

NATIONAL MONETARY COMMISSION

The Bank of France in Its
Relation to National and
International Credit

By MAURICE PATRON

Barrister

And an Article upon French Savings

By ALFRED NEYMARCK

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The Bank of France in Its Relation to National and International Credit

By

MAURICE PATRON

Barrister

THE BANK OF FRANCE IN ITS RELATION TO NATIONAL AND INTERNATIONAL CREDIT.

INTRODUCTION.

The interesting evolution of means of exchange which we are witnessing and which is familiar to everybody seems to be leading us, after the well-defined periods of barter and money, to a system of mere clearing of balances. All exchange operations would then be settled by simple book transfers. Coin, thus reduced to the condition of money of account, would cease to play any real part. Economists are even thinking of a return to barter, which would complete the cycle, bringing us back to the original state after thousands of years and combinations of all kinds. Such would be the course of this evolution.

At any rate, the undeniable characteristic of our present system is that it presents a transition between the money system and the clearing system, the ultimate form of which we are unable accurately to define. This period of transition, which began when the idea of genuine credit was conceived, will last for centuries before we can rid ourselves of money as a medium. The system of purely fiduciary currency, which is in process of becoming firmly established, is not yet sufficiently stable to prevent us from being thrust rudely back into the old ways whenever we exceed the limits of our resources.

Crises afford a striking proof of this fact. The initial period, the precursor of the crisis, is nothing but an ab-

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normal extension of credit and of speculation. At such times the need of leaning upon the solid foundation of metallic currency is felt with a new intensity; and when, with the blindness resulting from overconfidence, this need has been neglected, when, from a disregard of the functions of money, a crisis is brought about by the violent rupture of the equilibrium of credit, gold at once resumes its rights, is sought for on all sides, and, according to the seriousness of the offense, exacts complete amends, with the honors of a premium as high as it may choose to make it.

It clearly appears, therefore, that this quest for simplification in the means of credit, which each nation ardently pursues in the interest of its own industrial and commercial development, demands the greatest circumspection. In developing credit, metallic currency must not be too much overlooked. We must not lose sight of the fact that "credit, in order to be solid and permanent, must have a solid and permanent foundation."^a

It devolves upon the bank of issue to watch over this solidity and permanence. It can do so by means of its note—that hybrid document, the offspring of both money and credit^b—which is subjected to a more and more close dependence on money, in proportion as credit increases, and which constitutes a valuable means of transition in our time of transition.^c

^aSir Edward Fitzgerald Law, in the *National Review*, cited by A. Raffalovich, *Economiste Européen* of November 16, 1906, p. 617.

^bLéon Say and Chailley, "*Nouveau dictionnaire d'économie politique*," under the word "billet de banque." "The bank note is at the same time an instrument of credit and a substitute for metallic currency."

^cLet us for a moment consider these instruments of credit which justly do honor to our modern civilization; their number increases constantly; in addition to bank notes, checks, transfer orders, certificates of deposit,

T h e B a n k o f F r a n c e

One hundred years ago the bank note, secured almost solely by discounts, was the chief element of a credit which was then little developed.^a But nowadays, the tremendous growth of credit and the necessity of a large metallic basis compel us to provide a heavy gold counterpart for the bank note. It tends to become nothing more than a token representing money. Its issue is no longer a credit operation, but essentially a monetary operation which, it seems, should secure for the bank note its maximum development. By means of its notes, the Bank is in a position, under all circumstances, to

bills of exchange, bills payable to order, drafts, storage certificates, we have stock-market securities, treasury bonds, mortgages, warehouse receipts coupons; in short, obligations of the most varied nature which are to-day in use for credit transactions.

All these instruments are employed in making settlements; they supplement advantageously the use of coin, or multiply it, and they gradually lead toward that period of simple clearing which some economists believe is already in sight. There would be cause for unmixed gratification in their great number and the frequent use made of them, if we were not aware of the serious disturbances resulting from the excessive and careless use of credit. We do not deny the unquestionable advantages of these instruments; on the contrary, we believe the time has come to give them greater extension; but we lay down as a principle that the importance of the bank note in a fiduciary currency should not be belittled, as some people are inclined to do. To give to the credit structure any other foundation would, in our opinion, be equivalent to building on sand. The bank note alone permits the creation of a metal reserve strong enough to become, in case of need, a valuable war chest and a sinking fund for crises.

^a This is shown by the following table (Cf. Pantel, "*Les fonctions de la Banque de France*," Montpellier, 1903, pp. 26 and 27):

[In millions of francs.]

Year.	Circulation.		Discounts.		Cash.		Deposits and current accounts.	
	Maximum.	Minimum.	Maximum.	Minimum.	Maximum.	Minimum.	Maximum.	Minimum.
1800-----	22	8	24	5	11	4	6	1
1801-----	25	15	45	18	10	5	9	2
1802-----	45	16	83	36	15	4	16	5

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maintain an exact proportion between money and credit and to help develop the latter in precise proportion to its holdings.

Such, then, are the aims of the Bank when it extends credit under the most varied forms and over a steadily increasing area, adapting it to wider and more democratic social conditions, and when, supported by its metallic reserve, it removes the threat of war to which financial questions are so closely related, or at least dispels financial storms by some action based on world-wide solidarity.

We shall study the part taken by the Bank of France in the building up of the country's metallic reserves. We shall see the immediate and beneficial results of this extensive operation. Then we shall show how this great institution, thanks to its enormous power, is able to influence, first, national credit, and, second, international credit.

THE BANK OF FRANCE AND ITS METAL HOLDINGS.

SECTION I. *Cash holdings of the Bank.*

The first care of the architect who is about to erect a great building is to secure for it a broad and firm foundation. Likewise, in the vast and continuous upbuilding of a nation's credit, the metallic base requires the most attentive and enlightened consideration. To provide for it, the entire resources of the State are not too great. It is difficult to understand how, in certain countries, an undertaking of such universal interest should be left to private enterprise. How can the latter be powerful enough to accumulate holdings of currency which may have to remain idle for long periods, and which can unflinchingly resist all assaults and all storms?

"The maintenance of a country's gold reserve may be considered a public function."^a This function, however, can not be performed by the State itself, but by the very force of things it naturally devolves upon the banks of issue.^b In France a system which has already passed the hundred-year mark and has been particularly fortunate as to results, intrusts the Bank of France with the duty of building up and preserving the metal holdings, and this great organization shows itself fully worthy of the confidence which the Government has always reposed in it.

^a Vilefredo Pareto, "*Cours d'économie politique*," Vol. I, p. 390.

^b In the United States, to be sure, this burden falls upon the Treasury, but it is unnecessary to lay stress on the fact that at the present time the American financial system does not deserve to be taken as a model.

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During its long career the Bank has never ceased to control credit with rare foresight and a remarkably steady hand.

We wish, at the outset, to call attention to the fact that the Bank of France is not, as might be supposed, directly or personally interested in the possession of enormous cash holdings. The note issues which contribute to the formation of these cash holdings do not represent clear profits; far from it. In increasing its gold reserve the Bank is working against the interests of its shareholders, and consequently against its own interests. There are two reasons for this: first, the expense of maintaining an additional reserve, and the cost of issuing notes against the same, represent a clear loss for the shareholders. If the holdings were smaller, the amounts of assets and liabilities would decrease evenly in the accounts of coin and bars, and notes to bearer, without interfering with the profit and loss account. In other words, the circulation which alone can yield a profit has nothing to gain from the increase in the circulation which is covered by a metallic reserve. In the second place, smaller holdings would lead, for the very safety of the country, to frequent rises in the discount rate, which are the main source of profit for banks of issue.^a Thus, considering its own interest only, it matters little to the Bank if its holdings fall from 3,000,000,000 or 3,500,000,000 francs to 1,000,000,000 or 1,500,000,000 francs—the point at which they stood only twenty-five years ago. The Bank's credit would not suffer, its profit-yielding circulation would not be decreased, and it would be relieved

^a Indeed, the tolls can only apply to operations made in normal times, when the discount rate yields just about enough to cover the expenses of management. When the rate rises the expenses remain about the same, and the profits increase considerably.

The Bank of France

of very heavy^a stamp duties, of the expense of manufacturing the notes which it would not be called upon to issue, and of the charges for safekeeping the corresponding metallic currency.

From 1870 up to the present time the cash holdings of the Bank of France have not ceased to grow, as shown below by the table of quinquennial averages. Moreover, the Bank, of its own volition, could not have made such an accumulation. The exchanges are usually in our favor, owing to our position as lenders to foreign countries^b and

^a One-fifth of 1 per cent.

^b The amounts of French investments known to be made abroad, estimated in 1903 by the *Administration des Domaines*, and published in the *Officiel*, are as follows:

	Francs.
Europe.....	21, 012, 000, 000
Asia.....	1, 121, 000, 000
Africa.....	3, 693, 000, 000
America.....	3, 972, 000, 000
Oceania.....	57, 000, 000
Total.....	29, 855, 000, 000

Very nearly 30,000,000,000 francs, which make us each year creditors for an income of 1,000,000,000 to 1,500,000,000 francs.

Since the balance remains in our favor, many of these settlements are made in gold. After deducting the sums which are deposited or circulated in France there remains a sufficient amount for reinvestment in numerous foreign securities, thus again increasing our national capital. This is the reason for the saying that France is the greatest gold producer in the world.

These figures could but increase since 1903. M. Lajusan (*"La crise française; essai de solution,"* Paris, Giard & Brière, 1906) estimates that on the average we save 3,000,000,000 francs yearly, and M. Neymarck, at the meeting of the Société d'Economie Politique de Paris on November 4, 1905 (*Journal des Economistes*, 1905, p. 248), estimated the amount due us yearly by foreigners, on account of coupons or redeemable bonds, at 1,500,000,000 to 2,000,000,000 francs. This condition is the prerogative of the oldest nations of the old continent. England owns 55,000,000,000 francs of foreign securities.

We shall not join M. Lajusan (op. cit.) in saying that this taste for saving is the evil of our French society; neither shall we unduly lament with

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to the extent of our exports, and this for many years past has resulted in the continual flowing of the precious metal into the vaults of the Bank of France.^c

M. D. Aubry (*“La Banque et le commerce,” Réforme Economique*, July 10, 1904) as to the stand taken by bankers in favoring foreign investments, but we shall more readily conclude with M. Aupetit (*Revue Econ. Intern.*, 1904, Vol. III, p. 707) that there must be and that in fact there is an harmonious relation between investments at home and investments abroad. Of course, the development of the national industry must not be paralyzed by withholding from it the indispensable capital. Still, we must unreservedly congratulate ourselves on the fact that to such a large extent we are able to participate in foreign enterprises. Far from creating competition for us, we succeed in stimulating our own production, and no one will deny that it is more advantageous for a nation to cause other nations to work and to draw from them 2,000,000,000 francs yearly than to procure similar results by work at home. (Cf. *Rev. d'Econ. Pol.*, Vol. XIII, p. 154; *Revue Econ. Intern.*, 1906, Vol. II, p. 223.)

^c *Imports and exports of gold.*

[Bureau of Customs, Statistical Documents on French Commerce.]
[In millions of francs.]

Year.	Coin and bars.		Excess of—	
	Imports.	Exports.	Exports over imports.	Imports over exports.
1880.....	194	408	214	-----
1881.....	234	223	-----	11
1882.....	284	192	-----	92
1883.....	64	134	70	-----
1884.....	127	82	-----	45
1885.....	243	201	-----	42
1886.....	261	199	-----	62
1887.....	93	258	165	-----
1888.....	102	193	91	-----
1889.....	338	129	-----	209
1890.....	117	251	134	-----
1891.....	362	235	-----	127
1892.....	387	111	-----	276
1893.....	305	117	-----	188
1894.....	461	108	-----	353
1895.....	253	244	-----	9

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In thirty-five years the amount of our metallic reserves has increased almost threefold.

Imports and exports of gold—Continued.

Year.	Coin and bars.		Excess of—	
	Imports.	Exports.	Exports over imports.	Imports over exports.
1896.....	301	311	10	
1897.....	291	132		159
1898.....	200	313	113	
1899.....	319	162		157
1900.....	459	126		333
1901.....	429	145		284
1902.....	441	127		314
1903.....	314	130		184
1904.....	656	124		532
Total.....	7,235	4,655	797	3,377

The above table gives the figures for gold imports and exports during the last few years. They show that gold flows rapidly into France, and that in spite of numerous cases of export the holdings keep on increasing.

We give also for reference the amount of gold used yearly in the arts. The information, however, is not sufficient to permit of ascertaining the yearly increase in coined gold and gold bars, or what may be called international money; other particulars should be taken into account, such as recoinage, which the custom-house can not estimate.

Gold used in the arts.

Kilograms.	Kilograms.
1882..... 20,859	1893..... 17,254
1883..... 18,585	1894..... 18,935
1884..... 16,131	1895..... 20,829
1885..... 13,729	1896..... 20,246
1886..... 14,226	1897..... 20,368
1887..... 16,395	1898..... 23,629
1888..... 17,639	1899..... 27,671
1889..... 22,148	1900..... 27,359
1890..... 21,851	1901..... 28,446
1891..... 21,253	1902..... 25,600
1892..... 18,190	

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Statement of the Bank of France for the last week of each year.

[In millions of francs.]

Year.	Specie.			Circulation.	Dis-counts.	Loans.	Current accounts.		Ratio of cash to circulation.
	Gold.	Silver.	Total.				Indi-vidual.	Treas-ury.	
1890..	1, 120	1, 241	2, 361	3, 186	670	249	402	177	0. 741
1891..	1, 137	1, 253	2, 390	3, 194	761	298	433	244	. 748
1892..	1, 705	1, 267	2, 972	3, 298	550	297	419	291	. 901
1893..	1, 702	1, 261	2, 963	3, 581	579	303	405	128	. 827
1894..	1, 821	1, 263	3, 084	3, 476	573	297	445	160	. 887
1895..	2, 048	1, 244	3, 292	3, 527	544	312	547	202	. 933
1896..	1, 978	1, 244	3, 222	3, 607	693	364	566	237	. 893
1897..	1, 963	1, 222	3, 185	3, 689	730	358	492	221	. 863
1898..	1, 875	1, 225	3, 100	3, 094	798	491	491	252	1. 002
1899..	1, 866	1, 196	3, 062	3, 820	828	344	477	207	. 802
1900..	2, 399	1, 108	3, 507	4, 187	848	510	507	269	. 834
1901..	2, 449	1, 096	3, 545	4, 287	846	523	560	167	. 826
1902..	2, 519	1, 098	3, 617	4, 494	826	483	462	104	. 806
1903..	2, 361	1, 101	3, 462	4, 491	1, 040	508	447	236	. 770
1904..	2, 659	1, 102	3, 761	4, 325	765	502	604	238	. 869
1905..	2, 878	1, 075	3, 953	4, 566	1, 098	503	716	390	. 865
1906..	2, 706	997	3, 703	4, 714	1, 255	578	608	337	. 791
1907..	2, 691	924	3, 615	4, 801	1, 215	578	489	258	. 752

Average of specie holdings.

	Francs.
1873-1877.....	1, 520, 000, 000
1878-1882.....	2, 010, 000, 000
1883-1887.....	2, 200, 000, 000
1888-1892.....	2, 520, 000, 000
1893-1897.....	3, 150, 000, 000
1898-1902.....	3, 320, 000, 000
1903-1907.....	3, 770, 000, 000

The above table shows the condition of the most interesting accounts of the Bank of France at the last weekly statement of each year since 1890. It appears therefrom that while the amount of circulation increases together with that of discounts, loans, and current accounts, the fact is nevertheless established that the bank note tends to be more and more exclusively represented by cash holdings.

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We have said that the Bank, while increasing the total of its specie, had given especial attention to its quality. The single gold standard has now been adopted in most countries.^a There remain but Mexico, the European populations of the Far East, and China, which compulsorily, if we may so express it, maintain the silver standard, though China has, properly speaking, no national monetary system. From the standpoint of international relations gold is therefore the only metal which can be exported. It was the duty of the Bank of France to see to it that our bimetallic system should not place us at a disadvantage in our relations with foreign countries.

This bimetallic system has remained incomplete since 1878, when the coinage of 5-franc pieces was definitely suspended. The former order of things left on our hands considerable holdings of coin, the real value of which was much inferior to the nominal value. But at present in our holdings of 5-franc pieces many are found to be of countries which belong to the Latin Union. We have withdrawn from their market such a quantity of these coins that, if the Union were dissolved and an accounting made, we would probably have to return to them more pieces than they would have to return to us, and the balance would have to be settled in gold. It is quite evident that this formidable quantity of 5-franc pieces of inferior quality might materially reduce the exact value of the circulating medium. The aim of the Bank was to dispose of as much of this silver as possible, in order, if not to

^a England was the first to teach the value of gold and to declare that this metal alone was fit to form the basis of a sound monetary system. Germany made use of the 5,000,000,000 francs indemnity to adopt monometallism in 1872. A law of March 14, 1900, established it in the United States.

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get rid of it altogether, at least to reduce the amount to a point where it would cease to be a cause of inconvenience and obstruction.^a

It appears from a scrutiny of the preceding table that the silver holdings are continually diminishing, while the total holdings have increased. Indeed, the Bank of France avails itself of every opportunity to relieve its coffers of this depreciated currency.^b Since 1898 a

^a M. de Molinari thinks that in order to bring back the silver holdings to the condition they were in before 1850—that is, before the creation of the 10-franc gold piece which was intended to take the place of the disappearing silver—it would be necessary to call in these pieces. The value of those outstanding is 600,000,000 francs. This would cause the same amount in silver pieces or thereabouts to come out of the Bank. (Cf. *Journal des Economistes*, 1903, Vol. II, p. 12.) In our opinion this system, among other disadvantages, would overburden the circulation with a heavy and depreciated money.

^b The following table of exports and imports of silver coins demonstrates that the French holdings have always shown an excess of exports.

[Bureau of Customs, Statistical Documents on French Commerce, pp. 84 and 144.]
[In thousands of francs.]

	Exports.	Imports.	Excess of exports.
1901.....	128,637	57,475	71,162
1902.....	106,006	60,807	45,199
1903.....	91,515	68,696	22,819
1904.....	78,028	41,918	36,110
1905.....	41,816	40,145	1,671
1906 ^a	79,574	71,034	8,540

^a Amounts for 1906 are provisional.

This has led certain foreign authors, especially Austrians, to claim that we have a compulsory tender. Their reasoning is, in brief, that since the 5-franc piece has only a fiduciary value, and the notes of the Bank of France may be redeemed exclusively in 5-franc pieces, there is, therefore, a condition of compulsory tender.

There is hardly need to show the error of this reasoning. Compulsory currency in itself implies no redemption, and what we are reproached with simply amounts to stating that the 5-franc piece is legal tender and that its intrinsic value is not equal to its face value. Everybody knows it; nobody complains about it. Can it be said analogously that there is compulsory tender in all countries where subsidiary coins and copper are legal tender within certain limits and within these limits may be paid in redemption of notes?

portion of the holdings has been absorbed by the recoinage of a certain number of 5-franc pieces into subsidiary coins, an operation which, according to the terms of the agreement of May 15, 1898, must be carried out up to the amount of 127,000,000 francs.

Our colonies also provide a large outlet for our silver reserves. In many of them, especially in regions somewhat remote from the coast, the custom of barter still exists. It is only recently, and in some countries, as in the upper Congo, only since a few months, that the natives journeying to the river with ivory, rubber, or other produce have begun willingly to accept coin in place of bags of salt or rice. For them the monetary unit is the 5-franc piece. The subsidiary coins of 1 franc and 50 centimes are doubtless known to them, and some of them even have seen gold coins; but these pieces are rarely in use. On several occasions, we are told, barrels of subsidiary coins, after remaining for a long time in the stores of the exporters who had secured them as a medium for their purchases, had to be sent back unopened because they could not be used.

It is, therefore, the 5-franc piece which is in greatest demand in these countries, and this demand appears strong enough to last for a considerable period.^a On the

^a In this connection it may be interesting to note that in countries where commercial enterprise is least developed silver is taken in preference to gold; then, as economic knowledge increases, gold gives way to bank notes and bank notes to checks.

This is shown by the tables resulting from the inquiry of October 15, 1903, on the circulation of coins and paper. It is shown that the proportion of bank notes in circulation is only 63.08 in the Department of Ain, 65.75 in the Department of Haute Savoie, 66.45 in the Department of Lozère, 68.82 in the Department of Lot, 68.96 in the Department of Var; it reaches 90 to 91 per cent in the departments of Aude, Rhône, and the

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other hand, the members of the Latin Union, especially Belgium and Switzerland,^a owing to their demands for

Bouches du Rhône, and exceeds 92 per cent in the departments of the Seine and the Gironde.

The average percentage of the various mediums of exchange was:

Bank notes.....	85.56
Gold.....	9.13
5-franc silver pieces.....	3.62
Fractional silver currency.....	1.58
Copper.....	.11
	100.00

At the same time a perceptible progress in general economic knowledge is evident, since the figures of the year 1897 indicate a larger use of metal:

Bank notes.....	82.91
Gold.....	11.10
5-franc silver pieces.....	4.45
Fractional silver currency.....	1.42
Copper.....	.12
	100.00

Concerning the evolution in money types and the struggle of the standards (Cf. Nicholson, "*Bankers Money*," London, Black, 1902, p. 4 and following), it may be added that there seems to be a constant progression toward a money of lighter weight. The French bank note, value for value, weighs two hundred times less than the equivalent in gold and three thousand times less than the equivalent in silver. (Cf. E. Théry, "*Les arrivages d'or*," *Econ. Europ.*, May 8, 1892.)

^a There is between Belgium and Switzerland on the one side, and France on the other, an important and continuous movement of 5 franc pieces. The restocking of these two countries requires at times large amounts, as may be seen from the figures taken from M. Ansiaux ("*Les problèmes de la circulation*," *Revue Economique Internationale*, 1907, Vol. IV, p. 260; cf. Meyer, "*Les banques suisses d'émission et le drainage des écus*," Lille, Le Bigot frères, 1903):

[In millions of francs.]

Year.	Belgium.	Switzerland.	Year.	Belgium.	Switzerland.
1898.....	38.0	68	1903.....	25.0	-----
1899.....	60.0	103	1904.....	12.0	-----
1900.....	35.5	75	1905.....	24.0	-----
1901.....	14.5	-----	1906.....	81.5	-----
1902.....	11.0	-----			

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5-franc silver pieces, give us a considerable market for our embarrassing stock. And even if all these outlets were not open for our silver, the fact alone that our gold reserve keeps on growing would produce a steady decrease in the proportion of the silver holdings. The amount would be still smaller than appears from the above figures if the Bank, acting in the public interest, had not endeavored, during the last few years, to relieve the circulation by disbursing more and more gold and drawing silver to its vaults.

Now, neglecting our coined silver which can only be used in the home trade, if our gold holdings are compared with those of other nations, it will be seen that they are in no wise inferior:

Holdings of gold at the end of June, 1904^a

	Francs.
United States ^b	3, 391, 000, 000
France	2, 776, 500, 000
Russia	2, 222, 700, 000
Bank of Austria-Hungary	1, 189, 700, 000
England	883, 500, 000
Italy	469, 200, 000
Spain	367, 900, 000
Netherlands	138, 000, 000
Denmark	118, 600, 000
Switzerland	116, 700, 000
Naples	101, 400, 000
Sweden	82, 600, 000
Roumania	68, 500, 000
Sicily	40, 900, 000
Portugal	27, 000, 000
Finland	21, 300, 000
Servia	18, 000, 000

^a If the latest figures had been taken, it might be thought that they were influenced by the crises of 1907-8. It therefore seems preferable to select a year which was free from disturbances, and a time of the year when the calls for money are least, aiming thus to find a more correct level than during a period of agitation.

^b Holdings of gold of the Treasury on October 1, 1903.

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The four countries whose holdings exceed 1,000,000,000 francs each are, as may be seen, the United States, France, Russia, and Austria-Hungary. The United States, owing to its precarious banking system, far from being able to derive any advantage from holding the largest reserve, has recently undergone a financial crisis of the severest kind, and has withdrawn much metal from Europe.^a Moreover, the United States Treasury is only a department of the Government, and not a commercial institution. Russia has of late experienced some violent commotions. That country, however, somewhat like Austria-Hungary, is just enough outside the lines of international commerce to find but little use for its heavy reserve. This reserve is an appendage of the Russian Treasury, and a large percentage of the gold does not actually repose in its vaults, but is deposited abroad to the credit of the Bank or to the credit of the State.

France is, therefore, the richest country of the world in gold, thanks to its Bank, which has skillfully watched over and centralized arrivals of the precious metal. Owing to the uses the Bank can make of this gold, and to the shipments it sends abroad, Paris has become the most important gold market. It is thus with justice that France has repeatedly been called the greatest gold producer of the world, and at any rate, it is the great storehouse of that metal. It is therefore easy to understand how holdings as considerable as ours can withstand many shocks. It is not, however, in the public interest that these holdings should be indefinitely enlarged, and thus a

^a The amount of gold exported from Europe to the United States during the recent crisis is estimated at about 400,000,000 or 500,000,000 francs at least.

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pause in the movement seems to be, if not probable, at least possible.

