institutions and no general destruction of credit in any of the leading countries of Europe for more than half a century. There have been periods when great financial institutions

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or great merchants have failed and great losses have resulted, but at no time has there been any general suspension. It is now believed by competent authorities that the authorized suspension of the English bank act in 1847, 1857, and 1866 could have been avoided by the use of the modern methods of treatment. These suspensions permitted the issue of an unlimited amount of notes by the Bank of England, but on only one of these occasions were any additional notes issued. In the other cases the mere announcement of the suspension restored confidence, and the business of the country went on.

Coming to the events of recent years, which have greater interest for us, there has been but one occasion of serious financial trouble in England since 1866—the Baring failure in 1890. The Baring Brothers were, as you know, one of England's greatest merchant houses, with connections extending throughout the world, and they had become interested in operations and speculations on an enormous scale in the Argentine and elsewhere, which resulted in the failure of the house. The prompt action of the Bank of England, in connection with the Bank of France, the Bank of Russia, and certain financial institutions in London, prevented any wide extension of the difficulties. The Barings and their associates were the principal sufferers, and the business of the country and of its industries and institutions went on as usual.

The strength of the French system was tried in 1882 by the failure of the Union Générale, one of the great joint-stock banks of Paris, and in 1889 by the collapse of the copper syndicate, and the downfall of the Comptoir d'Escompte—the oldest of the great French joint-stock banks. But the prompt and efficient action of the Bank of France in both cases prevented any spread of the troubles, and the business of France went on as usual, the only sufferers being these institutions and their immediate friends.

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In 1901 the Leipziger Bank—one of the great institutions of Germany—failed, creating consternation in Leipzig and giving rise to trouble within an important but limited circle. In that case the prompt and efficient intervention of the Reichsbank prevented any spread of the difficulty, and German interests and industries did not suffer as ours did in the recent panic.

In calling your attention to the experience of these countries in this respect I do not wish to be misunderstood. I do not believe, and I do not think any member of the Commission believes, that we could adopt for the United States the system of any of these countries; certainly not without very many material modifications. But in view of the facts to which I have alluded, I believe that the experience of these countries, with centuries of economic life, and where human nature is much the same as in ours, where every financial problem receives careful and intelligent consideration, and where vast financial transactions are constantly taking place, should certainly be suggestive and valuable to us. These countries—Germany especially—are second only to the United States in industrial development and material progress. Preliminary to an investigation of the banking methods of the three great commercial nations, it is necessary to consider the character of their banking organizations. I will make my statement in this respect as brief as possible.

The English system consists of the Bank of England; a number of important joint-stock banks, which do most of the commercial business of the country; discount houses, which occupy a unique position in the English system, being intermediaries between borrowers and the commercial banks and between the commercial banks and the Bank of England; merchant houses, or financing institutions; and trustee and postal savings banks. The credit institutions of France are composed of the Bank of France, the great joint-stock

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banks, like the *Crédit Lyonnais* (which, by the way, is in certain respects the greatest commercial bank in the world), and the *Comptoir d'Escompte*; a mortgage bank, the *Crédit Foncier*, which is under government control, issuing its own obligations against mortgages held by the bank; promoting or syndicate banks, like the *Bank de Paris et des Pays Bas*; and cooperative, agricultural, and savings banks.

To my mind the system of Germany is for us the most interesting of any, because the German Empire has very largely the same industrial and commercial interests that we have in the United States. The German was the last of these great financial systems to be reorganized, and her financial legislation has been recently modified as a result of a very important inquiry made by a commission appointed in 1908.

We have, it is true, conditions that do not exist in Germany. For instance, we make a much greater use of checks and other credit instruments. The Germans, however, realizing the importance of giving to their financial institutions this great element of credit elasticity, are trying to encourage their increased use. The German system includes the *Reichsbank*, and a considerable number of large joint-stock banks, like the *Deutsche Bank*, the *Dresdner Bank*, and the *Disconto-Gesellschaft*; the latter are commercial banks, but they also do more or less of an underwriting or syndicate business. This syndicate or promoting business is limited to a reasonable percentage of the capital of the bank, and so far as I have been able to discover has not produced any injurious results. Germany has also banks of many descriptions that were novel and very interesting to me. For instance, she has thousands of cooperative credit societies (*Genossenschaften*), which have different functions from those of any other banks that I know of elsewhere. They are something like our mutual savings banks in that they are established and managed by the leading citizens of the locality—farmers,

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teachers, or lawyers—who usually serve without compensation. They are conducted for the benefit of the members, who are usually the small borrowers and small depositors of the neighborhood. They take very small deposits and make loans of very small sums. If a man wants to buy a cow, for instance, or wants money advanced upon his crops, or for any of the great mass of minor wants of men, a loan is made by one of these cooperative societies. They do not compete to any great extent with the commercial banks.

In addition to these, Germany has land-mortgage banks of different classes, some that take mortgages on urban properties and issue securities against them, and some that perform a like service in the case of land in the country. Germany has also a class of communal and county savings banks, which are unique in their character. Germany has several other classes of banks—parts of her general system—but I shall not have the time to-night to take them up and consider them separately. Inasmuch, however, as we propose to give an accurate description of all of them in the literature which we shall soon publish on this subject, I hope they will receive your careful consideration.

The Germans have given great attention—as they do to every detail of all subjects of public interest—to the character and organization of their various financial institutions. These different institutions are all parts of a comprehensive system, and all depend absolutely upon the Reichsbank for reserves and for assistance in time of trouble. The continued existence of the entire financial structure of each of these countries depends upon the strength of its central institution and upon the wisdom of its management.

The suggestions which I shall make to-night with reference to methods employed to relieve conditions of panic do not involve any examination of the functions of any of these different institutions, except the central banks and the joint-stock banks of deposit and discount.

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I will first ask your attention to the character of the central institutions. The central banks of these countries are not altogether alike, yet they are not unlike. They have many characteristics in common. The principal functions of these banks are not defined by legislative acts. They are the outgrowth of centuries of experience, and have been essentially modified from time to time through a process of evolution to meet existing requirements, until it may be fairly said that their most important features are such as it has been found necessary to adopt within the last generation, to answer the demands of modern conditions. For instance, many of the great functions of the Bank of England to-day concern matters not referred to in the discussions which preceded the adoption of the Peel Act in 1844. The position occupied by the great central banks, their duties and obligations (which they are not always willing to acknowledge in a public way), with reference to sustaining public credit, and their responsibilities to the public and to other banks, in always having available an adequate gold reserve, are of recent origin. To me by far the most interesting phase of our foreign examinations was the personal inquiry made of the actual managers of these great banks, for the purpose of ascertaining the precise details of the practical workings of their institutions. And I must say, in passing, that the representatives of the commission received the greatest possible courtesy from the managers of all these great banks; especially from the Governor of the Bank of England, Mr. Campbell, now retired, and his associates, and from M. Pallain, the Governor of the Bank of France. The Bank of France has been extremely fortunate in the past in the character of its managers, but never more fortunate than in the person of the present incumbent of the office of Governor. M. Pallain was most courteous to us, helping us in every possible way, not only in his own country, but through his influence with the representatives of other countries. The official managers of

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the Reichsbank in Berlin also furnished us with the fullest information as to the practical workings of their bank, and of the German system.

The central banks of these countries are all private banks—that is, the governments have no ownership or interest in their shares. The provisions for the control and management of the respective banks differ widely. The management of the Bank of England is in the hands of 24 directors, selected largely from merchants—no bankers, in their sense of the word, being eligible for the position—and these, including the governor and deputy governor, elected by the directors from their own number, have control of the business of the Bank.

With regard to the Bank of England, I have frequently been asked why such an institution, serving as it does a limited territory, and doing the business of a small island, should require one hundred millions of capital, and why the success of this bank could be construed as a guaranty of the efficiency of a similar bank in a country with a greater area and more extensive business. I think the answer is obvious. The Bank of England not only sustains the credit and holds the reserve of the banks and the people of England, but it is the center of the financial system of the entire British Empire, with its four hundred millions of population and with connections and affiliations extending around the world. Not only this, but its friends say, and I must confess with great truth, that the Bank of England is to-day the financial center and clearing house of the world. We know that sterling bills drawn on London are still the highest form of commercial credit. These bills sell at a lower rate in Paris, in Berlin, in Amsterdam, and New York than any other form of commercial credit. The Bank of England reaches a larger territory than any other institution in the world and serves financial interests that are exceeded in importance and amount only, if at all, by those of the United States.