After these remarks on the holdings of the Bank, from the point of view of their nominal importance and their quality, we now come to an examination of the function of the Bank in preserving what has been called the holdings of individuals.^a The Bank properly considers that the very quality of the metal in circulation is a corollary of the considerable and judiciously constituted reserve in its keeping; this is simply an application of Gresham's law. In case of a panic, the duties of the Bank would be distinctly more serious, if it had not only to watch over its own reserve but also to repair the damage caused by a diminution or depreciation of the specie in circulation.

When, on March 21, 1907, the board of regents raised the rate of discount from 3 to 3½ per cent, that step was taken not for the purpose of safeguarding the reserve—which was enormous, consisting of 2,600,000,000 francs in gold, and which for a year, during periods much more favorable for exportation, had diminished only 400 to 500 million francs—but in order, by raising the discount rate, to avoid a decrease of the money in circulation, which would have resulted from the tempting and persistent offers from abroad, where discount rates ruled much higher. The incentive to export was too high, a counteraction was needed, and the Bank accomplished it by the means above described. During the week when the discount rate was raised, the monetary situation

^a Cf. *Pour & Contre* of March 24, 1907: "*Revue du marché.*"

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was not strained, because the gold reserve decreased only 3,000,000 francs, while discounts and loans decreased 4,000,000 francs; there was no inflation. Probably this rise was also intended to obstruct the outflow of capital, which, fearing the creation of an income tax, was ready to take shelter abroad.^a This is a remarkable instance of the vigorous measures taken by the Bank to protect the money of individuals. It is equally certain that the same reasons had a great influence on the decision which, on November 7, 1907, raised the rate from $3\frac{1}{2}$ to 4 per cent.

On the other hand, and especially in 1904, the financial policy of the Bank was to flood the French market with gold and to withdraw all silver that was not required for circulation. That silver, as we saw, was shipped abroad; the aim was to get rid of all that which, not being needed for circulation, was only depreciated money. Does this mean that we should reduce the holdings of silver in order to reach gold monometallism as quickly and as

^a According to M. de Foville's calculations, the amount of gold circulating in France reaches the sum of 4,000,000,000 francs. In England the coined gold outside the Bank would not exceed 2,000,000,000 francs, while in Germany it would reach the sum of 5,000,000,000 francs. (Raffalovich, *Economiste Français*, Nov. 23, 1907, p. 727.) But if it is possible, when speaking of the gold reserve of a country, to base calculations upon a concrete figure and to draw conclusions as to the amount of resistance, it is necessary, when considering the money in circulation, to bear in mind the extent of the territory and the density of the population. The latter is far from being alike in these three countries. In France there are 73 inhabitants per square kilometer, against 112 in Germany and 215 in England. If this factor is considered, the quantity of money per inhabitant will be seen to be greater with us than with our neighbors. The conclusion necessarily follows that, if the channels of circulation in England and Germany contain more metal than in France, nevertheless every Frenchman has a greater amount of circulating medium at his disposal.

easily as possible?^a We think not. We remember that between 1860 and 1870 the question of a single metal was raised, as it is to-day, but in a contrary direction. The question then was how to get rid of the debased gold, and it was silver which was used as shield for the yellow metal. It is possible that new discoveries may result in a considerable reduction in the price of that metal. A general lowering of prices would result, which would give silver an increased value, and gold being depreciated in turn, would once more be safeguarded by silver. Thus we believe that, provided silver does not form a major part of the reserve, and provided the holdings of gold are able by themselves to meet the requirements of international trade, silver should not be entirely displaced. In our opinion the principle could be advanced that a strongly and wisely constituted reserve must aim to maintain between the gold holdings and the silver holdings about the same proportion as that between the value of the two metals.^b

Now that a smaller production of silver and an increased production of gold is anticipated, the time would probably not be very favorable for putting this principle into practice. But when bimetallism was general there could have been established, and if in the future, as is quite possible, it again prevails, there might in our opinion again be established a ratio between the amount of gold holdings

^a "Our silver money is our militia; it guards our forts and frontiers at home, while gold is our regular army, which goes abroad and returns after profitable campaigns." (A Neymarck, Meeting of the Société d'Economie Politique of November 4, 1905, reported in the *Journal des Economistes*, 1905, p. 248.)

^b See in the *Officiel*, in the report of the Senate session of February 5, 1877, the discussion of the question of bimetallism.

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and the amount of silver holdings inversely proportionate to that existing between (1) the official ratio of values of the two metals, (2) the actual ratio of the same values; for instance: $\frac{\text{Gold holdings}}{\text{Silver holdings}} = \frac{38}{15\frac{1}{2}}$. Under the hypothetical conditions which we have assumed, this equation would have offered and would offer the best means of counterbalancing the inconveniences of an ever-changing ratio of values. But as monometallism tends to become the rule and, moreover, as in all international commercial relations, settlements are made by taking as basis of value the ratio to gold bullion, which alone at the present time remains unchangeable, we are led to make large reductions in the holdings of silver. It is a delicate matter, however, to decide what limit should be placed to this reduction.

A thorough examination of the question of monometallism and bimetalism does not enter into the scope of our study, and we shall therefore add nothing to the above. In any case, if we confine ourselves to a view of the present situation and of the resistance which the unloading of the declining metal is able to offer to the fluctuation of values, we are led to be content with the incomplete bimetalism which now governs us, and once more to acknowledge the wisdom of the Bank of France, which preserves for us the *statu quo*.

SECTION II. *Immediate results of the dominating position of the Bank.*

The utility of a low discount rate for the commercial welfare of a country is well known.^a Now, the rate tends to fall when the cash holdings increase and to rise when they decrease. In short, it is completely controlled by the holdings. On the other hand, it would not be correct to say that the amount of cash on hand follows the movements of the discount rate. Thus, of the two conditions we have under examination—low rate of discount, strength of holdings—the latter is the more useful. If it is advantageous to have a moderate discount rate, it is still more so to possess large cash holdings. This is the case in France, and as a natural result of our strong holdings, both as to quantity and quality, we enjoy a moderate rate of discount. This situation is so generally known, even in its details, that we shall recall its fortunate consequences as briefly as possible and only as far as is required for the unity of this investigation.

The normal rate of discount fixed by the bank of issue is imposed within rather narrow limits upon holders of funds. To raise it artificially for the greater contentment of a few

^a In this connection we cite the authoritative opinion of two English economists, Cairnes and Bastable: "What a nation is interested in is not in having its prices high or low, but in having its gold cheap—understanding by cheapness not low value, but low cost" (Cairnes, "*Leading Principles*," p. 494, cited by Bastable, p. 97 of the translation by Sauvaire-Jourdan, Paris, 1900); that is to say, not a gold value intrinsically low, but a small cost price, due to the inexpensive means used to obtain it. The idea, however, is not new. Napoleon said: "I have created the Bank in order to allow discount at 4 per cent." This was a very low rate one hundred years ago, and these few words show that the founder of the Bank meant, also, that it should remain stable. Cf. Camille Pelletan in the Chamber of Deputies, session of January 17, 1907, *Journal Officiel* of the 18th, p. 71.)

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ardent capitalists must not be thought of any more than to reduce it to naught, as Proudhon^a dreamed, and as despairingly wished for by the most fervent collectivists.^b The cost of manufacturing the notes, the taxes, and the general expenses of a bank of issue set a limit for the discount rate toward which the normal rate constantly tends.^c But that minimum itself may be raised owing to the influence of the minima existing in other countries.^{d e}

In the table below are found grouped the average rates of official discount in the principal markets of the world. It will be seen that the French rate, with remarkable steadiness, rules perceptibly lower than that of other countries.

^a Proudhon had created a people's bank with the aim of making capital available free of charge. It failed wretchedly.

^b To those who may find the present rate of discount too high, let us recall that, like ethics, political economy has laws which vary somewhat according to time and place. The Chinese, for instance, surprise us with the peculiarities of their civilization, however far advanced it may be in certain respects. Their conception of ancestor worship and of family ties is entirely different from ours; their music sounds queer to us; and, to keep to our topic, some time ago they were quite pleased to see their discount rate ruling at only 30 per cent. Their economists asserted that a lower rate would be dangerous. Cf. *Journal des Economistes*, 1879, I, p. 79.

^c These taxes must not be indefinitely increased. If they should rise above certain limits, it would become necessary for the bank to transfer the burden to those who bring in bills for discount. In some cases the bank may cut down the profits; but when these are brought down to the ordinary level it is not possible to reduce them further without endangering the concern.

^d Cf. *Revue d'Economie Politique*, Vol. XIII, p. 307.

^e It is obviously impossible to determine *a priori* upon a fixed rate which would at once be sufficiently low and sufficiently high and which could be kept invariable. The problem of cheap money is far from so easy a solution. The rate would lack stability if it were not kept in close dependence on a certain number of economic conditions—such, for instance, as abundance of money in the home market or even in the world's market, money rates abroad, etc. On the other hand, a plethora of money is known to be one of the causes of crises, because excessively low rates for loans and discounts during a period of overconfidence permit enterprises which are often hazardous.

Average rate of official discount from 1870 to 1907.^a

Year.	France.	England.	Germany. ^b	Russia.	Italy.	Austria.	Spain.	Belgium.	Holland.	Switzerland.
1870	3.99	3.12	4.90	6.55	5.11	6.00	6.00	3.87	4.10	
1871	5.71	2.87	4.16	7.95	5.00	5.37	6.00	4.33	3.09	
1872	5.15	4.12	4.29	7.83	5.00	6.43	6.00	5.06	3.56	5.83
1873	5.15	4.75	4.95	6.45	5.00	5.16	4.32	4.37	4.75	5.58
1874	4.30	3.75	4.38	5.72	5.00	4.91	6.00	3.85	3.50	4.88
1875	4.00	3.25	4.71	4.49	5.00	4.88	6.00	2.75	3.20	4.34
1876	3.40	2.62	4.16	6.39	5.00	5.00	6.00	2.69	3.00	3.73
1877	2.28	2.87	4.42	6.00	5.00	5.00	6.00	3.21	3.00	3.57
1878	2.18	3.75	4.34	6.00	4.73	4.50	5.26	3.04	3.62	3.61
1879	2.58	2.37	3.70	6.00	4.00	4.17	4.11	3.01	3.07	3.57
1880	2.81	2.75	4.24	6.00	4.00	4.00	4.00	3.35	3.00	3.53
1881	3.84	3.50	4.42	6.00	4.13	4.00	4.00	4.08	3.72	4.28
1882	3.80	4.12	4.54	6.00	5.00	4.20	4.58	4.42	4.63	4.57
1883	3.07	3.56	4.05	6.00	5.00	4.11	4.97	3.60	3.64	4.11
1884	3.00	2.95	4.00	6.00	4.43	4.00	4.68	3.32	3.06	2.99
1885	3.00	3.00	4.12	5.96	4.16	4.00	4.16	3.28	2.58	2.85
1886	3.00	3.04	3.29	5.00	4.71	4.00	4.00	2.75	2.50	3.09
1887	3.00	3.36	3.40	5.95	5.50	4.12	4.00	3.06	2.50	2.91
1888	3.10	3.30	3.33	5.34	5.50	4.16	4.00	3.27	2.50	3.13
1889	3.16	3.56	3.68	5.75	5.22	4.19	4.00	3.54	2.50	3.70

^aMost of these averages are taken from Soetbeer, "Materialien," and from the *Economiste Européen*, *Journal des Economistes* and *Moniteur des Intérêts Matériels*. The others have been directly calculated.

^bThe averages for Germany are those of the Bank of Prussia up to 1875; after that those of the Reichsbank.

Average rate of official discount from 1870 to 1907—Continued.

Year.	France.	England.	Germany.	Russia.	Italy.	Austria.	Spain.	Belgium.	Holland.	Switzer- land.
1890	3.00	4.55	4.38	5.85	6.00	4.52	4.00	3.20	2.80	3.90
1891	3.00	3.40	3.80	4.88	5.78	4.40	4.00	3.00	3.12	3.92
1892	2.66	2.54	3.20	4.88	5.20	4.02	4.95	2.70	2.70	3.09
1893	2.50	3.05	4.08	4.70	5.18	4.24	5.00	2.83	3.40	3.37
1894	2.50	2.11	3.12	4.50	5.74	4.08	5.00	3.00	2.58	3.17
1895	2.10	2.00	3.15	5.00	5.00	4.30	4.50	2.60	2.50	3.27
1896	2.00	2.48	3.65	6.05	5.00	4.03	4.50	2.85	3.02	3.94
1897	2.00	2.78	3.82	5.87	5.00	4.00	5.00	3.00	3.13	3.90
1898	2.20	3.26	4.28	5.20	5.00	4.16	5.00	3.04	2.75	4.34
1899	3.06	3.75	4.98	5.59	5.00	5.04	5.00	3.91	3.83	4.95
1900	3.23	3.96	5.33	6.07	5.00	4.57	3.70	4.08	3.60	4.88
1901	3.00	3.72	4.10	5.67	5.00	4.08	3.50	3.28	3.23	4.00
1902	3.00	3.33	3.32	5.07	5.00	3.55	4.00	3.00	3.00	4.00
1903	3.00	3.75	3.84	4.65	5.00	3.50	4.15	3.17	3.40	4.06
1904	3.00	3.30	4.22	5.38	5.00	3.50	4.50	3.00	3.24	4.05
1905	3.00	3.00	3.81	5.63	5.00	3.70	4.50	3.18	2.68	4.05
1906	3.00	4.27	5.15	7.27	5.00	4.33	4.50	3.84	4.12	5.00
1907	3.45	4.92	6.03	7.12	5.07	4.89	4.50	4.94	5.10	4.94

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Some great nations, England, Germany, and even the United States, enjoy, as is well known, a commercial expansion vastly superior to ours in its intensity. Nevertheless, they pay higher for money than we do. Does this mean that a low discount rate has no influence on that expansion? We do not think so; indeed, we consider that there is here a grave mistake. Even admitting that a low rate, because it demonstrates a limited demand for money, also discloses only a moderate degree of prosperity—which is debatable—that low rate is nevertheless an element of impulse toward a period of greater activity, in that it allows money to be obtained on favorable terms. Should it be objected, however, that France, the land of cheap money, has permitted herself to be outdistanced by the commerce of her rivals, we would take this opportunity to show that from a financial standpoint France for the last thirty years has been ready for an onward movement which is only awaiting an impulse similar to that of which our neighbors have given us an example. In this question, moreover, we must carefully distinguish between the monetary factor and the economic point of view, and we must avoid attributing, under pretext of relationship, to the one the defects of the other. We shall have occasion again to return to this subject.

“There is something more important for a country than the figure of the discount rate, and that is the uniformity of this rate in space and in time. While it is not possible to reach absolutely fixed and uniform rates of discount and credit conditions, the nearer they are approached

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the nearer we are to perfection.”^a A discount rate subject to constant change would cause, at each variation, the gravest disturbances in commercial relations. On the other hand, a stable rate allows a certain prevision of the future and is highly advantageous to serious men of business.^b

The advantages of as stable a rate as possible appear unquestionable. Let us recall, however, the classical controversy over the system of invariable discount as opposed to that of variable discount,^c which ended by reducing the rate when money is abundant and raising it when money is scarce. It appears that here also, as in regard to low rates, it is necessary to discriminate. If the general welfare of commerce is at stake, the rate must remain as steady as possible; if the more complex problem of the elements composing the cash holdings is to be solved, then the question as to a change of rate may be raised. That question is then so related to the problem

^a Courcelle-Seneuil, “*Les opérations de banque. Traité théorique et pratique*,” ninth ed., Paris, Alcan, 1905, p. 39.

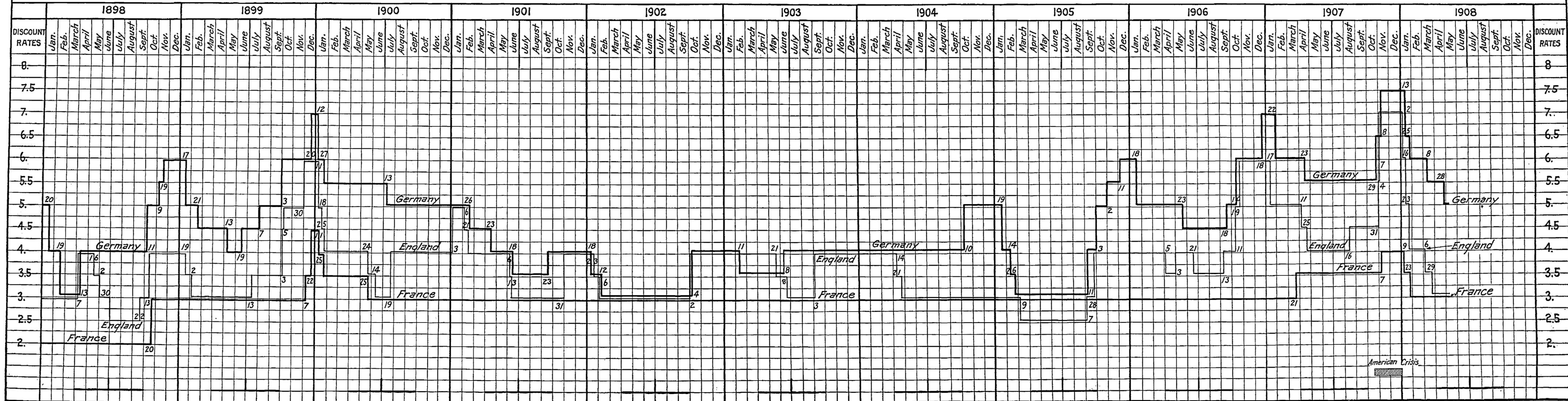
^b This is so true that among the plans for reorganization of the banks of issue in the United States there is one suggesting the adoption of certain measures, the chief merit of which would be the establishment of a sure guaranty against variations in the rate of discount. This plan was developed on September 3, 1903, by Mr. Shaw, Secretary of the United States Treasury (cf. *Econ. Europ.*, Sept. 11, 1903, p. 349). It has behind it the authority of a Cabinet officer who is also a distinguished economist.

It is well known that in the United States there are many banks of issue. The notes are very strictly secured by deposits of government bonds. The result is a lack of elasticity which is disastrous to public credit. On many occasions the defective organization of its banks has caused monetary crises in that country, though it is the richest in the world in metallic currency. A reform of its financial system has long been needed.

^c This discussion is brought out in a clear and thorough manner, with reference to present conditions, by M. Léon Faucher (*Journal des Economistes*, 1847, I, pp. 206 and following).

Note—The figures in the columns of months indicate the dates of each variation.

VARIATIONS IN THE OFFICIAL DISCOUNT RATE IN FRANCE, ENGLAND, AND GERMANY, FROM JANUARY, 1898



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of the choice between the policies of "premiums" and of "discount," that we shall later make a special study of it when considering the gold premium and the rise in the discount rate. No doubt countries can be mentioned where the rate varies even less than in ours, but it appears, at the same time, that their position is not a leading one from the standpoint of international commerce; they deserve no credit for this relative stability, nor do they derive any benefit from it. "Countries lying outside the great international currents are as if in stagnant water, and they are able to preserve longer the same discount rates."^a

The table we present a little further on for the purpose of showing how often the discount rate has changed in different countries points out in a striking manner how steady our market is as against the two greatest markets with which it can be compared, those of Germany and England.^b This table reaches from January 1, 1870, to December 31, 1907. It is unnecessary to give earlier figures. This long period is amply sufficient to prove that the stability of the French rate is not the result of circumstances created by mere chance or peculiar to our time.^{c d}

^a V. Pareto, "*Cours d'économie politique*", p. 386.

^b On this point there is an English saying: "John Bull can stand most things, but he can not stand 2 per cent."

^c On January 1, 1908, the principal rates of discount were as follows: Germany and Russia, 7½ per cent; England and Denmark, 7; Austria and Belgium, 6; Switzerland and Italy, 5½; Holland, 5; France, 4.

^d Up to 1867 the changes in the bank rate were quite frequent. Since our reserve rose to 1,000,000,000 francs, the fluctuations have always been important and of long duration. (Cf. Nitti, *Essai sur les variations du taux de l'escompte*". *Revue d'Economie Pol.*, 1898, p. 384.)

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Number of changes in the rate of discount per year.

	Bank of France.	Bank of England.	Bank of Prussia.
1870.....	4	10	5
1871.....	2	10	1
1872.....	1	14	1
1873.....	4	24	6
1874.....	1	13	4
1875.....	0	12	5
1876.....	1	5	6
1877.....	1	7	7
1878.....	1	10	3
1879.....	2	5	6
1880.....	2	2	5
1881.....	2	6	3
1882.....	3	6	5
1883.....	1	6	1
1884.....	0	7	0
1885.....	0	7	3
1886.....	0	7	5
1887.....	0	7	2
1888.....	3	9	2
1889.....	3	8	4
1890.....	0	11	3
1891.....	0	12	4
1892.....	1	4	2
1893.....	0	12	3
1894.....	0	2	2
1895.....	1	0	1
1896.....	0	3	3
1897.....	0	6	4
1898.....	1	6	6
1899.....	2	6	7
1900.....	3	6	3
1901.....	0	6	4
1902.....	0	3	3
1903.....	0	3	2
1904.....	0	2	1
1905.....	0	3	7
1906.....	0	6	5
1907.....	2	7	4
	41	273	138

If the fluctuations of the official discount rate in the three great markets of the world be presented in chart-form, a striking demonstration is obtained of the fact

that we enjoy the greatest stability in the best money market.

We can further draw the following conclusions, which will be useful in the course of this study. The end of the year is regularly a period of important settlements; money is then in greater demand and rates rise. With the appearance of the crises of 1900 and 1907, the rates of discount reach their maximum. There are also periods of liquidation, of stagnation, and of that too rapid prosperity which by undue credit expansion prepares the way for the crisis. Finally, we may trace the sensitiveness of foreign markets, and in the midst of their movements the comparative immobility of ours.

So far we have dealt only with the official rate. But everybody knows that, besides this rate, there exists another called the outside market rate, which is, perhaps, in greater use than the former.^a One might be led to believe that the differences noted above between our situation and that abroad are, in part at least, the result of our having omitted this factor, and that the general average rate would materially differ from the official rate. Such, however, is not the case.

It is true that in foreign countries—in England especially and in Germany^b—the officially published rate is in reality a maximum, and the banks of issue, through their commercial departments, may discount at lower rates.

^a The outside rates indicate as accurately as possible the relations between the supply and demand of metallic currency. They tend everywhere to vary in the same direction. When they are too high or too low they force the bank rate to be raised or lowered. In this sense it has sometimes been said that the official rate was in a manner artificial.

^b This system has been used by the German Imperial Bank only between 1880 and April, 1896.

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They avail themselves of that privilege for the discounting of prime paper.^a Certain it is that in this respect a difference may be noted. But, on the other hand, the great French banks of deposit, and in the first rank, the *Crédit Lyonnais*, the *Comptoir National d'Escompte de Paris*, and the *Société Générale*, owing to the powerful resources at their disposal for keeping their cash boxes replenished at low cost, are in a position to discount prime bills at a rate often lower than that of the Bank of France. If it happens that these concerns depart from the official rate by a considerable excess, it is merely that to a steady rate is added a premium justified by the risks of insolvency. It should be observed, moreover, that in England and Germany the exceptional rates granted by the banks of issue to especially prosperous concerns are not so generally used as notably to affect the average rate, and the private banks can not compete with our great financial institutions when it comes to offering very cheap money in the open market.

This indicates sufficiently for our purpose that any list which might be made of outside market rates, either abroad or in France, would necessarily be incorrect, and would furnish only an inexact average rate, the causes of which would still have to be analyzed. Besides, should the comparison be made, it would again show the favorable position of our commerce.

^a This system of plural rates applied, even by banks of issue, in their commercial departments has been greatly admired by some economists, who regret that the Bank of France does not pursue this policy. They seem to believe that ultimately the Bank may adopt it. On this subject see *Pour & Contre*, of March 5, 1905, "*Chronique financière du temps*," 1905.

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Yearly averages of private discount rates.^a

Year.	Berlin.	London.	Paris.
1887-----	2.30	2.58	2.53
1889-----	2.63	3.25	2.60
1891-----	3.02	1.50	2.63
1893-----	3.17	1.67	2.25
1895-----	2.01	.81	1.63
1897-----	3.09	1.87	1.96
1899-----	4.45	3.29	2.96
1900-----	4.41	3.70	3.17
1901-----	3.06	3.20	2.48
1902-----	2.19	2.99	2.43
1903-----	3.00	3.40	2.78
1904-----	3.13	2.70	2.19

^a From Thorwart: "Le marché financier allemand," *Revue Financière Internationale*, 1905, Vol. IV, p. 119.

So far we have seen the astonishing strength of France from a monetary point of view. The Bank of France has made it its duty to constitute for the country the largest metallic reserve in the world. This was necessary for the upbuilding of credit, and mathematically, as the reserve grew, the discount rate acquired a conspicuous steadiness and moderation. Local crises, whether monetary or of credit, are not to be feared when such powerful resistance can be brought to bear, and if they occur, it can only be in a world-wide disturbance. We shall, therefore, discuss this point only in connection with international credit.