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The governor and the two deputy governors of the Bank of France are appointed by the chief of state. The governor of the Bank of France directs the general policy of the bank. The two hundred largest shareholders elect eighteen regents and censors who have functions of limited importance. The Reichsbank is managed by the directorium, consisting of a president, vice-president, and 7 directors, appointed by the Emperor. The stockholders elect a central committee of 15 members with limited advisory powers. Except as to its ownership, the bank is in effect a government institution under the control and management of expert bankers.

The earnings of these banks are not excessive, and as their charters have been renewed from time to time, conditions have been imposed for the purpose of bringing about a greater restriction of profits or a more satisfactory division with the state. In Germany, after 3½ per cent is paid to the stockholders, the Government receives three-quarters of the net earnings, so that the net income is divided between the state and the proprietors of the bank. Neither the Bank of England nor the Bank of France is required to divide directly its profits with the state, but an indirect division takes place. The amount of payments to the Government by the banks for franchises, and for taxes, direct or otherwise, varies greatly. The Bank of England pays for these purposes annually about \$1,200,000. In France general and special taxation for various purposes is levied by an intricate system, but the figures furnished to us show that it amounts to practically one-third of the net earnings of the bank, and this has been true for a series of years. In Germany about two-thirds of the actual profits go to the Government on the division to which I have referred. In 1907 the German Government received as its portion of the profits about \$8,400,000. All of these banks have close fiscal relations with their respective Governments. Each is made the sole depository of government funds, and all payments of public moneys, for ordinary expenditures or

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interest on the public debt, are made through the banks. They are also required to render further service to the Government by acting as agents for the various departments. In the main, it may be said that the relations of these institutions to the financial operations of their respective Governments is largely similar to that occupied by the United States Treasury with reference to our Government. These services are rendered, in the case of France and Germany, without compensation; I mean without direct compensation.

Each of these institutions is, in a large sense, a bank of banks. About 65 per cent of the business of the Reichsbank comes through other banks. The Bank of France receives about 70 per cent of its entire business from other banking institutions. The statement of the Bank of England does not furnish any information upon this subject. As a matter of fact, as I have already stated, whatever business comes from the banks to the Bank of England, except deposit accounts, comes through the discount houses, and not direct. The banks also differ greatly in the average amounts of their deposits and in the amount of their discounts and loans. The direct commercial business of all the central banks is comparatively unimportant.

The banks also differ as to the character of the commercial paper, or bills of exchange, which they accept for discount. The Bank of England requires at least two good British names, of which one must be the acceptor. The Bank of France requires three solvent names, of which two must be residents of France. The Reichsbank requires the names of at least two solvent persons. In France, collateral is accepted in place of the third name. Generally speaking, these bills represent actual transactions and are not what are known as finance or accommodation bills.

The average duration of bills discounted in England is from forty to fifty days; in France, twenty-four days; and in Germany, thirty-three days. The maximum duration of bills discounted in England is four months, and in exceptional

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cases six months; in France, three months, with a possible renewal in exceptional cases; in Germany, three months, with renewal in case of farmers. Foreign nomenclature for paper of this kind is entirely different from ours. They do not use promissory notes in their usual banking transactions. In the case of a sale by a merchant or manufacturer on credit or time, the seller makes a draft on the purchaser upon the terms agreed upon, usually thirty, sixty, or ninety days, and the purchaser accepts the draft. This acceptance becomes a domestic bill of exchange, or a domestic bill as it is usually called. A bank may arrange with a merchant or an operator to accept his bills for a commission. This acceptance becomes a prime bill, and is discounted at the lowest rate by other banking institutions. All drafts drawn upon or by foreign houses or banks are known as foreign bills. Trade bills cover ordinary commercial transactions and finance bills cover accommodation loans. Domestic bills, which answer the requirements I have named of the central banks, are known as bankable bills, as they are accepted for rediscount under proper conditions.

No one of these central institutions is a commercial bank in the ordinary sense of the word; and usage is bringing about a further delimitation of their powers in this respect. They pay no interest on deposits. They are not in any general sense competitors with the banks of deposit and discount.

These central banks hold practically the entire specie reserves of all the banks and other financial institutions of their respective countries. The Bank of England holds on an average a reserve of about 45 per cent of its entire liabilities, the Bank of France holds about 70 per cent of its demand obligations in specie, and the Reichsbank holds a specie reserve of from 40 to 50 per cent of its current deposit obligations. With an annual gold production approximating \$440,000,000, and with a constant increase of the world's stock of gold, there is a marked tendency to increase

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the specie reserves of all the great banks of the world. When we consider the rapid growth of the world's business and the extent of the banking transactions based upon these reserves, the necessity for their protection and maintenance under all circumstances becomes apparent.

The great difference between foreign banking systems and our own is found in the concentration and mobilization of reserves, which is the distinctive feature of the European systems. Confidence that the management of these great central banks will at all times, in prosperity and in adversity, maintain reserves adequate to protect the interests of all their people, and to sustain public and private credit, gives to these foreign systems impregnable strength.

In this connection it is important to examine the methods adopted by the central banks to protect their reserves and to increase their holdings of gold when necessary. The means usually and successfully relied upon for these purposes is to advance the bank rate of discount high enough to attract gold from other countries. As in the case of commodities, gold follows the law of supply and demand; and if England bids more for gold than France or Germany she secures it. For example, in 1907 the Bank of England rapidly raised its rate of discount from 4 to 7 per cent. Mr. Campbell, the Governor of the Bank, told us the result was that gold came into the vaults of the Bank from 24 different countries, including British colonies. This enabled the Bank of England to protect its reserves and to furnish a large amount of gold for shipment to the United States. The power of the Bank of England to afford relief in all cases is extraordinary when we consider that the specie reserves of the Bank do not usually exceed \$160,000,000. I asked the question, "What would have happened if the 7 per cent rate had not been effective?" The answer was, "We should have advanced the rate up to 10 per cent if necessary and 10 per cent will bring gold out of the earth."

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The answer was intended, of course, merely as an indication of the power of a country that has credit and unlimited resources to bring gold to its coffers.

In recent years—certainly for nearly half a century—there has been no failure of this method to protect and increase the gold reserve of the great European banks.

It is true that use is made at times of collateral influences. It is now the policy of the central banks, which, I think, is very generally approved, to hold short-time foreign bills to a considerable amount, and this custom has been found very helpful in protecting gold reserves in emergencies. The central banks also allow interest on gold in transit from distant points. But the main reliance has been upon an advance of the bank rate, and this method has been found uniformly successful in recent times. The policy of charging a premium for gold or of refusing to pay gold on demand by indirect but effective means is no longer defended by leading authorities.

In this connection we should also consider the practice of the joint-stock banks with reference to their own reserves. The question of the character and extent of the reserves of these banks, as well as those of the central banks, is left entirely to the judgment and discretion of the managers of these institutions, and no attempt is made by legislation to exercise any control over this important feature of banking practice.

The joint-stock banks do a very large proportion of the ordinary commercial business of the several countries. The Bank of England, for example, rarely holds over \$150,000,000 in bills discounted and securities of all kinds. When we consider how small a proportion this is of the vast business of Great Britain we shall realize that the large commercial joint-stock banks control practically the entire commercial business of that great kingdom.

The joint-stock banks hold practically no specie reserve. In making statements of their condition they report the

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amount of their "cash in hand and at bank" in one item, which represents the only cash reserves of the institutions. The cash on hand is not stated separately, and no amount of persuasion would induce them to segregate these amounts. As a matter of fact all of these banks hold in their own vaults only what we would call "till money," and this sum rarely if ever exceeds 3 or 4 per cent of their deposit liabilities. The men who manage these banks assert that a credit at the central bank is better and safer for their purposes than a corresponding amount in their own possession. We were told that it is the habit of the large banks to estimate the amount of money needed in their ordinary transactions from day to day, and this amount is withdrawn from the central bank and constitutes practically the only amount of cash on hand in any of the institutions. The amount of "cash in hand and at the bank," taking the two together, averages about 14 or 15 per cent of the current liabilities of the London Clearing House banks which report once a month.