Thus perfectly secure in its foundation, the Bank of France is enabled constantly to promote the development of credit. In this difficult undertaking we shall see the manifestations of its eminent wisdom as well as of its boldness. In spite of the complications of its task, we shall find the Bank always the leader in matters of credit as well as of money, unremittingly faithful to the great mission which the State intrusts to it, and its mastery of which we all acknowledge.

PART I.

PLACE OF THE BANK OF FRANCE IN THE DEVELOPMENT OF THE NATIONAL CREDIT.

We have seen what especial care the Bank of France has given to the building up, for itself and for the country, of a large and sound reserve and what were the immediate and fortunate results of this favorable situation. With such a cash reserve as basis, credit rests on solid and irreproachable foundations. We have assured ourselves of its power of resistance in our study of its most interesting aspects. On this basis the Bank can now erect and develop the structure of credit. If it controls the monetary situation, it must equally control credit or fail in its duty. There exists, indeed, between these two forces a close relationship, which, from the outset, we have endeavored to emphasize. The Bank, however, seems occasionally to lose this supremacy during the most prosperous periods, when confidence is unlimited and credit expands with excessive intensity. Money in the open market then often falls below the very low official minimum permitted by the expense of issuing bank notes. Other financial institutions, owing to their powerful resources in cash, become temporarily more prominent than the regulating bank, which sometimes shifts upon these more zealous auxiliaries the task of developing credit. But, if the least disturbance unexpectedly arises in the business world, the Bank immediately increases the discounts, and takes up again the reins which

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for a moment it had permitted to slacken. Would it be possible for the Bank to do this if it did not have the command of credit? By intrusting to it the care of Treasury funds the State acknowledges that the Bank has the power of regulating the money market and, as a consequence, of controlling credit.^a The Bank ought to permit the extension of credit outside its control only so far as it is able to recover the leadership of the market as soon as this is threatened.

We shall see in this first part what is its exact place as a distributor by studying its relations with the great financial institutions. We shall then examine the manner in which the Bank develops credit, by increasing the number of instruments of credit, by making them available to the greatest number, by extending the area of its operations, and, finally, by fostering agricultural credit.

^a It has often been said that the Bank derives its strength from the fact that the administration displays extraordinary confidence in it. On the contrary, it would be truer to say that if the Bank is intrusted with duties such as the care of government funds, if there is a disposition to intrust it with ever new duties, it is on account of its strength, and because it is recognized as worthy of absolute confidence, the past being a sure guaranty for the future.

CHAPTER I.

PLACE OF THE BANK OF FRANCE IN THE DISTRIBUTION OF CREDIT.

We purpose to investigate the organs of French credit, and to assign to each of these organs its function, in order then to ascertain what operations the Bank of France can perform and within what limitations. We have therefore to examine (1) the function of local banks and of financial institutions; (2) in what manner the Bank of France promotes the free distribution of credit; (3) in what measure the Bank must control credit.

SECTION I. *Local banks and the financial institutions.*

The natural organs for the distribution of credit are the banks,^{a b} but not all are able to spread it or popularize it in the same degree. Thus the "Haute Banque" (the great banking interests of Paris), solely engaged in operations of higher speculation or in international finan-

^a "A bank is a reservoir from which commerce must always be able to draw the metallic currency, of which, at a given time, it may have need in order to provide the community with products or services which can only be paid for in cash." (H. Lefèvre, '*Le change et la Banque*,' Paris, Ch. Delagrave, 1880, p. 396.)

^b In beginning this chapter it seems to us interesting to draw attention to the fact that the capital employed in France in the operating of banks is notably less than that which is used in England or in Germany. The following figures, borrowed from the journal *Le Rentier* of March 7, 1905, demonstrate this sufficiently.

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cial relations, does not interest us. The function of distribution is reserved for the local banks and the financial

Subscribed and paid-in capital of the large banks of France, England, and Germany.

FRANCE.

Name of bank.	Subscribed.	Paid in.
	<i>Francs.</i>	<i>Francs.</i>
Banque de France.....	182,500,000	182,500,000
Crédit Lyonnais.....	250,000,000	250,000,000
Société Générale.....	200,000,000	50,000,000
Comptoir National d'Escompte de Paris.....	150,000,000	150,000,000
Crédit Industriel et Commercial.....	80,000,000	20,000,000
Banque de Paris et des Pays-Bas.....	62,500,000	62,500,000
Banque Française pour le Commerce et l'Indus- trie.....	60,000,000	60,000,000
Banque de l'Union Parisienne.....	40,000,000	40,000,000
	1,025,000,000	815,000,000

ENGLAND.

Bank of England.....	£14,553,000	£14,553,000
Union of London and Smiths Bank.....	22,934,000	3,554,000
Lloyds Bank.....	22,175,000	3,548,000
National Provincial Bank of England.....	15,900,000	3,000,000
London City and Midland Bank.....	14,400,000	3,000,000
London and Westminster Bank.....	14,000,000	2,800,000
London Joint Stock Bank.....	12,000,000	1,800,000
Parr's Bank.....	8,542,000	1,708,000
London and County Bank.....	8,000,000	2,000,000
Bank of Liverpool.....	8,000,000	1,000,000
National Bank.....	7,500,000	1,500,000
Capital and Counties Bank.....	6,700,000	1,340,000
Williams Deacon's Bank.....	6,250,000	1,000,000
Manchester and County Bank.....	5,460,000	928,000
Union Bank of Scotland.....	5,000,000	1,000,000
Metropolitan Bank.....	5,000,000	500,000
National Bank of Scotland.....	5,000,000	1,000,000
	181,414,000	44,231,000

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institutions, while the function of the Bank of France is to preside over this distribution.^a

Local banks, preeminent less than one hundred years ago, have gradually seen their field of activity growing smaller, and a large number of them have been amalgamated with great institutions, possessed of much greater resources, with branches over the entire country, and, it must be said, free from the routine which caused the downfall of many provincial houses. With their decline

^a "The Bank constitutes to-day such an inherent part of the economic organization of France that the country can hardly be thought of without this mechanism." (Flour de Saint-Genis, "*La Banque de France à travers le siècle*," Paris, Guillaumin, 1896, p. 123.)

Subscribed and paid-in capital of the large banks of France, England, and Germany—Continued.

GERMANY.

Name of bank.	Subscribed.	Paid in.
	<i>Marks.</i>	<i>Marks.</i>
Reichsbank	180,000,000	180,000,000
Disconto-Gesellschaft	170,000,000	170,000,000
Deutsche Bank	160,000,000	160,000,000
Bank für Handel and Industrie	132,000,000	132,000,000
Dresdner Bank	130,000,000	130,000,000
Berliner Handelsgesellschaft	100,000,000	92,596,000
Schaffhausenscher Bankverein	100,000,000	100,000,000
Allgemeine Credit Anstalt	75,000,000	75,000,000
Rheinische Credit Bank	61,000,000	61,000,000
National Bank für Deutschland	60,000,000	60,000,000
Bergisch Märkische Bank	54,250,000	54,250,000
Breslauer Disconto Bank	50,000,000	25,000,000
Commerz und Disconto Bank	50,000,000	50,000,000
Norddeutsche Bank	50,000,000	50,000,000
Pfälzische Bank	50,000,000	50,000,000
Mitteldeutsche Creditbank	45,000,000	45,000,000
Berliner Bank	42,000,000	42,000,000
	1,509,250,000	1,476,846,000

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we greatly regret to see the disappearance of personal credit, which it is more and more difficult to make available. The “*intuitus personæ*” (the judgment of character), which may serve as a basis for credit granted to a neighbor by a neighbor, can not be considered by a corporation official who has almost no means of estimating the solvency of individuals except from the material and tangible side.

The local banks, as far as they have survived, have adopted methods which do not bring them into competition with their powerful rivals. They have been obliged to grant long-term credits or content themselves with being intermediaries for the Bank of France in granting credits to parties known to them, generally farmers or small landed proprietors, with a view to rediscounting the paper. On this point again there is cause to regret, if not their disappearance, at least their effacement. We shall see, indeed, that the institutions for agricultural credit, in spite of all the attention they have received, have not yet been able to replace the local banks in the distribution of personal credit applied to agriculture.

The great financial institutions, of which the four most important are the *Crédit Lyonnais*, the *Comptoir National d'Escompte de Paris*, the *Société Générale*, and the

The disproportion between Germany, England, and France would be still greater if, as in France, all banks having a subscribed capital equal to 40,000,000 francs at least had been mentioned. However, if we figure the pound sterling and the mark at par, the pound sterling at 25.22 francs, and the mark at 1.2345 francs, we shall find as subscribed capital in France 1,025,000,000 francs, in England 4,575,000,000 francs, and in Germany 1,863,000,000 francs. And as capital paid in: France 815,000,000 francs, England 1,115,000,000 francs, Germany 1,823,000,000 francs.

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Crédit Industriel et Commercial, have a much more important part in the distribution of credit. Thanks to their numerous agencies, to their attractive conduct of business, with the service of a courteous and attentive staff, they have gradually taught the people new habits in investment and confidence in credit, to such a degree that he who but yesterday hoarded in a stocking prefers to-day, if not to speculate on the Bourse, at least to make deposits in the savings banks. The great financial institutions have done much to give even the lowest classes confidence in credit, and to introduce a system of clearing.

In closer contact with the public than the Bank of France, which is restricted by having to protect the reserve of which we have spoken, these institutions are able more readily and effectually to reach and to mold the public. But that is not their only service nor the only reason for their existence. There are transactions which they alone undertake, which they alone can undertake, and which must be performed because they are in the line of progress. These operations are sources of profit in the same way as are discounts and loans for the Bank of France. Such are deposits, stock-market orders, and the flotation of securities. These operations can not be undertaken by the local banks. Occupied for the most part with long-term dealings, they have no use for deposits payable on demand. If they should have such deposits, their total would never reach a sufficient proportion safely to permit the investing of an important amount.

On the other hand, the Bank of France does not and, even if it wished, can not compete with the financial institutions in undertaking such operations. Neither the

acceptance of interest-paying deposits nor the flotation of securities can come within the province of a bank of issue.^a The flotation of securities necessitates a certain contingent responsibility, and the institutions which place securities on the market sometimes engage their credit for very large sums, which are sufficiently guaranteed by their capital, but the credit which is intended to safeguard the stability of the bank note^b can not be pledged for that purpose. At most, the Bank may handle over its counters an issue of government and treasury bonds, as it bound itself to do when it accepted the terms of the last renewal of its charter.

It happens that the Bank of France sometimes transmits subscriptions, but this is a gratuitous and entirely voluntary service. In no case can the Bank take for its own account bundles of securities in order to dispose of them to the public. Even the purchase and sale of securities, which is so profitable a business in all financial institutions, could never, it is clear, be a successful undertaking in the Bank of France. The staff of the Bank has no special information as to the various securities dealt in on the Bourse, and can not, therefore, give valuable advice. Its rôle would apparently be confined to handing out the financial journals and passively awaiting orders. If it should act otherwise, the staff would engage the moral responsibility of the Bank of France; but the Bank, evi-

^a "Evolution tends less and less to make banks of issue institutions of credit in the true sense of the word, and more and more to make of them accurate, watchful, and skillful clearing cashiers." (P. Leroy-Beaulieu, "*Traité théorique et pratique d'économie politique*," Paris, Guillaumin, 1896, Vol. III, p. 666.)

^b The reason why the Bank of France requires capital is that it is impossible to secure an absolutely infallible discount board and to discount only paper that is absolutely safe. (Cf. *Journal Officiel* of June 30, 1892, report of M. Burdeau.)

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dently reluctant to undertake such operations, prefers to leave that field to its auxiliaries, the financial institutions.

However, at the present time, as we shall see, the Bank of France tends to compete with these institutions for the purpose of maintaining sound conditions of credit which inclines more and more to speculation. Thus it is extending its department for the purchase and sale of securities in order to safeguard a poorly informed public against the excesses of speculation which dazzle with the hope of an always illusive gain.

SECTION II. *In what manner the Bank of France promotes the free distribution of credit in France.*

Thus the Bank of France must leave entire freedom of action to the financial institutions and must not encroach, theoretically at least, on their functions, which, as has been shown, differ materially from its own. The Bank even owes them its protection, since they are valuable auxiliaries in pursuing its aim of extending credit as liberally as our metallic base permits. In the interest of the public the cash holdings are daily at their disposal. "The banks of issue, as well as the treasuries of the State, are treasuries for private banks. Thus the national credit rests entirely upon them."^a The help and protection of which we speak are not mere passive professions. Unfortunately, there have already been numerous cases where the Bank has had to interfere in order to bring effective assistance to private banks. The Bank has, of course, acted thus for the welfare of the entire community, but also for the satisfaction

^a M. Clément, "*Des variations du taux de l'escompte*," Nîmes, 1902, p. 154.

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of protecting its auxiliaries with all its power in the fulfillment of a difficult task.

Let us recall, in the first place, the terrible crash of the Union Générale, in January, 1882. The manager and M. Bontoux, the president of the board of directors, were both arrested on the 1st of February. The Union Générale was so powerful that the French market, as a whole, was considerably influenced by this disaster. The financial institutions, heavily engaged, had serious fears for their own credit, as many Frenchmen may still sadly remember. Then the Bank of France intervened. "It contributed greatly to the restoration of confidence; it came to the rescue of the compromised institutions by rediscounting a part of their commercial paper; it helped individuals by receiving as current accounts the sums they had withdrawn from the banks, and brought general relief by making the discount rate $3\frac{1}{2}$ per cent."^a From this period dates the prosperity of the better managed banks, which, having remained unharmed, gathered in the customers of the discredited institutions.

In April, 1889, the Comptoir d'Escompte calamity nearly compromised the condition of the banks of deposit, which, however, had acquired stability, were engaged at the time in short-term transactions, easily convertible into cash, and appeared, therefore, less vulnerable than ever. "A heavy speculation in copper had been organized in 1888 with the help of the old Comptoir d'Escompte. In the beginning of 1889, owing to various circumstances, the copper market gave way, involving the Comptoir d'Escompte. M. Rouvier, the minister of finance, called

^a E. Théry, "*La France économique & financière pendant le dernier quart de siècle*," p. 231.

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upon the Bank of France for help. The authorities of the Bank felt that in the face of such events they could not afford to remain passive, and they placed at the disposal of the Comptoir d'Escompte a sum of 140,000,000 francs, thus permitting the repayment of all its deposits, and a liquidation, which, for want of that help, might have proved disastrous. The liquidation was effected on favorable terms and caused no loss to the Bank or to the firms which had given their guaranty."^a

The Comptoir d'Escompte was then the only French financial concern having important branches in the Far East and abroad. Its disappearance, in addition to causing confusion in the home market, would have cast an unfavorable shadow on our credit abroad. The same syndicate of bankers, which rallied around the Bank of France to facilitate the liquidation of the old concern, furthered the subscription to the securities issued by the new company, the Comptoir National d'Escompte de Paris, which took over the business and the various agencies of the old company.^b

Later we shall take occasion to speak of the failure of the house of Baring Bros., London, and of the part played by the Bank of France in the task of relieving the depressed London market. We shall concern ourselves, for the present, only with those incidents which could affect the French market, and we come now to the failure of the Société des Dépôts et Comptes Courants, in the beginning of 1891.

^a E. Théry, op. cit., p. 277.

^b Cf. Germain-Martin & Leo Polier, "*Cours d'économie politique*, II, *Le crédit*," p. 260.

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“The Bank of France, after exacting such security as the concern could still offer and, furthermore, the guaranty of several large banking institutions, for the purpose of limiting possible losses, authorized discounts to the amount of 49,228,206.87 francs. Thanks to this assistance, all deposits were paid off, and the dreaded effects of a panic were once more averted.”^a In spite of the precautions that had been taken, the liquidation was slow. In 1894 there still remained 16,000,000 francs which the Bank had been unable to recover, and in 1895 7,500,000 francs. It was only in the following year that this account disappeared entirely from the balance sheet of the Bank.^b

In the midst of the most perfect confidence and the greatest prosperity, it is again the Bank of France which renders it possible to secure an economical management of the cash reserve so important for the financial institutions. Indeed, by the rediscounting of some of their paper, they may at any moment readjust the proper balance between their receipts and disbursements, thus keeping on hand but a slender cash balance. Their payments can not exactly correspond to their collections, as neither can be accurately gauged in advance.

While it is possible for the public treasury to remedy this discrepancy, as far as its own transactions are concerned, by issuing short-term treasury bonds, in the case of the financial institutions the cashier's certificates can

^a “*Compte rendu de l'assemblée générale des actionnaires de la Banque de France*,” 1891.

^b Cf. also for this episode, Juglar, “*Des crises commerciales et de leur retour périodique en France, en Angleterre et aux Etats-Unis*,” Paris, Guillaumin, 1889, and speech of M. Rouvier in the Chamber of Deputies in 1891.

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not fulfill the same purpose as surely, and resort is had to rediscounting. Therefore, a wise rule of internal regulation exacts that a fixed portion, usually one-third or one-half, of the paper they discount shall consist of bills acceptable to the Bank of France. It may be said, therefore, that in rediscounting such paper the Bank permits the financial institutions to discount paper that does not come up to its own requirement (not bankable) and to transact any other operation such as financing commercial undertakings.

Thus, whenever the financial institutions have found themselves in need of effective pecuniary assistance, the Bank of France has regarded it a duty to help them, and in normal times, by assisting them with its resources, it facilitates liberal credits.

SECTION III. *In what measure the Bank must control credit.*

It may happen, on the other hand, that the great financial institutions expand too rapidly or unwisely this or that branch of credit. Mindful, above all, of their own interest, which is but natural, they have no especial regard for the public welfare, their only aim being to make their capital bear fruit and to pay large dividends to their shareholders.

We have already seen that the Bank of France aspires to a nobler ideal, and we remember some of its policies adopted primarily for the public good.^a The development of credit is an extremely delicate matter; there are many instances where the application of this agency has led

^a Cf. *supra*, p. 10.

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to great catastrophes. It is undoubtedly impossible to exercise a strict supervision over the financial institutions; any such measure would soon appear vexatious and would be, moreover, contrary to our spirit of liberty and independence. But we can quite justly ask whether these concerns are fully sheltered against disasters; whether nothing can happen to them of a nature to shake their credit; and in such a contingency what should be the attitude of the Bank of France.

The preceding instances, briefly noticed above, inform us sufficiently as to the possibility of failures. The house of Baring Bros., the Union Générale, and others enjoyed an immense credit, thought to be unshakable, and the events of a day flatly contradicted that opinion. The various newspaper campaigns during a number of years against the financial oligarchy, of which the controversy of Lysis and Testis^a is but an episode among many others, could have jeopardized, at least in a measure, the credit of the great banking establishments. Public opinion, however, has passed upon it.

But in considering matters more closely, we shall recall that deposits, stock-market orders, and the flotation of securities are the three branches which bring prosperity and profits to the great financial institutions. The steady expansion of these departments is the surest cause of their success. We may, however, ask whether this considerable increase, as shown by the statistics, may not some time be checked. Will the public continue

^a Lysis, "*Contre l'oligarchie financière en France*," *La Revue (anc. Revue des Revues)*, 1907. Testis, "*La vérité sur les propos de Lysis, le rôle des établissements de crédit en France*," *Revue Politique et Parlementaire*, 1907, Vol. 52, p. 456; Vol. 53, pp. 5, 241, 449; Vol. 54, pp. 25 and 229.

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every year to deposit new amounts, which, added to the previous deposits, would constantly augment them without any conceivable limitation? Will the public long submit to the system of speculation, the results of which can only be doubtful? Will its love of gain push it to multiply these operations indefinitely, in the hope of ultimate riches? And will the French market always continue to remain the great producer of capital as we know it, the land of constant thrift, inexhaustible, supplying all who come, while issues of securities increase and are indefinitely renewed, thus absorbing the national savings?

On these various points there would be matter for a long and interesting discussion, in which we shall not engage. But whatever others may think, to us it does not seem rash to state that the three sources of profit mentioned above will not continue to expand indefinitely in the proportions we now witness. However, what does not go forward goes backward. Since restriction is impossible, a change is sooner or later inevitable. Just like individuals accustomed to live beyond their means, the financial institutions, engaged in a movement of ever-growing operations, will not readily slacken their pace, and perhaps in the end they will let themselves be drawn into more or less hazardous transactions. Even if we suppose that each one of them is able to develop satisfactorily, it would still be necessary that the transformed banking methods should present opportunities for profits comparable to those hitherto enjoyed. Perhaps such opportunities may then arise, but we greatly fear that they may be sought amidst the risks of unrestrained

speculation, as has just happened in the United States, which, in this respect, is unhappily preeminent.^a

In any case, we may ask whether in the future the actual monopoly enjoyed by the financial institutions could not be checked by competition. Without speaking of stock market orders and the flotation of securities, transactions which are essentially vulnerable, let us consider only the deposits, that part most vital and sensitive in that it supplies the cash which is obviously so important for a bank. In regard to their deposits the financial institutions have especial reasons for fear. What is called in banking parlance the deposit account is nothing but a current account and carries no privileges for the client. The common belief which tends to consider such deposits as preferred claims is absolutely erroneous. There is no analogy between the special kind of deposit we are speaking of and the one aimed at in articles 1915 and following of the Civil Code.^b

^a The United States offers an example of speculation of which we can hardly form an idea in France.

The New York Stock Exchange has over 1,350 members. In each member's office all operations of the Stock Exchange are recorded by telegraph, which allows the numerous customers to follow the prices at any moment and to buy and sell incessantly, thus facilitating frantic speculation. The American spirit is so intent at the game that few among the rich speculators know the extent of their fortune; some even do not know if they are really rich. Such a one, after having purchased sufficient shares to control the stock of a certain concern, and especially to govern its quotations, will pledge his holdings and with the amount raised will buy the shares of some other great company of which he will gain control in the same way and the securities of which he will pledge again.

With a comparatively small capital the American speculator can manage thus to expand considerably his credit and to rule the market at many points at the same time. But how gravely the least oscillation of this unstable edifice threatens the entire business world!

^b Cf. M. & A. Méliot, "*Dictionnaire financier international, théorique et pratique*," under the word "Banque." Paris, Berger-Levrault & Cie., 1904.

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The internal organization of financial institutions is so well known that a few words concerning it will suffice. Their numerous accounts, nearly all showing credit balances, assure them large sums which they hold without charge, even allowing depositors a moderate interest, varying, however, according to the cash requirements of the depositary, and according to the length of time the depositors agree to leave their funds in the bank. The same institutions also issue certificates of deposit similar to treasury bonds, which pay a small interest. The maximum of interest paid to depositors rarely exceeds 2 per cent per annum in the most favorable cases. But most deposits, especially those subject to check, which are in a majority, generally draw interest at one-half of 1 per cent. Thus we see at what low rate the banks of deposit procure their floating capital. They make use of it to provide for their various departments, loans, discounts, stock-market loans, credit accounts, which bring higher rates of interest, close to the official rate for certain operations, still higher for others, and often close to the outside rate. The banks of deposit are therefore greatly interested in the figure of the discount rate of the Bank of France. Here also we find a limit to the indefinite lowering of the official rate, because a decrease, even though imperceptible to commerce, might in certain cases endanger the vitality of the banks of deposit. With this in view M. E. Théry could say: "When the outside rate for money has fallen below $1\frac{1}{2}$ per cent, what would become of the banks of deposit if the Bank of France, mindful only of its own interests and not of the

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superior interests of our public credit, should suddenly lower its discount rate to 2 per cent?"^a

This new limit to a reduction of the official rate should be noted, because we have seen how important is the prosperity of our financial institutions for the national credit.^b This consideration should suffice for the rejection of the system of multiple rates which consists in allowing the bank of issue, when it is thought expedient, to discount below the official rate for the benefit of certain customers. There appears to be in this an act of hidden competition which, in the interest of the country, the Bank could not possibly countenance. We shall see, in addition, that if the Bank wishes to recapture the market it has many other means at its disposal.

In the course of the discussion concerning the last renewal of the charter of the Bank of France, much was said as to the possibility of allowing a certain interest to de-

^a Edmond Théry, "*Trop de prudence*," *Econ. Europ.*, April 17, 1892.

^b We are of course aware that there are other limits to the lowering of the discount rate. In the first place, if it is not indispensable to follow the rates of foreign markets, it is nevertheless not possible to maintain, artificially or arbitrarily, an independent rate. There is, in the next place, a minimum fixed by the cost of manufacturing bank notes, the safe-keeping of the metallic reserve, and the expenses of management. These rather high expenses amount to a rate of about $1\frac{1}{2}$ per cent. If the various taxes and stamps are added, we reach a figure for general expenses so considerable that it alone would prevent an indefinite reduction. Moreover, it should be noticed that the rate of 3 per cent, which tends to be stable, yields to the shareholders but a very small dividend, if we take into consideration that the market value of a share of the Bank of France fluctuates about 4,000 francs, having quadrupled in one hundred years. This, indeed, appears normal enough, since money was scarcer at the beginning of the nineteenth century than now, and values have probably increased fourfold. The big dividends paid were earned in times when discounts were high, not arbitrarily, as is well known, but quite naturally, since elementary caution requires that a corporation shall manage to operate without having to rely upon the exceptionally favorable periods.