The joint-stock banks, however, have a secondary reserve in "money at call and at short notice." In London this money is largely loaned to discount houses on bankable bills and to merchants and others on stock exchange and similar securities. The banks usually hold on an average about 15 to 20 per cent of their liabilities in this secondary reserve. In addition, the English banks usually hold for investment purposes government securities equal at least to their capital and surplus. This rule does not apply to continental banks, however. All the joint-stock banks hold a very important reserve in their short-time bankable bills. The fact that these can always be used for rediscount gives to them the greatest possible value as an available reserve. In fact, usage has given to them almost a legal-tender quality.

It is the policy of the joint-stock banks in times of stress to strengthen their reserves by increasing their balances at the central bank. This is usually done by direct or

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indirect rediscount of their bankable bills. By this process they are enabled to transform at once into a reserve an asset which otherwise has no value in this regard. It enables these institutions to extend credit to deserving customers to the amount of four to ten times the sum thus added to their reserves.

This description of the functions and processes of the European central and joint-stock banks will enable us to arrive at a better understanding of the methods employed by these institutions to furnish relief when financial trouble is apprehended or panicky conditions exist.

The general policy adopted in times of apprehension or distress is for the central institution to strengthen its reserves by the use of methods which I have described and at the same time to extend credit liberally to everyone whose solvency and condition entitles him to receive it. It is this simultaneous strengthening of reserves and extension of credits which gives potency and effect to the modern system of dealing with periods of distrust. The fact that in modern times the means which I have described have not failed to afford relief, to allay excitement, to restore confidence and credit in times of threatened or real trouble can not but create a profound impression upon all who are honestly seeking a solution of our monetary problems.

In this country we have adopted precisely the opposite policy. For instance, we have a law governing national banks, which requires, in central reserve cities, a lawful money reserve of 25 per cent of outstanding deposit liabilities. Although we may assume that these reserves were created for emergency purposes, when the emergency arises and a bank seeks to use its reserves it is forbidden to do so. Under no circumstances may it reduce its reserves below 25 per cent. If the reserve is $24\frac{1}{2}$ per cent, not only is further use prohibited, but the bank must stop all discounts, all extensions of credit. It makes no difference how much a customer needs a loan, what his credit is, or

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what his collateral may be. Possibly his business salvation, the savings of a life, or the accumulation of generations are imperiled. I think it is not necessary for me to enlarge upon the absurdity of this system.

The success of the European systems is based upon the policy of using reserves promptly and fully in cases of emergency. Take the case of the Bank of England. It matters not whether the use suggested is in London, Birmingham, Liverpool, or in Australia; the reserve can be drawn upon, as water is drawn from a great reservoir in order to put out a fire before it becomes a conflagration, and before the time when the application of water would be as useless as if it were poured into the ocean.

The European banks take these matters at their inception, and, by means of a concentration of reserves, they are ready at any minute to furnish the necessary means and the necessary credits to prevent disasters such as those we have suffered, and from which we shall continue to suffer unless we do something to reorganize and strengthen our financial system.

The question of note issues, the manner of their issue, and their use in the extension of credits and to meet unusual demands is an important one in this connection. The Bank of England is allowed to issue notes against government securities to the extent of about \$90,000,000, and any further issue must be covered by specie. The note issue of England has varied but little from 1844 to the present time. While the business of England and of the British Empire has doubled and quadrupled and multiplied, I do not know how many fold in that time, the amount of note issues has remained substantially the same.

The great use of checks and other instruments of credit, to which the people of England are accustomed, seems to render the enlarged use of notes unnecessary. In France notes are issued without any restriction except as to amount; but under the policy and practice of the Bank of France its

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notes are practically coin certificates. For the ten years ending in 1908 the Bank of France held in specie an average of 83.5 per cent of its outstanding note issues. Against an uncovered issue of, say, \$100,000,000, the Bank of France held in round numbers one hundred and forty millions of bankable bills. The Reichsbank is authorized to issue untaxed notes, first to the amount of specie and government notes and notes of other banks which it holds; second to the amount of an arbitrary sum, known as the "contingent," which now is fixed at about \$130,000,000. This contingent has been recently increased upon the recommendation of the bank inquiry commission from \$118,000,000 to \$130,000,000, with a further increase on settlement days at the end of the quarters to \$178,500,000. The amount of this contingent, you will notice, is at most only about \$3 per capita for Germany, a rather inconsiderable sum when you think of the \$35 per capita which we have in the United States. Any notes issued in excess of the aggregate of these amounts are taxed by the Government at the rate of 5 per cent. All notes issued by the Reichsbank, taxed or untaxed, must be covered by one-third of the amount in specie or government notes and two-thirds in bills of exchange of the character I have described. The redeemability of the notes in each of the great banks is amply secured by legal provisions and limitations. Perhaps I should say in passing that there are a few banks in England which have retained the right of issue since 1844. Their notes, however, amount to but a fraction of 1 per cent of the total issues of the Bank of England. There are also certain state banks in Germany—the Bank of Bavaria, the Bank of Saxony, and two others—that have retained the right of issue given them under the bank act of 1875. But the outstanding notes of these banks amount to only 3½ per cent of the total note issue of the Empire. In each of these countries we found that the monopoly of note issues by central banks meets with universal approval

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from all classes. I think there can be no dissent from the statement. In the discussions which recently took place in Germany, and in those in Belgium at the time of the last extension of the charter of the Bank of Belgium, all classes, socialists, agrarians, and others, approved fully the policy of confining note issues to one central bank of issue.

The average fluctuations in the amount of notes outstanding from time to time differ considerably in these three countries. In England, where the volume of note issues is practically constant, the element of elasticity of issue, which in Germany and France is met by recurring enlargements and contractions in the volume of notes, is met by changes in the volume of checks and other credit instruments, and the amount of credits given by the Bank of England and other banking institutions.

It is apparent that if we are to profit by the experience of other countries, if there is anything in their methods that may be of advantage to us, there are only two systems of note issue to be considered—one, by a central bank under government control or restrictions, and the other the Scotch system, the main features of which have also been adopted by Canada.

The uniformity of opinion with reference to the wisdom of a unification of issues is not shared by the Scotch bankers, nor, I think, by Scotchmen in general. Those who believe in a central bank of issue insist that the Scotch system of eight banks with 1,200 branches is not adapted to the wants of a great commercial country, and is of necessity a provincial system.

The Scotch note issue is at present based first upon a fixed amount of uncovered notes equal to the outstanding issues in 1845. The total amount of these is about £2,700,000, or \$2.76 per capita, and beyond this limited uncovered issue the law provides that all emissions shall be covered by specie.

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The Scotch banks depend upon the Bank of England for their specie and for support in times of trouble, as fully as do the English banks.

London sends to Scotland periodically a considerable amount of gold, which is often held there only long enough to enter into the accounts of the Scotch banks, and is then returned to London, sometimes in the original packages.

A considerable proportion of the large Scotch industrial houses keep regular accounts in London, and the principal Scotch banks have branches in London.

I do not mean to underrate the merits of the Scotch system. It has been impressed upon me there are no better bankers in the world than the Scotch; they have an individuality and vigor in expression and action which are admirable. Nowhere does the personal equation stand for more. Aside from the manner of note issue the distinguishing feature of their system is a method of cash credits by which a farmer or small trader in any part of Scotland, with one or two of his neighbors as guarantors, can establish a banking credit for a fixed sum. The bank honors his drafts for any amount within this limit, and the customer pays interest only upon the sums actually drawn. There can be no question that this system has been of benefit in developing the rural communities of Scotland. The development of this system, however, has been along lines that are unlike any that appeal to American spirit.

It is conceded that the Scotch system depends largely upon an elaborate system of branches, which is not applicable, in my opinion, to the United States. The eight banks of Scotland are practically one bank. The managers of the principal banks, living in Edinburgh or Glasgow, meet frequently to fix the rate of discount on loans and the amount of interest to be allowed on deposits. Every particular of importance in banking operations or with

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reference to note issues is fixed by agreement of this informal organization for defense and protection.

The rate of interest charged by the Scotch banks is one-half of 1 per cent higher, on an average, than for the equivalent service in England.

Scotch methods, while admirable in their surroundings, have little value in considering the requirements of this great country.

The Canadian system, which is largely based on the Scotch idea, has many intelligent and persistent advocates in the United States. It is certain that this system should and will receive careful attention. Members of the commission have made personal investigations in Canada, and these have been supplemented and extended by the valuable information contained in the volumes referred to in our list of publications.