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positors in the Bank.^a After what has gone before, it does not seem necessary to dwell at length on this point. M. Burdeau^b has shown that it is impossible for the Bank of France to become a bank of deposit. The issue of bank notes and the receipt of interest-bearing deposits are absolutely incompatible services. Their union in a single hand "would replace the present organization by an entirely new one, which, in case of a crisis, would offer much less vitality and power of resistance." For us it is sufficient to know that the payment to depositors of 1 per cent on deposits subject to check would attract to the Bank nearly all inactive funds, and that a sum in the neighborhood of 1,000,000,000 francs would leave the private banks. This would be their death-blow—a result which we are unwilling to contemplate.

On the other hand, the future of the banks of deposit depends upon the interest paid by the Caisse des Dépôts et Consignations to its depositors. It is for their interest that the Caisse should not raise its rate. If, for instance, the Caisse should pay over 2 per cent, the banks of deposit, which can allow such a rate only in very exceptional cases, would for this reason receive much less, and their means of action would be correspondingly decreased.^c

^a This idea is not new. Before 1869 M. Horn had demanded that interest be allowed on deposits in banks of issue. (Cf. Wolowski, "*Le change et la circulation*," Paris, 1869, pp. 12, 26, 33.) And it is found again in M. Léon Say's book, "*Dix jours dans la Haute Italie*," p. 63. The arguments pro and con are, however, always the same.

^b Burdeau, "*Discours sur le renouvellement du privilège de la Banque de France*," June 29 and July 6, 1892, in the *Officiel* of June 30 and July 7.

^c A. Moireau, "*La Banque de France, prorogation du privilège, le Crédit Foncier, La Caisse des Dépôts & Consignations*," Paris, Perrin & Cie, 1891, p. 183.

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To sum up, we may say that by their very nature the financial institutions are liable to weakness, and for the public good there must be some means of supporting them. For this reason the Bank of France, which presides over the distribution of credit, can permit the expansion of its auxiliaries only up to the point where its help would suffice to prevent the collapse of the market. Such a measure appears imperative in a country where the protecting wisdom of the Bank of France has always been relied upon. Fortunate land, fortunate institution, which excites the envy of foreigners, especially of England, where, as we shall soon have occasion to see, the least failure may result in disastrous consequences.^a

CONCLUSION.

Thus the banks of deposit have contributed to progress "by gathering and giving life to sums until then lying scattered and idle."^b They are valuable auxiliaries in the distribution of credit. For this reason they deserve help and protection. The Bank, the mission of which is of a wider and loftier scope,^c has shown on many occasions that its helpfulness is not a pretense; daily, in fact,

^a It should be noticed that the strongest defense of the system of the Bank of France is found in English books and papers, notably the *Statist*. (*Statist* of December 1, 1906, mentioned in the *Economiste Européen* of December 7, 1907, and *Statist* of February 15, 1908, mentioned in the *Messenger de Paris* of February 20, 1908.)

^b Burdeau, June 29 and July 6, 1892, in the *Officiel* of June 30 and July 7.

^c "The Bank of France, during periods of quiet and prosperity, aims at a gradual effacement, at a more complete retreat toward a very high but very restricted sphere of economic activity. But as soon as the least trouble appears * * * the Bank assumes again its place at the head of our great financial institutions." (Brouilhet, "*Le nouveau régime de la Banque de France*," *Revue d'Economie Politique*, 1899.)

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it assists them by rediscounting their bills. We have also seen that the prosperity of the financial institutions has continually increased. It is associated with the confidence and growing security of our times.^a But should a war or other calamity occur, quiet and security would disappear, and deposits would correspondingly decrease. At such a time, these banks might give way. Or again, should a lively competition develop, should the direction of opinion or of affairs be changed, that alone might suffice to arouse fear of defection among these auxiliaries of credit. Such a possibility is enough to impose upon the Bank of France the duty of foreseeing and of providing for it. The Bank must be ready to meet even improbable contingencies in order to be in a position to recapture the market with a sure hand as soon as danger threatens it.

Under these circumstances, what can the Bank do? In the first place, it can utilize its powerful reserve which has been accumulated for this purpose. It can, in the next place, curb the action of the banks by competing with them when they appear to enter upon a dangerous course, and by showing them what steps to take.^b

^a The discounts and loans of the financial institutions are growing in importance, and are steadily increasing in proportion to those of the Bank. This condition, revealed by statistics, is in itself not alarming, but it once more justifies that intervention, so many motives for which we have brought out in the course of this chapter.

^b It seems that this protective mission especially applies to the department for stock market orders, originally reserved for the customers of the Bank, and later opened to everybody. Thus it prevents the financial institutions from driving us toward excessive speculation. This purpose explains, according to our notion, the growth and broadening of the business of stock market orders at the Bank of France. The same may be said of the relatively recent measures which permit deposit accounts without interest, and give the loan accounts the privilege of having a credit balance.

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On the other hand, there is a whole series of operations which private banks do not undertake, or do not tend to develop as they deserve. The reason for this we have seen; directed by self-interest toward the more profitable transactions, they somewhat neglect the others. The Bank of France finds no one engaged in these less remunerative operations, and is, moreover, the better able to undertake them itself, because they are not incompatible with the duties of a bank of issue.

In this short essay on the physiology of the distributors of credit, we have endeavored to ascertain theoretically in what measure the Bank of France could and should intervene. We have noticed that on many occasions credit has had the greatest need of being purified, that the colossal expansion of the great financial institutions has demanded the intervention of the Bank, only possible in case of failure. We have said, moreover, that not all credit operations can be carried out by the financial institutions.

It remains for us to show, and this will be the subject of Chapter II, with what activity the Bank of France has developed the credit operations of which it may or should take charge.

CHAPTER II.

EVIDENCES OF THE ACTIVITY OF THE BANK OF FRANCE IN CONNECTION WITH THE NATIONAL CREDIT.

SECTION I. *Development of instruments of credit in the Bank of France.*

The instruments of credit which we have previously enumerated^a comprise almost exclusively those transactions which the Bank of France is not able to undertake. To increase the number of commercial bills, bills of exchange, bills payable to order, negotiable warehouse receipts, drafts, etc., is altogether beyond its control. Its mission merely consists in being always prepared to receive and welcome them. The case is different when it comes to instruments for simplifying accounting, such as checks, transfers, letters of credit, bills payable to order, and even bank notes, the aim of which is to abolish or reduce the transportation of specie.^b As far as these are concerned, the Bank can advantageously intervene in developing their use.

Concerning the bank note, which is mentioned among the instruments of credit because its equivalent is not represented in full by cash, we have said enough, so that

^a Cf. *supra*, p. 6, note *c*.

^b This increase of monetary instruments leads, if not to a sure and universal rise in prices—because, as economic wants become more numerous, consumption goods also tend to increase—then certainly to a general stability of prices, for it will be more difficult to realize a relative increase or decrease in a commodity, the greater the quantity in which the latter exists.

we shall not need to recur to it.^a Moreover, if there is need for its development, it is because upon this very development depends that of the other instruments. Upon it alone falls the duty of assuring the metallic reserve for credit as a whole. We are well aware—and this, perhaps, is the only objection that might be raised against the conception—that the ideal mission of instruments of credit is always to avoid the use of metallic currency, even in times of panic. Unfortunately not all of these instruments come up to this ideal. The clearing vouchers of the Bank are alone perfect from this point of view, and these are the real precursors of the system toward which we are nowadays tending. Therefore the Bank applies itself especially to their development. We shall presently study them.

In order that we may devote our attention to checks and transfers, the two really interesting instruments, let us first say a word on the bill payable to order and the letter of credit, instruments which are not as perfect,

^a It is known that more than four-fifths of the bank notes are represented by the metal holdings, the other fifth resting on the discounts, capital, reserves, and credit of the Bank. Nearly all the notes can therefore be considered as deposit receipts, which, in order to be absolutely legal, only require to have a counterpart "in specie" instead of "in genere." They may be said to be checks of deposit according to the civil law, always to bearer, imprescriptible, the taxes on which are borne by the depositary and not by the depositor.

On the other hand, checks against deposit accounts, which financial exigencies have permitted to deviate from the common law, are not subjected to the obligation of holding a counterpart. It is a curious circumstance, all the inconveniences of which have not yet been revealed by events, that the deposit most legal in form is the object of all the attention, caution, and regulations of the lawmaker, while the other—probably because it is less classical and less legal than it is imposing, owing to its modern and impressive development—enjoys general and unlimited confidence.

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but are worthy of mention, because they render useful service to the public.

The bill payable to order here referred to is a special form of the commercial bill. It is used for transfers of funds. This instrument is within the reach of all and does not require either for the sender or for the recipient that an account be kept with the Bank. Whoever wishes to transfer funds from a city where the Bank has a branch or an auxiliary office to another city similarly provided, has only to deposit the money. There is then handed to him a bill payable to order, worded like all such bills, by which the Bank binds itself to pay to the beneficiary the sum mentioned. The sender has the advantage that his name can remain unknown to all except the office by which the bill was issued. If he prefers, he can let the name of the recipient remain unknown to all except the office on which it is drawn, by having the bill made to his own order instead of to the order of a third party. The charge of 25 centimes allows in many cases a considerable saving as compared with other means of transfer. This bill may be regarded indeed, from a legal point of view, as a check, because by the very fact of its creation an account is opened and payment made to meet it. On that account it is not subject to the graduated stamp tax, and bears only the fixed tax of 20 centimes, like out-of-town checks.

The letter of credit^a is very useful to business men and to all travelers who do not wish to carry large sums with them. It enables them to obtain cash in all the offices of the Bank of France up to the amount indicated. It is

^a Letters of credit form, in the Bank of France, a new department, which dates only from 1902.

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valid for six months. Payments are made on it without commission, and if the traveler has an account with the Bank, that account is debited on the day he draws the money.

CHECKS.^a

The check is the instrument of the current account. The first condition for rendering its use general is to facilitate the working of that account. The Bank permits three kinds, current account with discount privilege, current account for deposits, current account for loans. Article 33 of the Law of 24 Germinal, Year XI (April 14, 1803), which is still in force, declares that amounts deposited in current account can not be attached.

The growing number of these different accounts facilitates and teaches the wider use of the check. There is one variety of check on which emphasis should be laid, that is, the check against a current account based on a loan. This appears to be the latest improvement in instruments of credit, and is the one which is the most useful to domestic economy. Such advances, indeed, appear to be developing in a new direction. Originally they were especially intended to assist, or, at least, to allow stock market transfers. It is for this reason that the rate for advances must follow the rate for call money^b and not the discount rates. This was evidently the original purpose of the loans.

^a "The complaint is sometimes made that the check is used less in France than in England. But it is not sufficiently understood that the Bank of France note is the check par excellence. * * * It is certainly cheaper than the personal check which does not circulate, or at least disappears as soon as it is cashed." (E. Théry "*Circulation fiduciaire de la Banque de France*" *Econ. Europ.*, January 19, 1906.)

^b Cf. *infra*, p. 129.

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In Paris, especially, many loan accounts are opened, with a view to operations on the Stock Exchange. But this is not the case in the country; the account based on loans has there become an instrument of domestic economy. Whoever possesses a certain competence, down to the smallest "rentier," makes use of this account. The old prejudice has disappeared, which considered the opening of such a loan account as the sign of an embarrassed condition, as if it were no different from borrowing on a mortgage. Nowadays, in some towns, there is not a "rentier" who has not a loan account, or at any rate it would be easier to name those who have no such account.

Let us briefly explain the operation of this system. The Bank accepts as pledge many kinds of securities, State rentes, bonds of the *Crédit Foncier*, of cities, railroads—in short, those securities which are considered absolutely safe and which are found in the hands of every capitalist. In order to open a loan account a certain number of these securities are deposited, on which the Bank allows a credit of 75 to 80 per cent of the market value on the day of deposit. If the borrower is not in present need of funds, he may advantageously withdraw a certain amount, which he may apply, for instance, to the purchase of securities. He will pay interest on the sum borrowed from day to day at the official rate, which varies, but generally holds at $3\frac{1}{2}$ per cent. The use of these borrowed funds may bring him a net interest, which can easily be estimated, and which we may suppose to be 3 per cent. For the moment, the operation will have been a losing one, because he will still have to pay 1 per cent or one-half of 1 per cent on the sum borrowed.

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But this disadvantage disappears or is largely compensated, even from a pecuniary standpoint, in this way. Everyone, however modest his mode of living, will at times experience heavy drafts on his income, for which it is necessary to be prepared long in advance, or again it may happen that the dates for his collections do not correspond to the dates of his payments. He must, therefore, keep unemployed, for some days at least, sums which, however small, might be usefully invested. But if he has a loan account, he can keep just enough funds for current expenses and deposit the surplus in the Bank as it may accrue. In the same way, he can draw out sums to meet his expenditures just when necessary instead of keeping them idle at home while waiting for payment to fall due.

The advantage of this kind of an account is that it never suffers the smallest sums to remain unproductive. It is not too much to say that one of the chief reasons why so many households are wrecked is the lack of foresight and the discrepancy between the dates of receipts and the dates of outlays; it is this condition of disorder which unduly fills the purse one day and carelessly empties it the next.

It is evident that the economic management of a loan account demands from the holder sufficient force of character to guard against the temptation of rapidly squandering the available sums, which he knows require but his signature to enter his purse; so that, after all, it may be asked whether the opening of such an account is a safe economic device. This is, we acknowledge, a most serious objection, though it does not appear to us

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conclusive. The very act of opening a loan account implies a certain amount of self-control and an earnest leaning toward order and thrift. It is a first step in the right direction, and there is reason to hope that the beneficiary will persevere. To withdraw money but a sign is needed; still, the sign must be given, and he may hesitate to give it without sufficient cause. And besides, the means of dissipating a fortune are not wanting; the holder of a loan account who will squander his means in spite of this account would doubtless have done just as much, if not worse, if he had his securities in his own keeping, since securities nowadays are money, whether they are in the bank or at home.

Moreover, the man who can not control his own impulses need not open an account. This device promotes the sense of order and thrift, but does not create it. No doubt tradespeople are little accustomed to this mode of payment; however, the holder of a loan account, in order to pay his large bills or those that may be settled by check, has only to detach a form from his check book, after having filled it out and signed it. This paper, handed to the creditor in settlement, will probably remain in his hands for several days before being paid. The account will be debited only on the day when the amount is actually withdrawn. Owing to this now common device, all sums which hitherto lay idle in private coffers are thus rendered active, and for a time, at least as long as the period they would have remained unused at home, they earn a considerable interest, equal to the rate for loans. If the rate is $3\frac{1}{2}$ per cent, the result will be equal to that of a savings bank, opened every day for deposits

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and withdrawals, paying $3\frac{1}{2}$ per cent figured from day to day. It is seen that if the holder had to pay $3\frac{1}{2}$ per cent on the amount borrowed in the first place, as the sums even only temporarily deposited are deducted from the original loan, it is exactly as if they earned $3\frac{1}{2}$ per cent. Moreover, one perceives how much is saved when collections do not at all coincide with disbursements, or follow them, only to be much later renewed, while, in the meantime, expenditures are unceasing and irregular.

The same applies to liquidations, settlements of estates, or any other cases which may necessitate the advancing or the holding available of rather large sums. For this reason we have taken care from the start to suppose the account a debtor one; otherwise it would usually have a credit balance, and as the Bank allows no interest on the balances of its credit accounts the operation would have no significance.

On the other hand, it is seen that the interest, which we have estimated at one-half of 1 per cent to 1 per cent on the amount originally borrowed, would be soon recovered. Such, from the individual standpoint, is the pecuniary aspect of this system. But it is not the only one. As seen from a social standpoint, it tends to spread a spirit of order and thrift by forcing everyone to keep track of his affairs, and even to do a little bookkeeping, for which the half yearly statements of the account will form a sufficient basis. From an economic standpoint this system allows the withdrawing of the unused portion of the circulating medium. It is a powerful economic lesson; it renders credit generally available, and is a step toward the clearing system.

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The check drawn against a loan account is only the instrument of that account, and in order to know what it is, we have been obliged to study its workings in detail. In our opinion this check is the most perfect and generally available instrument of credit. It needs only to be used by certain people in order soon to become so well known that it would reach the humblest classes through the intermediary of tradespeople, who would be the first to receive it; it would then develop that "habit of banking" which is the most wholesome and useful in respect to household economy, and the most desirable with regard to the clearing system.

It is interesting to notice that a party has been formed in the Chamber of Deputies to protest against the extension of loans at the Bank of France, on the ground that the reserve for the bank notes was no longer secure. The same men reproached the Bank for having antidemocratic tendencies. This is evidently inconsistent. Either we must leave to the Bank the task of developing a democratic loan policy, or demand an indefinite increase of its gold reserve, and release it from being democratic. It can not at the same time do two things which are so absolutely antagonistic. But what it can do, and what it does, is to conciliate both by undertaking the expansion of both money and credit, without seeking to suppress the one for the benefit of the other.

This complex task is precisely the subject of our study. We shall endeavor to show in the course of the following section that the term "antidemocratic" can not rightly be applied to the Bank. This error is the more difficult to explain since it does not stand alone. It is hard to under-

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stand why the Socialist party should oppose the monopoly of the Bank of France, which is but a sure step toward social equality. If it is the word "monopoly" which gives offense, let us drop the word, and consider the thing itself. It will be remembered that the democratic Labor party, after having fought for centuries^a to obtain salaries for representatives in Parliament, is the very one in whose midst are voiced the sharpest protests against this eminently democratic reform.

TRANSFERS.

The operation of transfers from one account to another, especially bank transfers, has not ceased to attract attention, because of the greater simplicity which it has introduced. The operation consists in causing a sum to pass from the credit of one account to the credit of another. From the standpoint of bookkeeping nothing is easier. The simplicity is just as great for the holder of the account. He gives the order to debit his account and to credit such other as he may designate, existing in France. This is done with no other cost than the 10 centimes for the stamp on the receipt which is handed to him.^b He sends this receipt to the recipient, who is thus notified. If, however, he prefers, he need not take a receipt, the amount being immediately transferred to the new account, which is credited on the day of the transfer. It is clear what

^a Witness English history, witness France itself, where the immense effort of the revolution was required to attain this end.

^b The only condition for this free service is that the sender shall have discounted with the Bank, within ten days, a sum equal to the amount he is sending, or that the recipient be a debtor for a similar amount. If one of these conditions is not fulfilled, a commission of 25 centimes per 1,000 francs is charged. But in practice the cases are very rare where commission is charged.

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economy results from the use of this system for banks with a considerable volume of business.

It is especially advantageous for private bankers who must frequently cover themselves, sometimes at the shortest notice. Many banks, however, owing to an inexplicable routine, overlook, or feign to overlook, this system because it would oblige them to make certain bookings to which they are not accustomed. Many therefore settle with their correspondents in other ways, either by mail or by direct shipments of specie—obviously a very expensive method—or by remittance of bills of exchange. And then they must keep open an account, often for a long time and without profit, with correspondents with whom they have had, perhaps, but a single transaction. They recoup themselves, though inadequately, by increased charges on bills that come back unpaid.

Another mode of making use of the Bank, consists in remitting a check to the correspondent. This system may do when the correspondent has no account with the Bank, but it is inconceivable if he has an account. First of all, the check must be stamped with 20 centimes, and it is generally sent by registered mail. Moreover, the beneficiary does not receive a book credit at once, but only when the check is presented, since it is impossible to credit his account from the day the check was sent. Undoubtedly these are petty expenses, but we know, in banking matters, small savings here and there make big profits. Many private bankers, as we have said, neglect this system. On the other hand, those who use it make transfers on a large scale, and most of them even make it a practice to settle with their correspondents almost daily.

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As to the financial institutions, it is understood that, at least in the provinces, they do not, as a rule, have recourse to the transfers of the Bank of France. They have their own transfer system, which is also, at the disposal of the public. They may, however, make use of the Bank transfers for everything relating to their cash and the replenishing of their cash holdings. Here again business customs are found to vary according to institutions and locations, and even according to managers. Sometimes the cash is replenished by means of transfers, sometimes by checks, sometimes by remittances of very large bankable bills, which financial institutions can immediately rediscount in order to obtain the cash they require.^a Moreover, the total of transfers effected in the provinces is a great deal smaller than that of the transfers effected in Paris—a result of financial centralization. The amount, which is nearly 4,000,000,000 francs in the provinces, is not far from 200,000,000,000 francs in Paris.

The amount of the balances thus cleared through the Bank of France reaches annually a colossal sum, which,

^a In this connection there may be noted a similar mode of settling with correspondents, frequently used by large commercial houses, which alone, moreover, can advantageously use it. These houses are accustomed to do banking of a sort for themselves, and to pay one another by drafts which are only handed in at the Bank for collection at maturity, or are even collected by the last indorser himself.

This method saves the commission charged by the banks, and even the discounts which would have to be paid when remitting the drafts. These bills circulate like money, and their time of maturity usually corresponds approximately to the period of thirty or ninety days customary in business for the payment of purchases. Something may be saved in this manner. In any case, if there is reciprocity of situation between buyer and seller, the differences in the discount rate become immaterial.

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moreover, grows with industrial and commercial progress, and with the increased popularity of that great institution.

Total of credit balances cleared by transfers through the Bank of France.

[In thousands of francs.]

1896 -----	85, 258, 288		1902 -----	120, 233, 500
1897 -----	86, 275, 994		1903 -----	124, 963, 172
1898 -----	93, 594, 205		1904 -----	152, 822, 496
1899 -----	102, 620, 960		1905 -----	171, 227, 727
1900 -----	102, 447, 026		1906 -----	189, 233, 491
1901 -----	111, 827, 905		1907 -----	179, 399, 452

It has often been said that the clearing of these large sums directly through the Bank relieves our Clearing House of the burden of this operation. In this fact has been found the explanation of the relative unimportance of our Clearing House as compared with others. Indeed, the London Clearing House yearly effects clearings for a formidable sum, exceeding 300,000,000,000 francs.

Operations of the London Clearing House.^a

[In millions of pounds.]

1871 -----	£4, 826		1893 -----	£6, 478
1876 -----	4, 963		1894 -----	6, 337
1880 -----	5, 794		1895 -----	7, 593
1881 -----	6, 357		1896 -----	7, 575
1882 -----	6, 221		1897 -----	7, 491
1883 -----	5, 929		1898 -----	8, 097
1884 -----	5, 798		1899 -----	9, 150
1885 -----	5, 511		1900 -----	8, 960
1886 -----	5, 902		1901 -----	9, 561
1887 -----	6, 077		1902 -----	10, 029
1888 -----	6, 942		1903 -----	10, 120
1889 -----	7, 618		1904 -----	10, 564
1890 -----	7, 801		1905 -----	12, 288
1891 -----	6, 847		1906 -----	12, 711
1892 -----	6, 481			

^a *Bulletin de Statistique et de Législation Comparée*, March, 1907, p. 377.

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In the United States the amounts cleared reach a much higher total. In 1906 the 112 clearing houses in the United States had cleared £32,028,000,000, and New York alone £11,092,000,000.^a

Compared to these figures, those of our Clearing House are very small. Established in 1872, on the model of the English and American clearing houses, the French Clearing House comprises the Bank of France, the Crédit Foncier, the Crédit Lyonnais, the Comptoir d'Escompte, the Banque de Paris et des Pays-Bas, the Société Générale, the Crédit Industriel and Commercial, the Banque Internationale, and others.

Operations of the Paris Clearing House from April 1 to March 31.

[In millions of francs.]

Year	Presented.	Cleared.
1891	6,003	4,721
1892	4,868	3,889
1893	4,715	3,823
1894	5,379	4,360
1895	6,143	5,527
1896	7,351	4,916
1897	7,549	4,874
1898	8,545	5,571
1899	9,567	6,245
1900	10,655	6,948
1901	10,663	7,201
1902	9,964	7,353
1903	10,816	8,023
1904	11,833	8,585
1905	13,887	10,326
1906	17,855	13,507

As may be seen, these figures are almost insignificant when compared to the hundreds of billions in England.

^a *Bulletin de Statistique et de Législation Comparée*, May, 1907, p. 607.

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But if there be added the amounts cleared by the Bank of France, the two results may stand comparison. Several authors, however, claim that the transfers of the Bank of France can not be compared to clearing-house operations, and for this view they give three reasons.^a In the first place, foreign clearing houses, like the French Clearing House, are available for bankers only, and not for others. But bank transfers represent transactions effected by all holders of accounts, whether bankers or not. Moreover, the clearings made at the clearing houses are gratuitous, while those of the Bank are subject to a heavy charge.^b Finally, the former are made uncovered; the latter require a deposit on which interest must of course be paid.

We do not wish to tarry over the discussion of these three considerations. It is quite certain that bank transfers and clearing-house operations are not identical, but it is also certain, on the one hand, that if the 200,000,000,000 francs cleared by the Bank could not pass through that channel they would, for the most part, pass through the Clearing House. If, on the other hand, between the two means of extinguishing balances, it is preferred to clear such large amounts at the Bank, it is because this offers the advantage of rapidity and economy.

Moreover, we do not pretend that the relatively insignificant position of our own Clearing House, as compared

^aThe works in which we have found this opinion sustained with the greatest emphasis are: M. & A. Meliot, "*Dictionnaire financier international théorique et pratique*," Paris, Berger-Levrault & Cie., 1904, under the word "Virement;" and E. Grillon, "*Une nouvelle institution financière*," Paris, Guillaumin, 1895.