Canada has 29 banks with about 2,000 branches. They are practically controlled by the Bankers' Association, a legalized institution with certain definite functions. The control of the banks, however, is not always under authority conferred by law, or even by the constitution and by-laws of the association, but by agreements for mutual protection, which are equally effective. Through this efficient business arrangement the banks of Canada are controlled as thoroughly as the Scotch bankers control the banking system of Scotland. The Bank of Montreal is practically the central bank of Canada, but Canadian banks also habitually carry large balances in New York and London, and in times of need rely for support upon those financial centers.

Canada has an area about equal to that of the United States. Out of her 29 banks, 19 are located in Toronto or Montreal, and the whole system is controlled by the bankers of these cities. There are but 3 banks, and those not important, in the vast country west of Ontario. Think what the American system would be, and how it would be regarded, if we had but two or three banks west of Buffalo,

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and if the bankers of New York and Boston should decide upon the policy and the rate of discount of the whole system of the United States!

Competent authorities base the success of the Canadian system upon their extensive use of branches. Of course, I realize that there are in this country a great many intelligent men who think we ought to have a system of branch banking like the Canadian; but unless I greatly mistake the character of the American people that will not be possible. In my judgment any system which is to be adopted in this country must recognize the rights and the independence of the 25,000 separate banks in the United States.

Of course, you realize that in banking, as in everything else, the personal equation must always remain one of the most important elements to be considered. The men who deposit in or borrow from small country banks, or banks in the large towns, who have been accustomed to dealing with men who are their neighbors and friends who have a sympathetic appreciation of their wants, will not be willing to consent that legislation shall authorize the displacing of such banks by agents sent from the banks of New York or Chicago to conduct the business of these smaller communities; men whose first interest—I am almost tempted to say whose only interest—would be the earning of the most money they could for their principals, and who would naturally have very little, if any, concern for the development of the communities in which they were located. So I think I may say with certainty that any new system or organization we may adopt must be engrafted upon that now existing. We can not impair the usefulness of existing banks, or take away from them any of their functions. If we are to have an organization outside of them, and outside of the present organization of clearing houses, it must be one that will be the servant and not the master of existing organizations. We must first consider existing condi-

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tions. We must remember that after all monetary science is not an exact science. Political economy has no laws applicable to every community and under all circumstances. That system is best for any country which best responds to the needs and requirements of its people.

Your President has alluded to the fact that he is not sure whether I have a plan or not. I have a plan which I will mention a little later; but at present I may say that the Commission has not yet taken up or considered the question as to the proper system to be adopted by the United States; and they will not take up that question for consideration until the case is fully presented to the American people, and we can secure their judgment and their cooperation in the adoption of a plan which we trust will be for the benefit of the entire country.

I have had occasion to say a number of times in the last two weeks that so far as I am concerned, if I were given a blank sheet of paper, with absolute authority to write upon it the terms and conditions of a banking and currency bill which I thought should be adopted by the United States, I could not do it. Eighteen months ago I thought I had some knowledge of this subject. I had been studying these questions for thirty years; but the subject is so vast; it involves so many collateral questions, which are intricate and complex in their character, that it would not be possible for me, or for any man, without more careful study than I have been able to give the question, to determine what plan should be adopted.

I have approached this question—and I know that in this regard I speak for every member of the Commission—with an absolutely open mind. And I have only one request to make of the people of the United States—that they also keep their minds open until this case can be fully presented to them.

I have been greatly gratified by the fact that on every hand thoughtful men have refrained from expression of

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opinion upon this subject, and have been willing to await an examination of the information which we are to furnish, and which is included in the printed list of our publications submitted to you to-night.

I realize, perhaps more fully than any of you, the difficulties which will confront us in the construction of any plan. I think it was McLeod who said that the study of monetary questions is one of the great causes of insanity. We shall have to deal with men reasonably sane on other subjects, but whose insanity on this is apparent to all. We shall be confronted with objections from different classes of men; one cocksure that they know now just what system should be adopted and equally certain that no other plan is possible; another, demagogues who are attracting public attention to themselves by their incoherent utterances made expressly for self-exploitation.

We shall also be confronted with people who will insist that this subject is so great and surrounded by so many difficulties that it is impossible to do anything with it; that we must sit down and meekly submit to whatever evil results may follow from obsolete methods. Now, I greatly mistake the temper and intelligence of the American people if a decision and settlement of this question can be long delayed. It means too much. It is of too vital interest to every person in the United States to tolerate unnecessary delay. It is said we will not be able to solve this question on account of differences which will arise with reference to claims of localities; for instance, as between New York and Chicago, or Chicago and the large cities of the Mississippi Valley. Now, this question will not be settled satisfactorily until it is settled from a national standpoint. I believe fully in the solidarity of interest between all sections and all the people of the United States. You can not have continuous prosperity in New York and adversity in Chicago, or prosperity in Chicago and adversity in New York. What affects one section necessarily affects another.

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It is said we shall encounter political objections, that no organization which we may suggest can be adopted on account of political prejudices of the past or of the present. Criticisms are made of the First and Second banks of the United States. I know of no one who would for a moment think of suggesting a system or look to the adoption of an organization at all like either the First or Second Bank of the United States. Conditions have entirely changed since their day. There are a dozen banks in New York, and many in other parts of the country, that are more important in their operations and in their character than either of those banks. Present conditions necessitate entirely different treatment. I have the utmost confidence in the intelligence and ultimate good judgment of the American people, and I believe if it should be thought wise by the commission, supported by the consensus of intelligent opinion of the people of the United States, to adopt any system, that neither the political prejudice of the past nor the ghost of Andrew Jackson, that great man who died many years ago, will stand in the way. The best interests of the people of the United States are more important than political memories.

The task in which we are engaged, and in which you must be engaged, is too important in its results—it means too much for us to think for a moment that any organization could be adopted or would be adopted that might be subject to political manipulation at any time.

No one of the great European banks I have described has ever been influenced in its action by any political party, and no such charge has ever been made. Take the case of the Bank of France, for instance. The Bank of France was organized by the first Napoleon, and a provision was put into its charter that the governor of the bank should be appointed by the chief of state; not by Emperor or King or President, but by the chief of state.

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Now, the Bank of France has always been from that day to this the Bank of France indeed—the bank of the people of France—sustaining her credit, upholding her honor. No ministry and no party could afford to ignore for a moment this great fact. It would result in the dismissal of any ministry or the overthrow of any party which undertook for a moment to influence the action of this great institution adversely to the public interests. The Bank of France has gone on under emperor, under king, under revolutionary government, and under the Republic—always the bank of the state and the bank of the people of France. Why, in the time of the Commune notes of the Bank of France were current, and the premium on gold in Paris was less than the premium on currency in New York in 1907, showing something of the character of this great institution, which has a place in the heart of every Frenchman that is absolutely unique.

When I was in Paris last year I met a grandson of one of Napoleon's great marshals, who was then investigating the early history of the Bank of France, and who had in his possession a dispatch sent by Napoleon from the field of Austerlitz, just after the battle, in which he called the attention of the representative of the Bank of France to the fact that the success and permanence of that institution were of equal or even greater consequence, in his opinion, to the people of France than the victories he was achieving on the field of battle.

I realize, however, that it is already sought by means of political influences to discredit any action of this Commission. I know also that professional writers are busy erecting creatures of shreds and patches in this great field of discussion for the sole purpose, apparently, of furnishing themselves amusement in pulling them apart, limb by limb, and calling attention to the fact that after all they are not men of life and action.

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I have said I have a plan. I have a plan which was suggested by the ambassador to France, who has just addressed you—a plan, or I should more properly say a firm purpose to find a plan, to make the United States the financial center of the world, a position she is entitled to by virtue of her resources, her vast accumulations of wealth, and her surplus capital.

We shall, of course, expect criticism of any plan we may recommend. Honest criticism is the best thing we can possibly have if we are to secure wise results. I am confident that when we do reach a conclusion—which can not be for many months yet—we shall have the cooperation of the economists and business men of this great financial metropolis. If we do not have it, it will be because you fail to respond to our earnest appeal to you for your assistance in the solution of this great problem. I shall be greatly disappointed if your response is not along the line of a sincere and patriotic cooperation.