^bWe fail to see the force of this objection. We have explained under what conditions the bank transfers are gratuitous. We repeat that the cases where there is cause for charging one-fourth of 1 per cent are very rare. (Cf. *supra*, p. 67, note b.)

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with foreign clearing houses, is explained by this single reason. There are, in our opinion, several others. It must be considered, in the first place, that in France the bank note, owing to its wide diffusion, automatically does the clearing for a large number of balances. In the second place, the still rather restricted use of checks and our practical ignorance of the "crossed check" give the banks less occasion to clear than in England.^a Finally, France has few international debts to settle, since most of these pass through the London money market. We shall then admit that the Bank transfers, which absorb a considerable part of the clearings, explain the rest.

Thus, in apportioning a share to each of these various factors, it is seen that, even from the standpoint of the clearing system and of the economy in the cost of transporting specie for settlement of balances—which is the useful result aimed at—we need not be envious of England. This situation, again, is due to the Bank of France, which has to such an astonishing degree developed the service of free transfers from one account to another.

SECTION II. *Popularization of instruments of credit.*

The Bank of France has often been reproached with being a closed institution, accessible only to a few persons, to rich people and great industries, multiplying and complicating formalities, in order to keep the great public away and to confine itself to the profitable business furnished only by rediscounting, by the large manufacturers,

^a In France almost all transactions are subject to a time settlement, while in England they are almost all settled for cash—that is, by checks Cf. G. François, "*Circulation et virements en Banque*," *Journal des Economistes*, June, 1906, p. 384

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and by the business men who hold large loan accounts. We see that a certain class of customers prefers to the Bank of France the luxurious quarters of the financial institutions, where a courteous staff, with engaging familiarity, places at the disposal of visitors numerous newspapers, exhibits tempting statistical charts, and to all offers the help of shrewd experience. Between the staff of these banks and the customer there is frequently established a kind of intimacy which is flattering and is cleverly kept up by visits as interesting as they are interested. Sometimes the call is from the submanager of the bond department or some higher official of the bank. As compared with these allurements, what attraction is there in the somewhat austere premises of the Bank of France, its staff gravely poring over figures, or busy weighing and packing gold into bags, which at once disappear into the depths of its vaults? Some people see there only a kind of prison for gold or a bank-note factory, having little to do with the usual business of bankers.

How can such a state of mind be met? As the public acquires the habit of frequenting the Bank, it becomes better acquainted with that institution, and personal interest becomes its best educator. This is but natural and right. It is often stated, and not without reason, that certain practices of the Bank keep away a class of people who would be greatly benefited by its services. The practice of requiring three names on paper, of allowing no interest on deposits, etc., is criticized. Now, the Bank would like nothing better than to grant greater facilities for the discounting of commercial paper, to pay interest on deposits, and the rest; but it must be

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remembered that certain difficulties stand in the way. A credit too widely extended is incompatible with the necessity of preserving the metallic reserve. We have been careful, furthermore, to define and delimit the operations which the Bank of France may allow itself to undertake in the distribution of credit without injury to its monetary function. It must, in general, confine itself to those operations which bring no profit, because they do not necessitate the locking up of large amounts, and do not make any demand upon the cash holdings. But without emerging from this sphere of activity, it has many opportunities for abundantly supplying the wants of the public.

It must be admitted that this popularization of credit by the Bank of France meets with little appreciation at home. Derisive laughter often greets him who speaks of the democratic tendencies of this great establishment. It must be acknowledged with regret that our countrymen are almost the last to recognize such benefits, but must listen to foreigners in order to hear them appreciated at their true value. The English, especially, who are very well informed in financial matters, profess the most lively admiration for our great institution of credit, and call attention to the gradual democratization of its services as an astonishing as well as fortunate phenomenon.^a

But it will be asked how the Bank of France which, owing to the very nature of its constitution, can not

^a Cf. especially an article in the *Statist* of February 15, 1908, already mentioned, a translation of which is given by the *Messenger de Paris* in its number of February 20; and another article in the same paper of December 1, 1906, translated in the *Economiste Européen* of December 7, 1906.

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easily popularize credit has been able to win such praise? We have already seen how the Bank helps its customers to make considerable domestic economies by means of the check against a loan account, a popular method which is perfectly accessible to every one. To this subject we shall not revert. Let us recall, however, that the number of small loans, from 250 to 500 francs, was 4,534 on January 1, 1908.

Small loans (250 to 500 francs).

On January 1—	Paris.	Provinces.	Total.
1900.....	3,721	2,861	6,582
1901.....	3,491	3,163	6,654
1902.....	3,063	2,302	5,365
1903.....	2,827	2,074	4,901
1904.....	2,279	1,883	4,162
1905.....	2,135	3,512	5,947
1906.....	2,552	2,922	5,474
1907.....	2,389	2,777	5,166
1908.....	1,987	2,547	4,534

If there are considerable differences from one year to another, the reason is that these small accounts, unlike the large accounts, are mostly opened for a short period, and that their numbers vary with periods of more or less general prosperity and more or less money stringency.

For the small rentier the Bank, as we have seen, offers not only loan accounts, deposit accounts, facilities for transfers, and letters of credit, but also a department for stock market orders, which transmits all orders received, and even attends to all operations in which securities are concerned. Furthermore, in some of the branches safety deposit vaults have been installed, and boxes may be rented by the month or the year

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for a small sum. These vaults are very interesting to inspect, owing to the security they offer against theft or carelessness. For people availing themselves of this accommodation the Bank collects all coupons, a useful service which the public little appreciates, accustomed as it is to collect its coupons without cost in the financial institutions often before they are due. This constitutes, nevertheless, on the part of the Bank, an earnest and gratuitous effort to serve the public; the Bank, indeed, is not adapted to these operations, nor is its staff.

There is a more important point—that is, the safe-keeping of securities. In consideration of a fee of 20 centimes per year for each share or bond, the Bank of France will hold all securities entrusted to it, and collect the coupons without cost to the holder of the receipt. Watching for drawn numbers of bond issues is another special service performed free of charge.

A department, only recently made self-supporting, for insuring against the risk of the repayment of bonds at par, distributes the risks according to a calculation of probabilities and on a mutual basis as between the depositors who desire to avail themselves of this accommodation. Russian bonds, which were held in France in such great numbers and had flowed into the Bank, enjoy a special privilege. Owing to an agreement between the Russian Government and the Bank of France in 1895, Russian bonds are kept in safe deposit free of charge.^a All

^a These bonds, the number of which steadily increases in the vaults of the Bank, were represented on December 24, 1907, by 97,567 certificates. For this safekeeping, free to the public, the Russian Government pays 10 centimes yearly for each bond, on the yearly average of deposited bonds.

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securities deposited are centralized in Paris and kept in the annex at the Place Ventadour.^a There, in a remarkable manner, the greatest safety is guaranteed, and the special staff alone is allowed within the gratings. The numbers of the bonds are kept on separate lists for each customer and each kind of security; these lists are signed by the depositors and by the Bank. The originals are kept in Paris, and the duplicates in Havre. Thus the risk of fire is guarded against as far as possible. This department is as interesting as it is important. At the end of the year 1906 the value of the securities thus deposited was 7,233,000,000 francs, distributed among 11,439,839 certificates and 92,508 depositors.

It is still more interesting to see in what measure the small rentiers have been able to benefit by this service. We can not readily obtain an idea of this without taking the average of the entries for safe deposits, as given in the following table:

Year.	Depositors.	Average holdings of depositors.	
		Paris.	Provinces.
		<i>Francs.</i>	<i>Francs.</i>
1897 -----	53,249		
1898 -----	67,111		
1899 -----	70,110	67,470	67,948
1900 -----	73,620	69,579	64,791
1901 -----	77,348	67,096	64,463
1902 -----	82,377	63,899	62,604
1903 -----	85,354	62,552	62,834
1904 -----	88,100	60,168	61,047
1905 -----	89,979	58,568	64,280
1906 -----	92,508	58,031	57,427
1907 -----	93,646	58,480	56,454

^a At the present time the branches at Lyons, Lille, Bordeaux, Marseilles, and Orleans relieve somewhat the congested condition of the Paris office.

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The table shows that the average amount of the holdings in safe deposit is decreasing, while the number of depositors is increasing. As each year the number of withdrawals is very small, it must be admitted that new depositors bring to the Bank smaller and smaller deposits, hence the lowering of the average.

The small business man, much more than the small rentier, reaps continually greater benefit from the advantages offered to the public by the Bank of France. Without touching again upon the advantages of the loan account to the small trader, or upon the benefit derived from the low and stable discount rate—all matters well known and mentioned before—we shall simply call to mind the dates of some innovations favorable to the democratization of credit.

January 15, 1824.—Creation of transfer drafts.

April 29, 1824.—Creation of transferable certificates of deposit.

January 13, 1820.—Reduction of interest on loans against bars and coin from 4 per cent to 1 per cent.

1834.—Loans against rentes and public securities.

1837.—Daily discounting of paper except on holidays.

Law of June 30, 1840, article 2.—Option of replacing the third signature, exacted for discount, by deposit of any French public securities.

Decree of March 26, 1848.—Similar option of replacing by warehouse receipts.

Law of November 17, 1897.—Admission of bills for discount carrying the signature of an agricultural syndicate. The minimum for bills discounted is reduced to 5 francs.

There is here a whole series of measures, which, with the assurance of a cordial welcome, should induce the small

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business man to trade with the Bank. Furthermore, the recent law of December 20, 1906, which modifies Article I of the law of July 13, 1905, favors, if not the small business man, at least the short-time bills, by delaying their maturity by one and even by two, three, or four days, when it falls on the morrow of holidays occurring on Friday, or the day before holidays occurring on Tuesday. That is an advantage proportionately more important on short-time than on long-time bills.^a

It remains for us to furnish positive proof of the service rendered to the small business man. This can be done by means of the following tables which show the increasing number of bills discounted, the decreasing average value of the notes and the shorter average time they run, the increasing proportion of small bills and the constant growth in the number of collections.

Let us add that if the Bank accepts large quantities of small paper with small signatures, it finds itself, on the other hand, in normal times deprived of first-rate paper, of that which, as we shall see, is as good as gold in international commerce. Gilt-edged paper always finds its market at lower rates than in the Bank, and M. d'Eichthal, a regent of the Bank, wrote as far back as fifty years ago: "Whatever may be the discount rate, among the bills discounted there will be found but few with the signatures of the Rothschilds, the Hottinguers, and other houses of the

^a There is another respect in which short-time bills are favored. Bank discount being always figured in full (not true discount) the party discounting, when handing in paper tardily, profits in the end by the interest on the interest he would have had to pay. That is, of course, a petty profit, but this reason added to the above may explain why bankers rediscount, by preference, short-time bills and items on which the collection charge would often amount to more than the discount deducted by the Bank.

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same rank. Those are delicacies which always command a premium."^a

Bills discounted by the Bank of France.

Year.	Number.	Amounts.	Average.	
			Value.	Term.
		<i>Francs.</i>	<i>Francs.</i>	<i>Days.</i>
1890.....		9,609,788,000	757	27.00
1891.....		10,018,070,700	754	27.80
1892.....		8,415,769,400	643	25.00
1893.....		8,922,244,100	662	24.50
1894.....		8,725,047,400	647	24.84
1895.....		8,621,954,500	644	25.00
1896.....		9,924,672,000	679	27.20
1897.....		10,364,834,800	705	27.33
1898.....		11,032,083,200	721	27.50
1899.....	16,172,162	11,745,984,100	726	27.60
1900.....	16,784,993	12,247,155,500	729	26.96
1901.....	16,866,855	9,936,321,500	588	21.47
1902.....	17,454,223	9,555,893,300	547	21.00
1903.....	18,435,938	11,684,936,900	633	21.64
1904.....	19,115,498	10,834,338,500	566	23.61
1905.....	19,149,506	10,967,589,000	573	20.92
1906.....	20,464,594	13,980,874,900	683	24.03
1907.....	21,540,925	15,769,106,100	732	26.06

Bills for collection.

Year.	Number.	Amounts.
		<i>Francs.</i>
1890.....	1,181,893	552,939,900
1891.....	1,293,032	606,701,800
1892.....	1,488,804	665,847,900
1893.....	1,606,021	614,153,600
1894.....	1,637,870	599,617,367
1895.....	1,801,241	576,923,400
1896.....	1,804,478	553,253,000
1897.....	2,054,853	570,343,600
1898.....	2,151,271	557,314,400
1899.....	2,416,046	593,452,100
1900.....	2,480,972	625,344,800
1901.....	2,450,673	544,917,200
1902.....	2,576,137	531,624,100
1903.....	2,734,268	508,588,700
1904.....	2,867,304	552,925,500
1905.....	2,621,556	570,619,500
1906.....	2,725,929	561,088,400
1907.....	2,914,980	555,997,200

^aP. Coq, "Les circulations en Banque," Paris, Guillaumin, 1865, p. 38.

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Small bills discounted by the Bank (for Paris).

Year	From 5 to 10 francs.	From 11 to 50 francs.	From 51 to 100 francs.	Total of small bills.	Over 100 francs.
1880					
1881				1,160,945	
1882				1,224,326	
1883				1,349,270	
1884				1,581,515	
1885				1,590,839	
1886				1,592,675	
1887				1,668,800	
1888				1,820,473	
1889				1,931,589	
1890				1,943,688	
1891	19,350	745,500	1,013,751	1,778,601	3,917,320
1892	26,136	886,149	1,155,792	2,068,077	3,506,834
1893	26,183	931,002	1,168,292	2,125,477	3,743,295
1894	31,783	984,496	1,172,678	2,188,957	3,616,817
1895	23,474	826,595	1,016,485	1,866,554	3,726,052
1896	24,130	914,093	1,136,318	2,074,541	3,790,560
1897	22,910	868,850	966,656	1,858,416	3,829,892
1898	190,020	792,210	966,570	1,948,800	3,871,986
1899	208,600	822,780	1,070,450	2,101,830	3,864,391
1900	69,400	1,153,500	1,105,400	2,328,300	3,701,200
1901	89,674	1,409,021	1,181,229	2,679,924	3,448,849
1902	90,606	1,434,394	1,169,832	2,694,832	3,568,289
1903	99,974	1,559,509	1,241,590	2,901,073	3,646,957
1904	165,728	1,710,103	1,299,854	3,175,685	3,707,135
1905	167,862	1,776,519	1,336,564	3,280,945	3,737,024
1906	232,074	1,893,087	1,389,386	3,514,547	3,833,743
1907	236,401	2,010,536	1,399,292	3,646,229	3,856,898

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Proportion of small bills to total bills discounted.

Year.	Total bills discounted.	Per cent of small bills to total.
1891.....	5,695,921	31
1892.....	5,574,911	36
1893.....	5,868,772	36
1894.....	5,805,774	38
1895.....	5,592,606	33
1896.....	5,865,101	35
1897.....	5,688,308	33
1898.....	5,820,786	34
1899.....	5,966,221	35
1900.....	6,029,500	38
1901.....	6,128,773	44
1902.....	6,263,121	43
1903.....	6,548,030	44
1904.....	6,882,820	46
1905.....	7,017,969	47
1906.....	7,348,290	48
1907.....	7,503,127	48

The Bank has always resolutely undertaken to carry through a whole series of operations which could not show great profit; above all, it has unremittingly aimed to be of service to the greatest number. The preceding tables show that the number of bills discounted grows continuously, while the total amounts, smaller during the most prosperous periods, invariably increase in periods of tight money. The average amount and term of bills is 600 francs for twenty days. This result would be considerably modified, if we were to take into account the bills handed in for collection only, the average value of which hardly exceeds 200 to 250 francs.

For Paris, it is possible to be a little more precise. The table shows that the totals of the smallest bills, from 5 to 10 francs, have steadily grown at a considerable rate, reaching in 1907 the number of 236,401. A similar

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increase has taken place for the total of small bills not exceeding 100 francs in value. The proportionate importance of these bills in the general total is constantly developing; in 1907 it was nearly 50 per cent.

After the testimony of these figures, it appears superfluous to draw any other conclusion than that, by the help which the Bank of France offers to all with increasing success, its solicitude is shown for the interests of the democracy, of which it has become an essential factor.

SECTION III. *Territorial expansion of the Bank of France.*

With its growth in extent the Bank has not only developed its services to meet new business needs, by providing an increased staff, and larger, more attractive, and better conducted offices, but it has also endeavored to reach a more and more widely extended territory. Indeed, the mere fact that the Bank has entered a place, if only to make collections there, gives a favorable turn to credit conditions; credit becomes cheaper, in that the basis for money rates becomes the official discount rate, because the financial institutions have then a more economical method of replenishing their cash. The smallest provincial town where the Bank has entered is, therefore, in regard to low money rates, as favored as Paris.

Exchange between cities, particularly when joined with a special commission, reaches sometimes a considerable sum. As soon as the Bank opens its branch, exchange is no longer possible. Therefore, whenever the charter of the Bank has been renewed, the legislator, in response to the wishes of the public, has wisely required new territo-

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rial expansion of the Bank. If the Bank has not always taken the initiative in this mode of expansion, it is because it has been restrained by several motives. In the first place, the opening of new offices entails considerable expense. It is necessary to count upon several years of deficit, during which the running expenses, including salaries of staff, are just as high as if the profits were large. We could name several cities which for years have shown constant deficits. It can therefore be understood that the Bank of France, which is already established in the 200 towns^a most important from a commercial standpoint, and which, by means of its collecting department, touches 265 towns of less importance, extends its service only with caution to new localities, since each new branch must necessarily produce a larger and more persistent deficit. Thus territorial expansion is for the Bank an ever-increasing burden; it is equivalent to an additional tax imposed by the legislature at every renewal of the charter. The Bank submits to this with good grace for the benefit of the public.

In the second place, there is a limit to that expansion, as shown in one of the preceding chapters. Where the Bank has no branches, the financial institutions may take root and develop among a population which appreciates their services. Their profits come largely, it appears, from small towns, where competition is less keen. We have already said enough concerning the service of these institutions in the development of French credit,

^a In round numbers. On January 1, 1908, there was the central Bank in Paris; and in the provinces, 127 branches, 55 auxiliary offices, 284 connected towns, which gives a total of 467 banking places, 20 more than on January 1, 1907.

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to show the danger of inflicting upon them fresh injury. On whatever side the Bank desires to expand it finds this limit. If the Bank encroaches a little on all sides, the result may be very appreciable.

The territorial expansion is further perceptibly increased by what is known in the Bank as the exterior accounts. This system, of quite recent origin, allows any person not residing in the town where the branch is established to enjoy the same privileges as residents. Business may be transacted by mail with the aid of certain accounting forms, which often differ from those used for ordinary accounts. Each transaction is the subject of a special report, addressed to the customer by the branch. Not only is the transaction itself reported, but useful information as to the position of the account is also given, thus permitting the customer to follow the movement of the account until the half-yearly statement is sent.

This department is highly esteemed by the suburban public, and renders many services to landed proprietors and to farmers, especially in the cattle-raising trade. Since this trade is confined to a certain time of the year, and with its large initial outlays requires a considerable movement of capital for several months, frequent and important transactions are thereby necessitated.

Thus the direct expansion, which, as has been seen, meets with serious obstacles, is assisted by this indirect expansion.^a

^a The indirect expansion might be increased by wider use of the "crossed check." It will be long before we may expect good results from this practice, since we are as yet too far from the time when this check, almost unknown in France, will be currently used.

Evidently we are far from realizing the attractive dream of a France no longer deprived in part of banking facilities, but with all bills taken at par because the Bank would reach everywhere. But for the sake of this end, no doubt desirable in itself, is it worth while to go to extremes for a scarcely perceptible advantage, to disturb an institution in other respects strong and useful, and thus perhaps to risk disorganizing the general credit system of France? On the contrary, we should be content with and even congratulate ourselves upon a progress which leads us, slowly perhaps, but surely, toward the realization of credit on low terms everywhere and for all.

SECTION IV. *The Bank of France and agricultural credit.*

“There is no such thing as agricultural credit, there is only credit,” said M. Dupin in 1845.^a Matters have not changed since. It is certain, for instance, that Scotland, which for a long time was the classical land of pauperism, owes its prosperity to the banks, which, by developing credit in favor of agriculture, have entirely transformed the soil and the country. Indeed, more than any other, the Scotch farmer needed credit, and more than any other he has benefited by it. It may be said that personal credit is peculiar to agriculture. Thus it suffered as a result of the evolution already mentioned,^b which, by causing the disappearance of local banks or by giving them a new direction, struck a fatal blow to personal credit.

In order to palliate the socially disastrous results of this defect what is known as agricultural credit was devised.

^a *Journal Officiel*, 1845, p. 2471.

^b Cf. *supra*, p. 40.

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But is this not the more or less exact application to agriculture of the idea of credit pure and simple—that is, real credit? Although, in our opinion, with much effort some good results may be obtained, this branch of industry, so important to the wealth of France, can not be truly developed until it shall have gained to its fullest extent the use of personal credit, until everywhere a country money-lender will be able, upon his estimation of the individual qualities of the husbandman, to place at his disposal the money he needs, and thus animate the labor, activity, thrift, and intelligence so widely diffused in France, even to the humblest cottage. Such business relations, loyally maintained, do not exclude caution and tact. Unfortunately, it appears to us difficult at the present moment to reconcile personal credit with the evolution of banking, which is moving in an entirely different direction, and we doubt whether, until a long time has passed, the efforts of legislation can produce, by means of this form of credit, any very striking improvement in agriculture. Let this suffice to indicate the limits of results that may be expected of new institutions favorable to popular credit. The Bank of France in particular must measure its devotion to this task by the limits of real credit and of its own statutes. But an evident proof of its good will and interest is that in every branch office there must be among the directors a representative of the agricultural interests.

We know that “agricultural credit” includes loans from seed-time to harvest. The first labor done, the first loan made to the land, can only be repaid much later. The average time necessary for agricultural loans is five or

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six months at least. Now, for other reasons the by-laws of the Bank prohibit the discounting of paper having more than ninety days to run. By a special favor which would not be accorded in business, where each loan has a different object, the Bank allows the renewals necessary for agricultural loans, which almost exclusively take the form of bills payable to order. The bill returned to the maker on the day of maturity is renewed the following day. The date of maturity alone is changed.

A very important agricultural industry, which we have already mentioned, is that of cattle-raising. The cattlemen are, for the most part, customers of the Bank wherever it has a branch. This customer of a somewhat special kind appears, by the very nature of his trade, to be indicated as a suitable client for the Bank and not for the financial institutions. His only business with the Bank is discounting, and his only mode of withdrawal is shipping of money, nearly always in the form of bills. The Bank requires the cattlemen to indorse each other's paper, and thus can accommodate them without intermediaries. There results a very useful coöperation, which in no way destroys the competition in production. Moreover, by using the Bank the cattlemen effect great savings, the full value of which they alone can estimate.

After the law of July 18, 1898, and the legislation that followed, it might have been expected that the use of agricultural warehouse receipts would be greatly extended. This legislation makes a serious exception to the common law for the benefit of agriculture. It "constitutes the landowner, so to speak, a public warehouse. It is he who, without any other controlling appraisalment, makes

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declaration as to quantity and commercial value to the clerk of the justice of the peace. * * * In short, the agriculturist enjoys a confidence which so far has been denied to industry and commerce."^a Notwithstanding this favor, the agricultural warehouse receipts are little used,^b and the Bank, despite its willingness to take them freely, regrets to find them among its discounts in such very small number.

Our survey would not be complete should we fail to say a word concerning the agricultural credit associations, of which also much was expected and which have only in a very limited measure fulfilled the high hopes of their founders.^c

For the support of agricultural credit the State draws from two sources the funds required to supply the organs of distribution, the local and regional associations. The first source is the loan of 40,000,000 francs made by the Bank on November 17, 1897, when the charter was renewed. This amount, like the 140,000,000 francs already advanced in 1857 and 1878, bears no interest. The second source is the yearly payment made by the Bank of France on the

^a Carpentier, "*Le crédit agricole*," Orleans, 1905, p. 16.

^b The main reason lies in the numerous formalities which the law of April 30, 1906, has simplified but not suppressed, in the many expenses caused by the organization, and also, it appears, in the inexperience of some of the officials. The clerks of the justices of the peace, intrusted with the delicate and novel functions of registrars of chattel mortgages, are, as a rule, little fitted to perform them.

^c The model of these institutions came to us from foreign countries; but the foreign differ from ours materially, because of the diversity of their origin. With our neighbors the movement began slowly in the lowest levels of the rural population. With us, on the contrary, the system of agricultural associations began at the top. Thus, these institutions penetrate only with difficulty into the rural districts, where economic education has but just begun.

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profit-yielding circulation. This payment can not be less than 2,000,000 francs yearly,^a and more often it is in the neighborhood of 5,000,000 francs.

All these sums, intended for agriculture, are distributed by the Government, and are used in endowing the associations of agricultural credit. The regional associations, which are the pivot of the present organization, are self-governing societies, with a capital of their own. This capital, added to the advance made by the State, is invested in first-class securities, which are then deposited in the Bank of France, as discount guarantee to take the place of the third signature, if need be. The local offices send their paper to the regional office, which then takes it to the Bank, as the needs of funds are felt.

Such is the part of the Bank of France in the distribution of agricultural credit. Effective intervention was obviously very difficult, yet the Bank has contrived, even beyond its legal obligations, to give the benefit of its credit to agriculture, which so justly deserves the care it is receiving.

^a This yearly payment, independent of all charges, direct taxes, stamp tax on circulation, stamp tax on stocks, tax of 4 per cent on dividends, tax of 4 per cent on the interest of loans to societies, and cost of transportation of currency, is equal to the proceeds of one-eighth of the average discount rate, multiplied by the average of the profit-yielding circulation, which is equal to the quotient obtained by dividing the daily totals of discounts, loans, and bills by the number of business days.

PART II.

THE BANK OF FRANCE AND INTERNATIONAL CREDIT.

Credit conditions, as we have considered them thus far, that is, from an exclusively national standpoint, become somewhat modified and more involved, when it is a question of regulating and facilitating the multifarious and complex operations of international credit. Bills drawn against shipments of goods over long distances require much more time to run; the various systems of appraisal of values have not all the same standard of comparison; the degree of confidence accorded to the exporting country involves a more or less extended investigation of the liabilities of that country; the condition of exchanges, sometimes depreciated and always fluctuating, the great differences between offer and demand in one place as compared with another, in short, the state of the balance of trade at any moment, and even of the balance of accounts—all these are important factors which figure in the settlements to be effected. These diverse factors, with many others, give rise to difficulties sufficient to hamper the development of international credit.

This development, though it is constant, is nevertheless behind that of the national credit, and more than the latter, it must be based on the monetary system. And when we say monetary system, the expression must not be taken in the precise sense we have hitherto given to it.

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Legal regulation can here play no part, and in this case, especially, it is strictly correct to say with Turgot "all merchandise is money and all money is merchandise."^{a b}

From an international, as well as from a national standpoint, the means of distributing credit are not always those which strictly assure an easy and rapid liquidation through the use of money, the medium of traffic. Certain states, more advanced in the organization of international credit, manage to settle a notable part of the world's operations. Others, more prudent and perhaps wiser, limit their activity in this respect, in order to increase their power of resistance. On shifting ground, the insecurity of which is apparent, a lofty house with poor foundations, which a storm would overthrow and which must repeatedly be restored, is obviously less desirable than one built low and broad, but strong and firm.

^a Parliamentary documents published in 1859 by the ministry of finance.

^b Nevertheless, there exist in international commerce certain wares which are more commonly used for equalizing exchanges, because they have a sure market. Such are international exchange securities, and especially gold. The important part played in settlements by securities quoted on the principal exchanges of the world was for the first time manifest in 1847, when France, threatened by famine, paid for Russian wheat by French rentes sold to the Emperor Nicholas. They were again of the highest importance during the American Civil War and the settlement of the war indemnity in 1871. (Cf. on this subject Arnauné, "*La monnaie, le crédit et le change*," pp. 76 and following.) More recently they were used in the United States during the crisis of 1893. The excess of export of securities from July 1, 1893, to June 30, 1894, is estimated at \$237,000,000. England, in 1890, after the Baring failure, sold a large quantity of stocks and bonds of American railroads. These securities were mostly repurchased by the United States. As for gold, when it is used in international settlements, it is only as a commodity. Each country receives it only on the basis of weight, unless, of course, it should happen to be the local coin. This is the only money that can be exported. Silver coin, from the standpoint of international settlements, is only a sort of bank note struck in silver, instead of being printed on paper. (Cf. *Journal des Economistes*, 1888, p. 265.)

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Our first chapter will be devoted to the explanation of the world-wide inter-relation of the different international markets and to the determination of the place which may be assigned to the Bank of France. The following chapters will show how the two perils of credit, crisis and war, are foreseen by the Bank and what means of resistance it can oppose to them.

CHAPTER I.

INTERNATIONAL MARKETS.

SECTION I. *International financial solidarity.*

Thus far we have spoken only of the place of the Bank in the national credit, and we have taken no account of the influence of foreign markets on the French market. Such is the method of writers on the theory of credit and especially on the theory of exchange. We must now examine the influence of the international factors on our money market.

Long ago the hamlet or borough ceased to be a self-sufficient economic unit, and expanded in order to gratify constantly growing wants. Commerce early created a community of interests between the different parts of the same province, then of the State. This steady development has now resulted in a close harmony of the interests of the different markets of the world, through the universal solidarity of production and consumption.

This interdependence is manifested in numerous instances which may readily be recalled. Let there be a poor wheat crop in America, as was the case in 1905, and exports cease at once; European consumers are the first to suffer. There is no scarcity, because one can not speak of universal scarcity, but the total supply no longer fully suffices for consumption, and a general rise in prices results. It is also known that the English market, and indirectly

all the others, is influenced by poor cotton crops, which render idle a large part of British industry. It is the rates of exchange which give us constant warning of our position in relation to foreign markets. We need not insist further on the solidarity and harmony of international interests, which has long since been set forth with great clearness by many distinguished writers.

It would be more interesting but much more difficult to discover what forms the basis of this solidarity. No doubt we shall be told that the satisfaction of economic wants is not bounded by country, that these wants tend to become identical in all countries through the diffusion of knowledge, of education, in a word, through progress, and that here is a sufficient explanation. We shall not contradict this statement. But such a moral consideration can not have much weight in the organization of international markets which, like all markets, are governed only by very material causes. Even if we admit that the world-wide unity of science and of economic wants is a reason for international solidarity, it could not furnish the concrete basis or the bond of material union essential for permanence and strength.

What is, then, the basis? It can not be the rate of discount, since, as we pointed out at the beginning of our study, the differences in this rate are, in fact, too large and variable to permit the idea, however pleasing, of its serving in such a capacity.^a

^a It may, however, be recalled that in 1866 the Bank of England, after rates of 6, 7, 8, and 9, reached 10 per cent, where it remained for some time; meanwhile the Bank of France kept the discount at 4 per cent. (Cf. *Journal des Economistes*, 1866, 2, p. 440.)

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It appears that metal reserves alone can form the basis in question. They make business possible. Following a natural current, they bring with them into the organism of markets a flow of invigorating blood. At the same time they furnish assurance of the necessary sanctions, when their influence has been disregarded. A few details may suitably be given on this subject. After the use made of biological methods, applied under the name of sociology to all social phenomena, we may without presumption compare the monetary circulation, not the fiduciary, to the circulation of the blood in the body. A certain amount of metal, as of blood, is required to maintain life. A sufficient reserve of good money is the sign of a flourishing State. A money which is scarce or depreciated induces an anæmic condition of the State. Of this Spain bears witness, since the always precarious condition of her exchanges paralyzes all her activity and renders impossible the progress which ought otherwise to occur. Superabundance of metal discloses the plethora of a sanguine temperament subject to crises. The monetary congestion, so to speak, of Germany after the war and the payment of the indemnity offers a sufficient example. A monetary bloodletting in a healthy and prosperous State may stimulate activity. Proof of this is furnished by the rapidity with which France recuperated after the exhausting drain of a costly war and the payment of the indemnity.

It might be said, to continue the comparison, that there is between all the gold circulating over the face of the earth the same affinity as between the blood corpuscles circulating

in the organism. The vital processes of both are similar, and in both, to a certain degree, quantity is of less importance than quality. It is therefore needless, from a general standpoint, of course, to attach much importance to the abundance or scarcity of gold. It is only essential that its world-wide distribution be constantly assured in close correspondence with the needs of the given country and the supply of the neighboring state. For this reason M. Aupetit could say: "The metal market is of necessity international. Gold or silver bars circulate across the frontiers, like all commodities, and by these movements their prices reach everywhere a common level."^a

A given amount of metallic currency cannot, therefore, be thrown at will on any market at any time without the immediate dispersion of this supply over the whole range of markets. To act contrary to this principle would be like attempting to stay the flow of a river. To close the outlets on all sides would be in vain; the water would nevertheless filter through. "When money is brought into internal commerce, it will be employed as a means of remedying every rupture in the equation of international demands."^b

A country can never succeed in building up gold reserves by artificial means; first of all, it must create the need of gold, and then the international market will of itself undertake to supply its need. It is thus that owing to our late development of the system of checks and transfers

^a A. Aupetit, "*Essai sur la théorie générale de la monnaie*," Paris, Alcan, p. 177.

^b Cf. Bastable, "*Theory of International Trade*," in the translation by Sauvaire-Jourdan, Paris, 1900, p. 72.

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we have created a considerable need of gold, which the international market has had to supply.^a

Furthermore, it is well known how, for thirty years, the discovery of gold mines has flooded the market with metal, and how the metal increase has been continuous in the different countries. The United States in particular, with a very large population spread over a vast territory, owes the increase of its metal holdings to the increase of the metal holdings of other nations.^b In this connection, it would be especially interesting to follow one of the most recent and most considerable transfers of specie, the 200,000,000 francs imported into France as the result of the buying out of the Panama Company. These 200,000,000 francs in gold, coming from the United States, originated in large part from shipments made by Japan in payment of purchases of war material. A very large part of this gold, when it had passed into French hands, was absorbed by the Russian loan. M. Aupetit calls attention

^a On the other hand, the Latin Union did not limit the coinage of 5-franc pieces until January 31, 1874, while Germany had adopted the single gold standard in 1872. During that time it is estimated that 500,000,000 francs of gold were drawn by Germany from the countries in the Latin Union, to their injury, because of the coinage of silver. (Cf. X. * * * "*Bimétallisme international*," *Revue Politique et Parlementaire*, 1896, 2, p. 589.) However, this monometallic situation, added to the drain on the circulation caused by the withdrawal of 5,000,000,000 francs, had, according to many authors, the advantage of stimulating a new movement of business activity and of enabling us to withstand the crisis of 1873, which raged especially in Germany, the United States, and Austria. (Cf. Juglar, "*Des crises commerciales*," Paris, Guillaumin, 1889.) It may be added that if Germany had required the war indemnity to be paid in rentes, at least in part, she would have secured great advantages for the future, without diminishing her actual power of monetary resistance.

^b Cf. J. Pallain, "*Des rapports entres les variations du change et les prix*." Sancerre, Pigelet, 1905, pp. 28 and following.

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to this singular irony of fate, which opens the channels for a movement of money between belligerents.^a

We may say in conclusion that "the distribution of gold reserves is not susceptible of arbitrary agreement, but is in a large measure the inevitable result of the development of custom and of the financial requirements of the different countries."^b It appears, therefore, that the monetary circulation may be considered, to a certain extent, as automatic. Each market possesses the amount of gold which it should have, no more, no less. This international distribution is effected, by the very nature of things, with perfect precision. Any act of authority, any arbitrary measure, would be powerless to secure a larger gold supply; this is possible only in so far as new needs are created. Such is, we believe, the indispensable basis upon which the international markets rest. The factor of gold supply, which must be reckoned with, is independent of the speculator, and any operation which should neglect it would lack support and prove to be a dangerous error.

We have added that this system carries with it its own sanction, and can not be disobeyed with impunity. In this regard crises afford a great lesson. When a nation, carried away by the blind confidence of an already long period of easy credit and great prosperity, neglects more and more the metallic basis and the progress of other nations toward a clearing system, and thinks it can for-

^a Cf. J. Pallain, op. cit., p. 35, and *Revue Economique Internationale*, A. Aupetit, "*Chronique financière*," June 15, 1904, p. 216.

^b Georges Cochery, former minister of finance, cited by Aupetit in *Revue Economique Internationale*, 1907, Vol. IV, p. 664.

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ever increase credit and exalt speculation, the crisis is at hand and will suddenly appear; then, as the penalty for ignoring the necessarily slow processes of evolution, it must submit to the humiliation of asking the world for help.

In the constant tendency toward an unattainable perfection in the equation of the world's holdings, exchange rates are the reliable barometer which at every moment indicates the situation of a country with reference to others. If exchange is favorable and if the import gold point is near, the incoming of gold may be counted upon, and in the contrary case gold exports may be foreseen. It is such movements in our favor or to our prejudice which it is important to regulate or to check, but it has been shown that, owing to the multiplicity of interests engaged, this may not always be an easy matter. However, it is all the more necessary to avoid these movements because we know the importance of a strong metallic reserve and the difficulty of maintaining it at a high level. If, indeed, a crisis occurs abroad, it will absorb the metallic currency of the country and will create, besides, a demand for currency as much greater as credit was formerly more extended and business more prosperous.

The country suffering from the crisis will thereupon induce in all the other countries a desire for metal which is sometimes irresistible. This desire will be shown in a very definite form and in the following manner: When money has acquired a considerable value in the country where the crisis exists, foreign capital will not fail to flow in. Capital, it is said, knows no patriotism or country, and no consideration of sentiment or morality will for a

moment hold it back. Rates of exchange will soon show an enormous falling off, the gold points will be exceeded, and gold, if it is not retained, will overflow the affected market. It is evident that this sudden reaction may hasten its return to normal conditions, but the neighboring markets will have suffered so much, in their turn, that the crisis, like a contagious disease, will infect them also, and the world market will regain some stability only after a general fever which will have destroyed the feebler members of the financial world.

We believe we have thus sufficiently demonstrated what close solidarity, from a monetary point of view, exists between the different markets. In closing, let us revert to our biological comparison. Like the limbs and the organs of the human body, nations may be classified according to their importance in the vital economy, but it is very rare that a disturbance of any serious nature develops in any part without affecting the entire organism; there is much difficulty in localizing it altogether. Before, however, inquiring how in such an organic unity of the money markets the reaction upon others of disturbances affecting one part may be prevented, we shall endeavor to indicate the place occupied by France and its essential instrument, the Bank of France.

SECTION II.—*Place of the Bank of France in the international market.*

At the beginning of this study we have shown that it is to the interest of a nation to possess an important metallic reserve, and we have just laid down as a principle the automatic character of circulation. Although these two

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rules seem to be contradictory, they are not so in reality; we are therefore brought back to our starting point. France has with deliberation permitted the development of its instruments of credit, especially of its bank notes, and has in this manner created the need of gold to be used as a reserve. It has utilized periods of favorable exchange to build up a reserve which is to-day the strongest and the most important in the world. We need not further insist upon the commanding position of the Bank of France from a monetary standpoint. A study of the situation of our neighbors in this respect would, in our opinion, be more conclusive; we shall also see whether the lack of a similar reserve does not cause them serious inconvenience.

We must remember, in the first place, that the number of international markets is reduced to a single one for each State. It is in Paris that the operations of France with the entire world are settled. The same holds true of London, Berlin, Brussels, etc., for their respective countries. This may be considered as an exact statement of the situation; other financial relations which may exist are confined to very limited amounts and to local transactions of quite secondary importance. The fact that the rates of exchange are quoted simply by the names of Paris, London, etc., sufficiently indicates the significance of markets in international commerce.

Numerous minor countries with relatively small commerce need not be considered. Their transactions pass through the intermediary of a more important neighboring market, or, in case of a colony, through the metropolis.

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It is seen that if the markets of international commerce are heavily burdened with operations for settlements, their number, on the other hand, is very limited. Nevertheless, the equation of the various demands and offers for the whole world can not be solved by transferring all credits indifferently to some one market, and relying upon it to send to other markets all those credits which it alone will have been unable to clear. There is a current, normally established, which leads to the remittance of claims not easily clearable, to the most active and important market, which is able to dispose of them more easily and economically, and most willingly undertakes the transaction.

It is thus that England, whose enterprise and commercial expansion over the entire globe has greatly favored, if it has not created, the development of this special commerce, has always appeared, so to speak, as the chief banker of the world. London has been called "the financial Rome of civilized nations—that is, the world's clearing house and its principal financial market."^a It is there that almost all international credits are settled "France and Germany, however, are not entirely included in this mechanism,"^b and the operations peculiar to them are to a large extent subject to direct negotiation.

This incontestable supremacy, this position as the clearing house of the world, imposes a heavy obligation upon England. It must not be forgotten, indeed, that

^aA. E. Sayous, Meeting on February 5, 1900, of the Société d'Économie Politique de Paris, reported in the *Economiste Français* of March 3, 1900, p. 271.

^bSayous, loc. cit.

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in monetary transactions ultimate solvency is not sufficient,^a but that the possibility of immediate realization is essential. Even if a bank has assets and liabilities which leave no doubt as to its final solvency, it must above all be able to respond immediately to all demands for cash which may be made upon it. This is the very essence of banking.

Any bank in the world, however skillful in clearing operations, must certainly at times furnish a little cash. Some of its clients will prefer to be paid in gold rather than by means of clearing house settlements. We may obviously regret that education is not sufficiently advanced to eliminate such demands, but in the meantime it is necessary to conform to the habits of our time. These withdrawals of cash, however, are usually made at expected times and for known destinations.^b England can then meet them, because, within a certain measure, they may be foreseen.

Gold withdrawals from the Bank of England during September, October, and November.

Destination.	1903.	1904.	1905.
Egypt.....	£4, 025, 000	£3, 020, 000	£1, 520, 000
South America.....	351, 000	1, 483, 000	1, 543, 000
Germany.....	807, 000	1, 358, 000	-----
France.....	10, 000	50, 000	28, 000
Other European countries.....	190, 000	-----	450, 000
United States.....	203, 000	151, 000	-----
Various.....	501, 000	190, 000	264, 000
	6, 087, 000	6, 252, 000	3, 795, 000

^aCf. J. S. Nicholson, "*Bankers' Money*," London, Black, 1902, p. 63.

^bThe greatest demand for cash comes toward the end of the year. Egypt and India, at the times of their wheat deliveries, require important metal payments.

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The above table shows that, even in normal times, there is a drain as serious as it is unavoidable, since it is the consequence of financial supremacy. On the other hand, as soon as there is the least trouble in any market, London is the first place called upon for shipments of metal. Compelled to be the medium of exchanges, the customary purveyor of all kinds of merchandise, London undertakes to meet all demands from abroad made necessary by scarcity of money. The numerous banks of the city are often asked for large amounts for export. Lombard street, therefore, which in a way monopolizes the banking business, and considers itself dispensed from holding a cash reserve because it has large credit balances in the Bank of England, calls for metallic currency with increasing insistence. Thus all demands are found to be made on the Bank of England, which at the same time is restricted by the provisions of the Peel Act. It may be imagined what a metallic reserve the Bank should have at its disposal, in order to provide for such an extensive market.

Thus the fact that a country undertakes international settlements carries with it the obligation of supplying gold. Financial leadership implies monetary leadership, and such should necessitate strong reserves. Is this the case with England? Far from it. Experience shows that England "has made too heavy sacrifices to her classical principle of using a minimum of metallic currency for her payments at home and abroad."^a London has not a sufficient amount of gold to satisfy the needs of

^aAupetit, "*La vie financière*," *Rev. Econ. Intern.*, 1907, Vol. IV, p. 654.

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Great Britain and to meet the demands of foreign peoples. This deficiency is acknowledged by the English themselves.^a They have for a long time talked of modifying the Peel Act. At a meeting of the Bankers' Institute, which was held in London in November, 1906, the insufficiency of the reserve was discussed. It was recognized that, in general, the banks do not appear to realize the necessity of having sufficient reserves to maintain the immense credit structure they must support.^b

An example for the formation of reserves has, however, been given. The Lancashire and Yorkshire Bank undertook some years ago to imitate the French policy. This innovation has yielded highly satisfactory results. It has, however, remained unnoticed,^c because all the banks, including the Bank of England, too willingly shirk this crushing yet delicate task.^d

The situation we have just outlined, which particularly concerns England, but which partially affects all great markets, can not fail to cause some anxiety, and we have

^a Mr. Goschen wrote that it is a dangerous and deceptive system which leads to reliance on services to be expected, in case of a crisis, from the Bank of England. Arnauné, *La monnaie, le crédit et le change*, 1st ed., Paris, Alcan, 1894, p. 394.

^b Cf. *Moniteur des Intérêts Matériels*, October 26, 1906, p. 3523; November 16 and 26, 1906, pp. 3778 and 4291.

^c Cf. *Messager de Paris*, February 20, 1903, "La Banque de France et l'opinion étrangère."

^d It is comprehensible that the private banks should rely on the bank of issue and consider the credit at their disposal as available cash. But it seems hazardous for the Bank of England itself to count on the others; yet this actually takes place. To give but a single instance, let us recall that it insists upon a certain regulation of the use of the available funds of Lombard street. When it finds that Lombard street uses too much money it forces the banks to raise their rates. For that purpose the Bank itself borrows on the consols it owns, and thus monopolizes a large portion of the available funds. (Cf. Rozenraad, "Le marché de Londres," *Revue Economique Internationale*, 1906, Vol. II, p. 79.)

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witnessed during the last few years the almost universal regret that a stronger metallic reserve was not provided. The last crisis has especially drawn attention to the general scarcity, and every country has perceived that it lacked gold.^a The remedy for this state of things would necessitate a revolution in well-established financial systems. On the first return of prosperity optimism becomes general and causes the dark days to be soon forgotten. "English financiers are too conservative to appreciably modify an antiquated structure or to devise some new system."^b It is not, therefore, very surprising to note that the financial supremacy of England tends to decline.

France and Germany, as we have said, are, in a certain measure, emancipating themselves. "In 1890, at the time of the Baring failure, the question could be asked whether London would not at once lose its position as the financial center of the world and whether the English market was not undermined."^c It would be sufficient for France to become monometallist in order to capture the direction

^a The president of the London Bankers' Institute, at the opening meeting of the annual session, regretting the insufficiency of the reserve, and showing its increasingly indispensable character, proposed the formation of a special fund, which would permit £5,000,000 to £10,000,000 to be shipped to New York, without causing a rise in the rate of exchange. (Cf. Raffalovich, "*Marché financier en 1907*," *Journal des Economistes*, January 15, 1908.) Germany is also aware of its lack of gold. Various methods have been used of late to increase the reserves by a systematic depletion of the circulation. (Cf., *infra*, p. 128, note *c*.) In order to reduce the demands for gold, which became alarming, a circular was sent at the end of December, 1907, to all public officials, recalling another circular, quite recent but already forgotten, which advised officials to take their salary in bank notes and not to insist upon gold.

^b A. E. Sayous, meeting on February 5, 1900, of the Société d'Économie Politique de Paris, reported in the *Economiste Français*, March 3, 1900, p. 271.

^c An often repeated phrase of Mr. Goschen. Cf. *Bulletin de Statistique et de Législation Comparée*, February, 1891.

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of credit, Paris then becoming the international money market. The possibility of this succession possesses a significance which is fully appreciated, but it is not certain, especially now when English policy appears to be turning from extreme colonial expansion, that such a succession would be entirely advantageous. Instead of this very lofty, but none the less dangerous and insecure position, would it not be preferable to maintain the calm and safe place we occupy in the financial world?

Conclusion.—If the Bank of England is for the present the great clearing house of the world, the Bank of France is and remains the general gold reservoir. This monetary supremacy assures us a highly privileged situation even from the standpoint of international credit, which, moreover, it is not necessary to control more fully.

CHAPTER II.

THE BANK OF FRANCE AND CRISES.

There is perhaps no economic subject more discussed at present than that of crises. We may suitably indicate, first of all, in what measure crises which do not result from monetary conditions may be of interest. We shall then see what are the classical means by which the banks can avoid them. We shall finally study the present policy of the Bank of France in this regard.

SECTION I. *Monetary crises.*

This very complex subject has been often treated by economists, legislators, and financiers who have vied with each other in scientific zeal, in order to determine accurately the physiology of crises. The causes of the evil must first be known before the remedy may be indicated. In this arduous quest, impelled by the logic of fascinating systems, theorists often assign to crises not only very different causes, but also very different characteristics.

The word crisis has no sufficiently definite meaning of its own, and for want of a previous agreement as to the sense in which it should be used, discussion is endless and turns solely upon an ambiguity. It is not our intention to throw new light on such a complex question. This would demand not only a competence to which we could not pretend, but also a space devoted to this part of our work greater than is permitted by its narrow limits. Our only aim in stating what we mean by a crisis is to determine

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the cases in which the Bank of France might intervene. For that purpose alone we must classify crises and recall the elementary divisions, which, in our opinion, are too often lost sight of.

In the first place, from the standpoint of their extent, there are local crises, national crises, and world crises. The first are restricted to a certain region, like the recent crisis in the wine-growing regions, or limited to a special industry, like the one which was felt but lately in the automobile industry. Everyone will find, within his personal recollection or experience, numerous instances of the same kind.

National crises are more complicated and more serious, from the very fact that they affect the economic condition of a country in its entirety. The disturbance of the exchanges in Spain furnishes a concrete example; all commerce and industry suffered from it.

World crises result from the interdependence of the different international markets. This is so close that a violent disturbance in one commercial nation must react upon foreign markets. Like a rapidly spreading epidemic, it will surely affect other nations to an extent which is sometimes very serious. For a long time world crises have been recorded and carefully studied.

From another point of view a distinction can also be made between crises resulting from growth and crises resulting from contact. Attention has frequently been called to the former because they reveal youthful enterprise in production. Such is the crisis which too strenuous America has recently experienced. Nations, like men, are not immortal. If but little thought is given to

the possibility of their extinction, it is because our own individual existence is only a minute period of theirs. But, like us, they have their youth, their maturity, and their decline. For a nation which has reached maturity, crises resulting from growth are no longer to be dreaded. If they should still occur, they are rare and of little severity, and they can not happen unless a return of youth, a certain access of vitality, leads to some recklessness. Then comes the period of crises resulting from contact, which are due to that solidarity of which we have just now spoken. We shall presently have occasion to remark that, except ephemeral crises, only crises from contact are now experienced by us, and even these are much attenuated. We do not mean to imply that our country enjoys to-day the sorry privilege of escaping the diseases of youth; this would be almost an avowal of senile decay. Let us rather say that since it is a question of sickness there may be remedies, and that the object of our study is precisely the examination of the means, if not to avert crises, at least to diminish their intensity.

This would be our answer to M. V. Pareto's^a highly interesting question: "If it were possible to prevent crises altogether, would it be advantageous to do so?" He himself answers as follows: "Proper measures for diminishing the intensity of crises may be beneficial; but to suppress entirely a certain movement, or, in exceptional cases, to endeavor to attenuate its violence, are essentially different things." If, to become strong, it is well to be accustomed to all seasons and hardened

^a Vilefredo Pareto, "*Cours d'économie politique*," Vol. II, p. 297.

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to all inclemencies, there is at any rate no necessity of courting colds and bronchitis.

So far we have made no mention of monetary crises and of crises of production. This distinction is the most important for our subject, and it is also the one which leads to the greatest misunderstandings.

It is well understood that the crisis of production, resulting from the lack of correspondence between the curve of production and the curve of consumption, the disastrous effects of which Malthus endeavored to suppress by his advice as to the increase of population, has a very close relation to the monetary crisis. They must not, however, be confused; in many instances they are perfectly distinct. Just here is the cause for the differences of opinion among authors. In general, they tend to explain the noncorrespondence of the curves, that is, overproduction or underproduction, by various theories which depend upon differences of temperament.^a But usually, as the sole basis of all these theories, only the relation between production and consumption is considered. The division which we have above indicated, elementary as it may appear, shows sufficiently that this basis is not wide enough.

It is indisputable that there are crises which are exclusively monetary, such, for instance, as crises of exchange. On the other hand, there are commercial or industrial crises of production or overproduction—the word matters little—which are not monetary in character. The monetary crisis itself is almost always only an episode

^aCf. Lescure, "*Des crises générales et périodiques de surproduction.*" Bordeaux, 1906, Chapter II, Sec. II, pp. 455 and following.

of the general crisis. The former has too often been erroneously considered as the cause of the latter. On this false notion was based the Bank Charter Act of 1844.^a

In one of the greatest crises which could be instanced, and which, moreover, is still very present to our minds, that in the United States, it has been possible to observe very clearly the phase of a production crisis. On this point, M. Paul Leroy-Beaulieu writes: "As to the lack of money, and the defective organization of national banks, they have been merely accessory, and have played no part until after the crisis had begun; they may have somewhat intensified it and widened its scope, but they remain only secondary elements."^b

This distinction between monetary crises and commercial crises is, therefore, not artificial. They have been, however, so persistently confused that some people, often taking the effect for the cause, are ready to throw upon the poor organization of credit and of banking the heavy responsibility for the whole crisis. It would appear to us more logical and more useful to seek a remedy for both sides at the same time. The banks can correct the bad effects of crises only so far as these, after affecting credit, disturb the monetary harmony.

As for the correction of crises from an economic standpoint, legislators and economists may devote themselves

^aThis refers to the so-called Peel Act, which organized the Bank of England by starting from the principle that convertibility is not in itself a sufficient safeguard against overissue of notes, and that this overissue being a cause of crises, all danger would be averted if a proper proportion should be maintained between reserves and circulation.

^b*Economiste Français*, November 30, 1907, p. 766.

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to the regulation of production and consumption. The subject under discussion on February 5, 1902, by the Société d'Economie Politique de Paris was the question whether great public works could avert or cause crises. This discussion followed the proposal of a law on March 1, 1901, by M. Baudin, the minister of public works.^a More recently MM. Viviani and Vaillant have discussed in the Chamber of Deputies a plan for the distribution of public works in such a way as to avoid unemployment during crises.^b In other countries, on the other hand, trusts and manufacturers' agreements hope, by regulating production, to avert crises.

Such is the train of ideas which could be developed by studying the methods of meeting commercial crises. But our aim here is to inquire into the part played by the banks in monetary crises, and to prevent confusing these crises with others. Is it not asking the impossible to demand of the banks that they should cause the specter of crises, of whatever nature they may be, to disappear forever?

The modern tendency to subject everything to a rigorous determinism has led to the conjecture that crises obey a law of immutable periodicity. The clue to this has been sought in the most diverse and unexpected causes, even in sun-spots.^c In continuation of M. Juglar's long and

^aCf. *Economiste Français*, February 22, 1902, p. 245.

^bCf. *Journal Officiel*, Chamber of Deputies, session of November 11, 1907, pp. 2, 129 and following.

^cTheory of Stanley Jevons, repeated by many distinguished economists. See especially J. S. Nicholson, "*Bankers' Money*," London, Black, 1902, p. 80.

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authoritative enumeration,^a new crises have been, without hesitation, predicted for 1900-1907.

We do not deny that during this period there have been severe disturbances which were the cause of almost world-wide crises, but from our national point of view an exception might have been made. The famous crisis of 1900 started in Russia, and this country was the first to give the alarm. Germany suffered especially.^b In France, beyond some slight labor disturbances, a result of the Exposition, which caused the well-known strikes, what monetary crisis was noticeable? On this point, even M. Siegfried^c was forced to express some doubt: "The

^a Juglar, "*Des crises générales et de leur retour périodique.*"

Table of crises according to Juglar's system.

France.	England.	United States.
1804	1803	----
1810	1810	----
1813	1815	1814
1818	1818	1818
1826	1826	1826
1830	1830	----
1836	1837	1837
1839	1839	1839
1847	1847	1848
1857	1857	1857
1864	1864	War of secession.
----	1866	War of secession.
----	1873	1873
1882	1882	1884
1891	1890	----

The author gives the above list of crises. Each line corresponds to a crisis and indicates the date of its reaction on the three markets described.

^b On the effects of the crisis of 1900-1901 in Germany, cf. Depitre, "*Le mouvement de concentration des banques allemandes,*" Paris, Rousseau, 1905, p. 104.

^c M. Siegfried, whose name is well known to those who at present pay some attention to political economy, is self-confessedly the most earnest as well as the most accurate interpreter of the Juglar theory, of which he is the continuator.

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crisis, * * * if we are to call what took place in 1900 a crisis, for this crisis was much lighter than those which preceded, and we might almost call it the liquidation of 1900."^a Is not this an admission? What would M. Siegfried say concerning the crisis of 1907? Nevertheless, to trust to his barometer, there should have been hard times in 1900, as well as in 1907.

It does not seem to us possible to find in France an economic reaction from this last general crisis. Beyond some uneasiness in the stock market, which, as is well known, is extremely sensitive, the recent and indisputable rise in prices of certain commodities should be attributed to an entirely different cause. We assert, in the first place, that this rise can not have been the sign of a crisis for the excellent reason that, on the contrary, a fall in prices would have been observed, since metal would have become scarcer and would have then acquired a greater purchasing power. The very fact of the rise would suffice to show that we did not suffer from a crisis. Furthermore, a perceptible movement in the prices of commodities is the sign of a crisis only when it is temporary. Now, the present rise is acknowledged by all to be permanent. It is accounted for almost entirely by the labor laws recently put in force, by the enormous taxes imposed on manufacturers, etc. The considerable increase in general expenses resulting therefrom can not remain a charge on industry, and the necessary shifting of its incidence takes the form of a rise in prices.

^a *Bulletin mensuel de la Fédération des Industriels et Commerçants Français*, April, 1907, p. 533.

Not only has there been no commercial crisis, but there has been no monetary crisis. Credit accommodations have in no wise been affected, and the momentary rise of the official discount rate, explained, moreover, by another cause, can not point to a disturbance in our monetary conditions. The reserves, furthermore, have not diminished.^a This last crisis, to which very precise limits have been assigned, from Wednesday, October 23, 1907, the beginning of the crisis, to Thursday, January 2, 1908, when the English discount rate was lowered, has certainly not been for us a period of affliction, and the smiling sun at the end of December, 1907, did not appear as the irony of fate to a wretched and starving people.

From that which precedes two conclusions may be drawn. On the one hand, it is important to distinguish between the economic and the monetary phases of crises, and not to demand that the one shall correct the imperfections of the other. On the other hand, if it is undeniable that crises have hitherto tended to be universal

^a The economic and commercial situation remains fundamentally most prosperous, as evidenced by the general increase in foreign trade, the railroad receipts, and the tax collections. The crisis in the United States resulting from considerable overproduction, from a wretched financial system, from shameful speculation and too frequent frauds, was certainly a calamity, but it may be said that the general situation has not been seriously affected. Cf. George Moreau, "*La crise américaine*," *Le Censeur*, February 29, 1908; Germain Martin, "*La crise américaine*," *Revue d'Economie Politique*, March 15, 1908, p. 203; Raphael Georges Levy, "*La crise économique de 1907 et les Etats-Unis d'Amérique*," *Revue des Deux Mondes*, December 15, 1907, p. 805.

The same can not be said of Germany, where everything discloses a decline of prosperity. Customs receipts have fallen off, taxes have shown a serious deficit, and it seems that the consequences of the crisis, more gradual in that country, are for it the sign of a progressive decline.

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and periodic, for some time past, at least, they have spared France.

We have thus reached the object we had in view, since the above considerations of themselves indicate the limit of that which can be obtained from the Bank of France when its intervention is demanded to allay crises. We see also that for the last fifteen years this intervention has been able to banish all crises and all reactions of crises from our national market.

SECTION II. *Customary measures of defense against crises.*

Like a vigilant nation which keeps itself always on the costly footing of armed peace, a bank of issue must always be powerful enough to avert the numerous perils which from all sides are incessantly threatening. Just as the good condition of arms and supplies may sometimes prevent the horrors of war, so may a strong reserve suffice to avoid the monetary difficulties, which are the precursors of crises.^a

^a The symptoms are well known. Crises are always ushered in by a contraction of credit. Credit, poorly established on an insufficient metallic basis, totters and falls wholly or in part; transactions then tend more and more to a cash basis. From all parts money is wanted for the settlement of obligations already incurred. If the bank of issue, regulating credit, is able to resort to such an undertaking, it will throw on the market the amount of metal which the emergency requires, taking credit bills for its own account, and the panic will thus be averted.

If, on the contrary, the bank can not act thus, more and more pressing demands will assail its reserve and will tend to absorb it. We shall then have the prospect of the discredited bank note, bankruptcies, and all the horror of a general panic, with the alternative, in case of insufficient reserve, either to let gold go out to allay the storm, with the risk that the impoverished bank may find itself discredited and may carry the entire market down in its ruin, or to defend the gold reserve, and thus by aggravating the conditions of an already weakened credit to hasten the disasters of the crisis. The dangers to be averted are, therefore, the drain of metallic currency by foreign countries, the indefinite lowering of the reserves, and the impossibility of continuing to discount, or at least of maintaining a reasonable rate.

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A study of the customary measures for mitigating crises may appear superfluous, since the Bank of France, owing to the formidable reserve which we know it possesses, presents an unprecedented power of resistance to all attacks capable of overthrowing credit. It is the Bank which provides that reservoir of reserves of which so much has been said, and thanks to which, for the last fifteen years, even the possibility of the outbreak of a crisis has disappeared. The greatest treasury, if intrusted to unskillful hands, could not, of course, render much service, and while it is true to say that our holdings are in themselves sufficient, yet much depends on the manner of directing their advantageous use.^a These means of resistance, which for the most part have long since been carefully studied, we shall now pass rapidly in review.

As soon as the cash holdings of the bank of issue begin to be exhausted, as soon as it is no longer possible, without extreme prudence, to allow the reserve to be further diminished, then the monetary crisis commences. It is then also that all the efforts of the bank, the resources and credit of which will diminish at the same time, will tend toward facilitating the collection of funds and restricting the outgo. Like a reservoir which, after having for some time distributed more water than it receives, is soon exhausted or becomes useless for want of pressure, so the holdings of a bank require that the receipts and outgoes of currency be properly regulated. And for the sole purpose of avoiding the lowering of the reserves,

^a To be convinced of this it suffices to remember that the United States and France have reserves about equal as far as amount is concerned, and yet their powers of resistance are quite different.

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efforts will be made either to replenish the holdings with larger receipts, or to avoid causes for withdrawing the metallic currency.^a

Among the measures to replenish the holdings we find, in the first place, the purchase of gold bars. This does not refer, of course, to the daily purchases which form one of the current transactions of banks,^b but to the increase of these purchases by offering a certain premium, and, if need be, by importing from abroad. This exceedingly costly system is in principle universally abandoned. Nevertheless, it has been greatly in favor in every country. The most characteristic historical instance is when the United States, from 1878 to 1893, purchased for its monetary needs, 459,949,701 ounces of silver for about \$464,000,000.^c In France the Bank had to purchase abroad in the three years from 1855 to 1858, 1,384,553,000 francs gold, which cost a premium of 15,893,000 francs. In 1858 it abandoned this system, but had to resort to it again in 1864, and during the crisis of that year purchased 229,000,000 francs in gold.^d In

^a We shall speak only of measures applicable to a system with a bank of issue similar to ours. The study of the present American system would lead us to mention, among other things, the various expedients which tend to give the banks a little elasticity, such, for instance, as the creation of clearing-house certificates. Such a study, however interesting it might be, would carry us outside the limits which we desire to assign to this work.

^b The Bank of France buys gold bars and pays at once, without discount, as at the mint. This method was suspended in January, 1906, owing to the fear of exceeding the limit of circulation, and resumed again as soon as the law of February 9, 1906, was promulgated. In Germany, also, the Reichsbank is bound to purchase all fine gold bars offered at the price of 2,784 marks per kilogram.

^c Cf. L. Poincard, "*Questions monétaires contemporaines*," Paris, A. L. Charles, 1899, p. 300.

^d Cf. Cl. Juglar, "*Des crises commerciales et de leur retour périodique*," p. 427.

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Germany the Reichsbank has purchased altogether, from 1876 to 1905, 3,312,000,000 marks in gold.^a The Bank of England, during the last crisis, reconstituted its reserve mainly by purchases of bars in the London open market, to the amount of £20,000,000.^b Spain and Belgium could also be mentioned as instances.

Another system consists in putting a premium on gold.^c This can only be applied in bimetallic countries, which, as such, put the two metals on a parity in payments.^{d e} It consists in offering silver, a metal depreciated from the standpoint of international relations, and in refusing to part with gold, except in return for a certain premium.^f This most interesting system would deserve a much more thorough study than we can here give to it. After being

^a Cf. Dr. Louis Katzenstein, "*La Banque de l'Empire allemand,*" *Revue Economique Internationale*, 1906, Vol. IV, p. 524.

^b Cf. Aupetit, "*La vie financière,*" *Revue Econ. Intern.*, 1908, I, 180.

^c Bastable discusses the policy of the premium on gold. He assimilates it to a tax on currency, at importation or exportation, and considers that it is in reality a seigniorage. Cf. Bastable, "*Theory of International Trade,*" in the translation by Sauvaire-Jourdan, Paris, 1900, pp. 171 and following.

^d On this application in most of the bimetallic countries, see the *Economiste Européen* of January 24, April 25, September 26, 1902, January 3 and February 13, 1903.

^e M. Houdard, "*Essai sur le service des billets de banque,*" Paris, 1891, p. 18, shows that the discount rate comprises three elements, the charge for the services of the Bank, the interest on the capital loaned, and the premium on gold, the only element which varies according to different circumstances. He draws the conclusion that a rise in the discount rate is nothing but an extra tax corresponding to the gold premium, and as he would like to see it paid solely by those who desire gold, he demands a uniformly low and steady rate.

^f Though generally very small, in 1885 this premium rose to 227 per cent in the Argentine Republic. Cf. *Revue de Statistique*, April 29, 1900, p. 48.

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highly esteemed for many years, it became the object of violent criticism, which has caused it to be abandoned.^a

We shall not attempt its rehabilitation, for we are too well aware of its serious drawbacks, and, moreover, there is something much better to take its place. It seems, however, to be as justifiable as the conversion of rentes, an operation deemed admirable, yet none the less an imperfectly concealed spoliation, which, however legal, is usually preceded by highly artificial even though legitimate quotations.^b This policy of premiums on gold, moreover, alarmed no one, neither the public nor the banks; and the bank note, even when the premium was in force, continued to be received on a par with gold in almost all the banks of the world, although it was legally redeemable in silver only. Furthermore, there are special cases, such as systematic and constant drains of metallic currency at some point on the frontier, in which the propriety and efficacy of a defensive premium is incontestable. Thanks to the lowering of the normal gold point, owing to the reduction of distances, a profitable and

^a The present Spanish system rests upon a somewhat similar idea. Good money having been driven out, the bank note is used. This has no forced circulation, but on presentation is redeemable in silver. It accordingly suffers a heavy depreciation, which allows our notes or our gold to command an enormous premium. Nevertheless, though Spain finds this system inconvenient, it has managed hitherto to endure a considerable depreciation in its exchanges. It would not be considered as such if an exact ratio was made between the value of their money and ours.

^b It should be remembered that the investments in French rentes which are made obligatory by law are very numerous. Without speaking of the reinvestment of dowries, etc., the Caisse des Dépôts et Consignations must invest all its available funds in rentes. For this reason, there is a considerable demand for rentes which will tend soon to absorb them, and which suffices to explain the high rate at which they are quoted.

undesirable business can be transacted which a local premium would destroy.^a

But the great drawback is that England and Germany stand in the way of a system which is impracticable for them.^b This does not exclude a certain regret on their part at their inability to avail themselves of this policy, as is evident from the existence at the present time of a bimetallist movement.^c

Some people, among whom are numbered certain professors of law, would like to see the policy of the gold premium restored.^d As far as we are concerned, it is enough to recall that this was the policy of the Bank of France up to 1897, and the system could not have been as obnoxious as might have been believed, since some people regret its disappearance. It will be seen that we have adopted in its place a system which is far preferable, and which our neighbors are content to admire without being able to imitate.

^a Cf. Meyer, "*Les banques suisses d'émission et le drainage des écus.*" Lille, Le Bigot frères, 1903.

^b Germany, being monometallist since 1872, cannot adopt the premium system, but the Reichsbank replaces it by a measure certainly more vexatious. It does not refuse gold for export, but it ceases to aid the exporters; their discounts are rejected and their accounts closed, if need be. (Cf. Ansiaux, "*Les problèmes de la circulation,*" *Revue Econ. Intern.*, 1907, Vol. IV, p. 277.) One frown from the director will repress any idea of withdrawing gold. This system of brutal absolutism does not, of course, prevent withdrawals from the circulating medium.

^c This bimetallist movement is just now especially marked in Germany. All the evils of the recent crisis are willingly attributed to gold monometallism, and a comparison is made between the difficulties in the midst of which the German market is struggling and the calm which the bimetallist French market has preserved. On January 14, 1908, Count Kanitz put a question before the Reichstag, the purport of which was that "a wall of silver be built around our gold, in order to prevent the latter from leaving us."

^d Cf. *Bulletin Mensuel de la Fédération des Industriels*, April, 1907, p. 524.

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We shall not speak of certain arbitrary measures which belong to other countries and other times. There is an occasional revival of the old ideas of brutal domination cherished by the mercantilists, who fancied they could prevent the escape of metallic currency by a mere prohibition, as if gold or silver would ask the authorities for permission, or were likely to do aught but follow their own interest.^a These systems of taxes on imports or exports are very old, and have long since been abolished.^b

Another expedient is to limit bank-note issues so that, since a smaller metallic counterpart is required, the reserve may be allowed to diminish. This system is very efficacious when a weakened reserve causes the depreciation of the bank note. Thus recourse to forced currency may be avoided. On the other hand, if the bank note does not suffer any depreciation, the expansion of issues results in an increase of circulation, and may dissipate the crisis. This was the purpose of the suspension of the Peel

^a We find a typical instance in the following decree promulgated in August, 1903, by the President of the Republic of Nicaragua:

"Whereas there exists no known means of preventing the disappearance of silver coins the export of which is detrimental to the national treasury; and whereas the continual exporting of silver coin is the principal cause of the depression of the national paper money, and in order to preserve the equilibrium of value which each coin represents for the nation, the President of the Republic decrees:

"ARTICLE 1. The exporting of silver coin is prohibited from the date of the present decree. Consequently, it shall be considered as contraband goods, and the penalties shall be imposed as for that offense.

"ART. 2. The customs superintendents, the fiscal authorities, and the police shall most carefully examine the luggage and parcels of travelers leaving the Republic.

"ART 3. The present decree cancels all previous decrees which might be construed in another sense." (Cf. *Economiste Européen*, September 11, 1903.)

^b Cf. Levasseur, "*La question de l'or*," Paris, Guillaumin, 1858, pp. 300 and following.

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Act in England during the crises of 1847, 1857, and 1866, when such a procedure was found necessary.

The cash holdings can also be replenished by issuing very small fractional notes, which effect a withdrawal of the unused portion of the circulation. This system was applied in France in 1870-71. The note of 25 francs was authorized by the law of August 12, 1870, the note of 20 francs, by the decree of December 12 of the same year the note of 5 francs by the law of December 29, 1871.^{a b} In Germany much has been recently said about withdrawing gold from circulation by various methods, especially by issuing notes of 50 and 20 marks. However, the question is not new.^c In England, Mr. Goschen, chancellor of

^a The note of 50 francs dates only from June 9, 1857, and the note of 100 francs from March 15, 1848.

^b Toward the end of the year 1870 the scarcity of gold and silver was such that all transactions, even the smallest, became well-nigh impossible. Neither could bank notes be counted on to make small payments, because fractional notes had not yet been legally authorized. There was, in short, the greatest need of a medium of exchange for small transactions, and no means of creating them. Private initiative, in a certain measure, was able to meet this need. Thus a syndicate of bankers and merchants in Chalon-sur-Saône was formed, which deposited in the branch of the Bank of France in that city a certain sum, not less than 100,000 francs, in notes of 1,000 francs. The syndicate issued notes of 1, 5, and 10 francs for an equal amount, and these fractional notes, accepted with confidence by the people, were of genuine service to the communities of Chalon and the neighborhood.

The fractional note of 1 franc was rose-color. The 5-franc note was a little larger and was green. The 10-franc note, which was larger still, without, however, reaching the size of the 5-franc note issued the following year by the Bank of France, was blue. The numbers of the series and of the notes and the two signatures were affixed by hand when the notes were detached from the stubs. The signatures were those of M. Antoine Chevrier, a merchant, as president, and of M. Henry Druard, banker as secretary.

We might also mention the instance of the "siege notes," such as were issued during the war by order of General Roland, governor of the city of Besançon.

^c Cf. *Pour & Contre*, October 15, 1905.

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the exchequer, proposed in 1891 to issue notes of £1 each for £20,000,000, in order to increase the cash holdings of the Bank. This amount would be set aside, and, in time of crisis, would serve to cover not only the £20,000,000 already issued, but also the additional £10,000,000 in fractional notes which would then be issued.^a In the United States also, more than a year before the crisis, there was already talk of issuing bank notes of \$5, \$10, and \$20.^b

A similar procedure for withdrawing a part of the monetary circulation consists in making popular the use of the substitutes of the bank note, such as the check.^c But this is no longer a question of a temporary measure, and its effects are permanent. It is conceivable, however, that a period of monetary stringency could be utilized to bring about this popularization.^d

We have just seen how it is possible to act directly upon the cash holdings by endeavoring to replenish them. Let us now see how they may be kept at a high level by restricting the causes of withdrawal. There exists a whole series of rather ineffective measures, which at most can

^a Cf. *Journal des Economistes*, 1891, Vol. I, p. 400.

^b Cf. *Economiste Français*, November 23, 1907, p. 723.

^c In Germany, in imitation of Switzerland and Austria-Hungary, the aim is to increase the use of the check, and a great deal is said about introducing postal checks. In Austria postal checks and transfers, reserved to holders of savings-bank books, were created by ordinance of October 29, 1883, December 1, 1883, September 1, 1884, and then definitely organized by the law of November 19, 1887. Substantial services were thus rendered. There are 100,000 depositors, with a movement of 19,000,000,000 crowns. These checks are received at the public offices and are admitted to clearance through the Austro-Hungarian Bank. In Switzerland a similar system was created by the federal law of June 16, 1905. Germany is seeking along this line the means to remedy the insufficiency of her metallic resources.

^d Cf. *Economiste Européen*, October 25, 1907, p. 516; *Revue Economique Internationale*, October, 1907; *Journal des Economistes*, January 15, 1908.

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meet only a slight and temporary strain. We note, in the first place, that the two exits by which the metallic currency leaves the bank are discounts and loans. These may be closed more or less to benefit the cash holdings.

Very numerous limitations on loans may be devised, such as forbidding the opening of accounts and new credits, and especially raising the rate on loans. Naturally this rise is effected long before a rise in the discount rate can be thought of. Indeed, the rate on loans is determined by that prevailing for stock market operations.^a At the first warning, the Stock Exchange, the most sensitive barometer of credit, is strongly affected. The rates for carrying over rise rapidly and must influence the rates for loans. Thus it was that in the middle of January, 1907, the Bank of France was obliged to raise from 3½ to 4 per cent the rate for loans in order to curb speculation, which, after the rise in the rate for carrying over, relied upon borrowing from the Bank at 3½ per cent with the object of using the funds thus obtained to carry stocks till the next settlement.

Likewise for discounts, it is possible more or less to close the exits by which the precious metal to be husbanded goes into circulation. This can be done by measures such, for instance, as the reduction of the maximum limit

^a Loans are less than formerly, but still very often, like stock-market advances, granted for speculative purposes, the pledge for which consists of securities which can be realized only for what they will bring. The difference between loans and stock-market advances lies only, for the latter, in the delay for repayment, in the rate, which is more variable, and for the former, in the margin between the price of the security quoted on the Bourse and the loan granted. But these two operations are so similar that it is impossible to perceive any marked difference between their respective rates.

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of maturity of paper discounted.^a This system was the rule at the Bank of France up to 1853. It was used for restricting operations and for keeping the discount rate unchanged.^b

The really standard and effective measure is to raise the discount rate. The effects of this are certain, because in this way, by diminishing the advantage that may be had from allowing capital to leave the country, the resulting interest of foreigners in bringing their funds to us is increased. This system, at present unanimously approved in spite of its grave defects, has not always been unreservedly accepted. The Bank of England was the first to employ this policy in discounting. The commission of inquiry appointed in 1848 by the House of Lords, after the crisis of 1847, insisted upon the necessity of raising the bank rate. Since then the Bank of England has remained faithful to this policy, and employs it whenever the metallic reserve falls below one-third of the combined accounts of the treasury and the public services, and of individuals. "For England a rise in the discount rate is no longer the heroic remedy resorted to in desperate extremity; it is a kind of prophylactic which is applied as soon as the faintest symptoms of danger are manifested."^c

In France the Bank first adopted this system in 1858, but it hampered itself by following too closely the discount variations of the Bank of England, which is differently

^a Cf. Juglar, "*Des crises commerciales*," Paris, Guillaumin, 1889, p. 138.

^b Cf. Courcelle-Seneuil, "*Les opérations de banque, Traité théorique et pratique*," 9th ed., Paris, Alcan, 1905, p. 260.

^c Arnauné, "*La monnaie, le crédit et le change*," Paris, Alcan, 1st ed. 1894, p. 392.

constituted, a practice which in 1864 it was obliged in part to relinquish in favor of a policy of greater stability of rates. "Experience proved, moreover, that the bank rate could be different in Paris and in London without immediately causing export of money from one place to the other."^a

There are evidently in every country special reasons why the rate should be high or low. The relations between the rate of exchange and the rate of discount are undoubtedly numerous, but this does not necessarily imply that they must always remain closely and unalterably linked in order to permit a normal and sufficient circulation. "The bank rate has not the power to regulate the national monetary holdings. A moment's reflection shows that, under such conditions, each country would have its proportion of metallic reserve when its discount rate was on the same level as that of other countries."^b

This very effectual method^c of defending the national cash holdings is nevertheless fraught with danger.^d It causes commerce alone to bear the brunt of all demands for currency. To apply it means to contract credit, to check business, and perhaps to disturb the development

^a Courcelle-Seneuil, "*Les opérations de banque*," 9th ed., Paris, Alcan 1905, p. 262.

^b Pallain, "*Des rapports entre les variations du change et les prix*," San- cerre, Pigelet, 1905, p. 38.

^c Certain special conditions might, however, be named in which the dis- count rate is ineffective. Cf. Meyer, "*Les banques suisses d'émission et le drainage des écus*." Lille, Le Bigot frères, 1903, p. 270.

^d V. Pareto, "*Cours d'économie politique*," Vol. I, p. 389, views this situation with great fortitude. He says, "Those who can not afford to pay the price corresponding to the equilibrium must naturally fail and disappear. The safety of the whole country makes this necessary."

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of prosperous industries. In a word, since this measure is most often taken to ward off foreign demands for funds, it is, so to speak, administering an energetic remedy to our national commerce when the only trouble lies in having sick neighbors. It is therefore obvious that the Bank, though sometimes forced to resort to this expedient, only uses it in case of extreme necessity, and that it taxes its ingenuity to find certain devices which may defer the rise in the discount rate.

It would still be possible at certain periods when exchanges are momentarily strained to have recourse to another system. The very needs of international credit justify the existence of large banking houses which make a specialty of exchange transactions and control the commercial relations with foreign countries. They constantly keep open accounts with each other. It is easy for them to accept a bill of exchange ^a against a check, that is to say, a document payable at maturity against another payable on demand, and to turn credit into cash, thus modifying the true balance of accounts to give the greatest possible stability to rates of exchange. This system ^b of international checks and of international bills from one bank to another can not, however, render any considerable service, because it necessarily depends on private initiative.

^a In international commerce the bill of exchange is not only a means of clearing, but an instrument of credit. Not only does it allow the accumulation of reciprocal balances to an equal amount, but it also avoids the settling of differences by giving to the debtor country the power to defer payment until it becomes a creditor for a similar amount. B. Nogaró, "*Le rôle de la monnaie dans le commerce international et la théorie quantitative*," Paris, Giard et Brière, 1904, p. 89.

^b Cf. *Economiste Européen*, July 8, 1904, pp. 37 and following. A. Conant, "*Les changes extérieurs*."

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The discounting of foreign bills, much discussed of late, tends to give stability to exchange. This practice is the rule in Belgium, where the paper discounted is almost all French. When exchange becomes unfavorable, the Bank sells its bills on Paris, London, Berlin, and Amsterdam, and thus influences the rate of exchange. These holdings of foreign bills are replenished later, at periods of the year when the demand for bills falls off. It is thus possible, to a certain extent, to regulate the rates of exchange. The National Bank of Belgium is, however, the only one which has made this negotiation of foreign bills a settled policy.^a According to its by-laws its reserve must equal one-third of all its sight obligations. For a long time, at least one-half of this reserve has been represented by foreign bills.

But that which is feasible for the Bank of Belgium, as a satellite of the Bank of France, ceases to be possible for a great bank. Belgium can invest its reserves in purchases of foreign bills, because it will always find more powerful banks able to replenish its coffers. It knows the organization of the Bank of France, and considers that the possession of French paper exempts it from holding metal. But it would be difficult to imagine the Bank of France adopting this line of conduct unless in exceptional cases.

The idea of holding foreign bills in France is, however, not a new one. In 1865, during the inquiry on the monetary and fiduciary circulation, this system had its adherents. When the Bank charter was renewed, M.

^a Cf. R. G. Lévy, "*Les grands marchés internationaux.*" *Revue Economique Internationale*, 1905, p. 491.

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d'Hubbard suggested that this be made a special policy of the Bank. M. Burdeau showed that the system could not be employed as a rule in normal times, but that it could be resorted to in exceptional or special cases.

Much has also been said for some years past about the holding of various international securities, which, when exchange rates are unfavorable and in order to readjust them, could be thrown on the foreign markets instead of currency, thus avoiding the shipment of metal. This very attractive proceeding does not appear to us to be practical. It will be impossible, by distributing the purchased securities in numerous divisions, to avoid a general depreciation when they are sold. Since the various markets are subject to the same impulse, if exchange rates necessitate the forwarding of securities in order to avoid a shipment of cash, there will be a considerable depreciation in whatever market they are disposed of. This will occur just at the time of falling prices, the moment when, with every one selling, quotations are low, and when it would be advisable to buy.^a

Finally, if the situation is so serious that the bank of issue has become unable to redeem on demand the numerous notes, which no longer possess the confidence of the public, the legislator will decree a forced currency.^b This is the very calamity which all the measures we have exam-

^a Another drawback of this system is that it throws upon future generations the burden of paying a debt of the present. It only defers the time of settlement, and exchange will be much higher at the fixed dates, when the interest on the securities is due.

^b Sometimes endeavors have been made to defer the date of suspension of payments by keeping only one window open for the redemption of notes, at which the slowest clerk is instructed to redeem as slowly as possible the notes presented. It is needless to remark on the lamentable weakness shown by such a procedure.

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ined aim to avoid. We have, unfortunately, had an experience of this kind in France. Cautious as the Bank has been, it was only at this cost that it was able to weather the storms of 1848 and 1870, but it is well known with what rapidity it recovered and with what strength for the future.^a

It must not, therefore, be claimed that the Bank has never been forced to yield before the storm, but we shall see that its power of resistance has only grown, and that it is more than ever ready to meet emergencies.

^a The decree of March 15, 1848, established a forced currency and fixed the limit of the issue. The law of August 6, 1850, repealed the two provisions of that decree. In establishing again a forced currency, the law of August 12, 1870, also fixed a limit for the issue. But when the law of January 1, 1878, again abolished the forced currency, it allowed the limitation of issue, which was a consequence of it, to continue. It is proper to recall that the total of the loans made by the Bank to the State during the war amounted to 1,470,000,000 francs. This sum, which does not include the 210,000,000 francs loaned to the city of Paris, by virtue of the decree of February 11, 1871, the 16,500,000 francs requisitioned by the Commune, and of which but 9,500,000 francs were reimbursed, or the 60,000,000 francs previously advanced in accordance with the law of June 9, 1867, was dealt with in the agreement of July 3, 1871. The loans were as follows:

	Francs.
July 18, 1870-----	50, 000, 000
August 18, 1870-----	50, 000, 000
August 19, 1870-----	40, 000, 000
September 24, 1870-----	75, 000, 000
December 5, 1870-----	100, 000, 000
December 5, 1870-----	100, 000, 000
January 11, 1871-----	400, 000, 000
March 13, 1871-----	50, 000, 000
March 30, 1871-----	90, 000, 000
April 15, 1871-----	75, 000, 000
May 17, 1871-----	150, 000, 000
June 10, 1871-----	50, 000, 000
July 3, 1871 (paid only on the 9th)-----	210, 000, 000
Loans from Metz to Strassburg-----	30, 000, 000
	1, 470, 000, 000

These loans were not finally repaid until March 14, 1879. The Bank, nevertheless, had redeemed its notes at sight since 1874.

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SECTION III. *Present policy of the Bank of France.*

The Bank of France, since 1858, has always employed the discount policy. How could it do otherwise? Unanimously adopted, fortunate in its effects, extolled by theory, imposed by the interdependence of discount rates between the various countries, this policy was inevitable, notwithstanding its well-known and serious drawbacks. Moreover, since 1864 the Bank has always endeavored to mitigate the dangers of this policy by employing it only as a last resource, as under compulsion, and by substituting for it, as far as possible, a less radical procedure.^a

Let us recall once more the unprecedented strength which France possesses, thanks to the colossal holdings of the bank of issue. These holdings place us in a quite special position, singularly favorable for resisting crises. Domestic crises are not to be feared, but those coming from abroad, with the inevitable reaction resulting from the cosmopolitan character of capital, may reach our market, though only in a weakened form.^b

Up to 1897 the policy of the gold premium was combined with the discount policy. This system, which we

^a In the same way, the Reichsbank has endeavored for several years to complete its discount policy by making loans without interest on gold imports. This measure, however, can be of but little help.

^b There exists another force of resistance, which is also due to the Bank of France. Crises, as we have seen, are always accompanied and even preceded by a general decline on the Stock Exchange. But, at a period of crisis, the shares of the Bank of France, far from following this movement, tend on the contrary to rise. Prices on the Stock Exchange move together, upward or downward. The result is that the shares of the Bank of France, in resisting the movement of general depression, tend to diminish its intensity.

This is not the case abroad, where the banks of issue, much more vulnerable, sometimes see their shares not only following the decline of other securities, but even leading and intensifying that decline.

have previously explained, resulted in a certain increase of the number of grades in the discount rate, and rendered them less noticeable. Since 1897 the Bank, with new men, has apparently entered into a new path, which we shall endeavor to define, though it appears as yet somewhat obscure.

We have just said that it is not so much the outbreak of a national crisis which France has to fear as the reaction from a world-wide crisis which may affect our market, despite its resistance. Since this influence can not be altogether avoided, it becomes apparent that no remedy can be of benefit to us as long as we keep in view only our national market. The only way for us to meet the effects of the evil seems to be to attack it at its source. Thus the remedy for us consists in bringing relief to the afflicted neighbor. This is a singularly delicate proceeding, since the first step is to find the sensitive point where the remedy may be applied to the best purpose. From some obscure origin the disease develops, and if the instability of any market offers favoring conditions, it soon spreads through the world, scattering on its way desolation and death. To bring relief to all who are stricken is impossible, but in the midst of the general depression there are found some who, being less affected and possessing more power of resistance, need but a helping hand to rise again, and, by their return to health, may promote and hasten the general recovery. If it is a delicate matter to discover these vital points, it is still more difficult to gauge the measure of assistance it is proper to give. And those who bring the relief should not be disturbed when public opinion, for want of the information which it is not at all fitted to

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receive, sometimes goes astray and objects to the wisest measures of preservation.

Have we succeeded in showing what appears to us to be the present policy of the Bank of France? With a comparatively small sum, with which it can temporarily assist a solvent and well-managed foreign concern, for the moment in difficulties, it is able to take an effective part in the relief of international markets, and to avoid the disastrous effects of the contagion on our own market. It is scarcely easier, as we have said, to make the public comprehend this system than to carry it through to completion. If, for instance, announcement is made of a shipment of currency abroad, and a few days later there follows a rise in the rate of discount,^a many people will declare that they can not understand this policy, that if money is dearer, it is because of its scarcity, and therefore it should not be exported. This reasoning is very natural, but it dates from a period when nothing was known of the international character of capital and of the practices resulting from world-wide relations.

Reflection can only increase admiration for this policy, since, in fact, it reveals a financial organization of immense power, and permits us to be justifiably proud of calling ourselves, in a way, the monetary physicians of the world. It is thus that the Bank appears to us to have replaced the obsolete premium system, not used since 1897. But it is well known only to those who have astonished the world by this wise and happy audacity.

The history of such temporary loans guaranteed by paper of undoubted character is brief. "On July 16, 1839,

^a As happened in the month of November, 1907.

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the reserve of the Bank of England fell to £3,000,000, and that institution found itself compelled, in order to strengthen its position, to ask for help from Baring Bros., even at that time one of the first banking houses in the city. They succeeded in borrowing for the Bank of England from the Bank of France £2,000,000 in gold.”^a

After this occurrence, in order to remedy the failure of the Bank of England to resist the crisis, the Bank Charter Act of 1844, more commonly known as the “Peel Act,” was passed. It is well known that this measure, which still governs the Bank of England, has not always been happily applied. The act had to be suspended in 1847, 1857, and 1866. It would have been again suspended in 1890, had it not been for the loan of 75,000,000 francs in gold which the Bank of France made to this great institution. In fact, the house of Baring Bros., though it enjoyed considerable credit, was heavily involved in Portuguese and South American speculations, and in November suspended its payments. The Bank of England gave such help as it could, but was not able to prevent the flurried and anxious English market from flooding the Paris market with international securities.^b Checks on London rose to 25.40, at which rate the Bank of France could not maintain the discount rate at 3 per cent. In London, the discount rate remained at 6 per cent only because all paper was closely scrutinized and credit was

^a Rozenraad, “*Le marché de Londres*,” *Revue Econ. Intern.* 1906, 2, p. 70.

^b Cf. Théry, “*La France économique & financière*,” p. 286; *Moniteur des Intérêts Matériels*, November 18, 1906, p. 3811; “*Le régime monétaire de la Banque d’Angleterre*,” *Journal des Economistes*, 1891, I, p. 398; Moireau, “*La Banque de France, prorogation du privilège*,” pp. 101 and following, Paris, Perrin & Cie., 1891.

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often refused. It was then that the Bank of France furnished the Bank of England with 75,000,000 francs in gold, repayable at three months, with a promise of renewal, and secured by exchequer bonds. It seems that these 75,000,000 francs were not only returned to the Bank of France with seals unbroken, but that they did not even cross the channel. It was enough that the public was conscious of such moral and material support for the frenzy to disappear.

The difference in the power of resistance of the two establishments was then clearly visible. The Bank of France had just endured unflinchingly the downfall of the old Comptoir d'Escompte, while the Bank of England, in like circumstances, found it necessary not only to raise its discount rate to 6 per cent but to ask for foreign help. England then fruitlessly resolved to modify the act of 1844. The Bank of France was severely criticized on account of this loan, even in the Chamber of Deputies.^a

In these two instances of 1839 and 1890, when the Bank of France helped the Bank of England, first through Baring Bros. and then because of Baring Bros., it seems to have done this only under the pressure of business necessity, just as any other bank might have done. Russia, indeed, also assisted the English market, and evidently had no notion that in this she was following any special policy.^b

^a Interpellation and answer of M. Rouvier, minister of finance, in the Chamber, January 17, 1891.

^b The same applies to the aid furnished in 1898 by the Bank of England and the Bank of France to the German banks, temporarily embarrassed. Cf. *Revue d'Economie Politique*, 1899, Vol. XIII, p. 165.

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These are the only two cases of assistance given abroad by the Bank of France up to the renewal of the charter. From that time on we shall see this assistance becoming more frequent and assuming apparently a different character. The Bank, already regulating the French money market, after being forced by urgent necessity to regulate the money market of the world, seems thereafter to apply itself assiduously to this new task. Until then, gold shipments had only been considered as the result of simple practical necessities; no theorist had expressed the idea of making them the object of a financial policy. The two recent instances of 1906 and 1907, and the explanations furnished on this subject in the reports to the shareholders, have sufficed to reveal that there was here something more than a normal banking operation.

In the autumn of 1906 ^a a general and considerable monetary stringency affected the London market, where the demand for gold became intense, especially on the part of the United States. The Bank of England had also to meet considerable demands from Egypt^b and Brazil. The Bank of France did not hesitate to furnish it with 75,000,000 francs in gold by discounting English commercial paper. It also brought indirect aid by releasing £200,000 for shipment to Egypt. Let us remark, however, that the Bank of France did not let any of its

^a Cf. *Moniteur des Intérêts Matériels*, November 9, 1906, p. 3679; *Economiste Européen*, "Chronique monétaire," December 7, 1906; *Pour & Contre*, "Revue du Marché," 1906 and 1907.

^b Egypt, in addition to her usual requirements of currency at the end of the year, was beginning to suffer from a severe financial crisis. Cf. Arminjon, "La crise financière actuelle," *Revue des deux Mondes*, September 1, 1907.

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gold go to New York, and that for two reasons. In the first place, America, with abundant currency, was engaged in a general and frenzied speculation, which assistance of this kind might have intensified and rendered still more dangerous. And furthermore, since it was in the power of the Secretary of the Treasury very effectively to intervene, he should be the first to give support. English public opinion for a moment believed that the Bank of France would intervene, but it was deceived in this expectation. The reason is, as we have said, that the Bank did not believe in giving its gold except to good purpose, nor in directing it elsewhere than to the points where it would be really effective.

One year later, in the fall of 1907,^a the same demand for gold reappeared in intensified form. The Bank again lent its assistance to the English market. In answer to a mere telegram it forwarded to London 80,000,000 francs in gold eagles of the United States. Some days later the reaction of the crisis forced the Bank to raise its discount rate. It was at the time of this developing crisis that the Bank of France was unreasonably reproached with its indifference to the monetary situation in the United States, and with its refusal to give aid. The critics forgot that the Bank was prevented by its statutes from the direct shipment of sums for which the Federal Government refused to become responsible, and that, nevertheless, it forwarded 80,000,000 francs in American coin, which

^a Cf. *Economiste Européen*, November 29, 1907, p. 676; Raffalovich, "La crise américaine," *Bulletin Mensuel de la Fédération des Industriels et Commerçants Français*, No. 52, p. 126.

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merely passed through London. Certain negotiations took place at that time between the American Government and the Bank of France with a view to dealing directly without the intervention of the London market. It is only because that Government would not or could not offer such guarantees as the Bank of France considered adequate that it made use of the London market, which has a much greater interest than ours in the prosperity of the United States.

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

The discounting of foreign bills has already been discussed.^a This system, applied as it is by the Bank of France to the momentary regulation of rates of exchange, and with the especial object of giving valuable and effective aid to the points most affected by pressing demands for currency, appears to yield excellent results. It can not, however, be considered as constituting a special

^a Cf. *supra*, p. 133.

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policy, because it can only be of temporary service,^a and for the most part merely accompanies the policy of gold shipments, which we have just explained.

Thus the Bank succeeds in diminishing to the greatest possible extent the reaction of crises on our market. In working for the prosperity of France it may also be justly proud of being the indispensable financial organ of the prosperity and progress of the world.

APPENDIX TO SECTION III. *Project for an international bank.*

The weakness of many markets and the great strength of ours, added to the growing cosmopolitanism of capital, was bound to suggest the idea of creating an international institution in order to establish obligatory mutual assistance as between the different markets. This idea has been duly formulated.

A few well-known men have canvassed the question of assigning a special international market for international money transactions. At the time of the monetary conference of Brussels in 1892, M. de Foville presented the idea of creating an international storehouse for gold on neutral territory. International shipments would thus be avoided since it would be sufficient to transfer the ownership of a portion of the gold deposits. In 1895 M. Poincard

^aFor a number of years the foreign exchanges have been almost always favorable to us, and therefore hardly need to be defended. (Cf. J. Faure, "*La Banque de France et le portefeuille étranger*," *La France Economique et Financière*, December 22, 1906.) If recently they have sometimes ceased to be favorable, it is the result of an abnormal withdrawal of money, thus revealing a very strained situation abroad. More effective measures must then be employed, and the appearance of foreign bills is only the natural consequence.

developed the conception of an international money, comprising gold, silver, and bank notes.^a M. Paul Leroy-Beaulieu is inclined to believe in the future appearance of an international money distinct from domestic money.^b The plan which M. Luzzati is now endeavoring to introduce is more complex. It would involve an international agreement between banks of issue or government treasuries for the purpose of making permanent and obligatory such financial relief as, during recent years, we have seen voluntarily extended by the Bank of France. Such was at least the essence of M. Luzzati's plan.^c But, as thus outlined our National Bank would be forced to adopt, as an obligatory rule of conduct, a measure which, after all, is employed only as an exception, and at such times as it deems opportune. It is easy to foresee what would happen under such a system. France, financially the strongest country, would have very little to expect from abroad, while it would find its aid urgently solicited at the least alarm of its neighbors; its position as moderator, from being voluntarily assumed as it is now, would become obligatory and subordinate, and this would be evidently unacceptable.

M. Luzzati's initial plan has therefore been modified; it has become more restrained in form, more philosophic, more attractive, but the substance remains unchanged. As a corresponding member of the Academy of Moral and

^a Poincard, "*Questions monétaires contemporaines*," Paris. A. L. Charles, 1899, pp. 253 and following.

^b Session of the Société d'Economie Politique, of November 4, 1905, reported in the *Journal des Economistes*, 1905, p. 248.

^c Cf. Raffalovich, "*Notes sur la crise américaine*," *Economiste Européen* November 29, 1907, p. 683.

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Political Sciences, M. Luzzati presented his views before that learned assembly on January 18, 1908.^a He now proposes international conferences between banks and treasuries, in which the various financial arrangements would be examined and compared, thus leading naturally to the reform of what might be found obsolete or erroneous. It might then be possible to come to an understanding as to the measures for mutual assistance. In this altered form it is not difficult to recognize the initial idea of the learned economist. It does not appear very attractive for us in France, because it would always tend to create for the world a certain claim on our reserves. We give because we choose to do so, but by no means do we intend to be forced to give, even with the advantage of a promise to reciprocate. It does not please us that under this pretext foreigners should enter our councils; that would be dispossession in their favor.

It would be quite another thing to create a clearing house on neutral soil, with means for international action. But nothing is said of this; that would be dispossessing London.

^a Cf. *Journal Officiel*, January 23, 1908, p. 593.

CHAPTER III.

THE BANK AND WAR.

Everyone knows what an admirable part was played by the Bank of France in the settlement of the war indemnity imposed by Germany in 1871.^a It was thanks to the Bank that M. Thiers was able to effect that early liberation of French territory, which so greatly surprised our victors. The confidence in the Bank, already great, increased still further, and from that time, in remembrance of the services rendered, it has been regarded as the keeper of the war chest. We have no intention of re-writing, after so many others, that sad but glorious history. Our aim is to show what numerous and sometimes unnoticed services this great institution performs or can perform now that the fighting power of a nation seems to have no other limit than the financial effort of which it is capable.

Wars become increasingly expensive. Each man under arms costs more and more money, while the number of those who would be subjected to active service constantly grows. During the war of 1870-71 the average cost per soldier was 7.50 francs per diem. We can no longer

^a France had to disburse nearly 6,000,000,000 francs, divided as follows:

	Francs.
War indemnity.....	5,315,758,853
Amount paid Germany for maintaining the army of occupation.....	248,625,000
Indemnities of cities.....	251,000,000
Amount directly collected by Germany as taxes.....	62,580,000
	5,877,963,853

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count on making war at such low cost, now that England and Germany, in their recent campaigns in South Africa and China, have exceeded the figures of 17.50 francs per diem for each man. The effective forces are also increasing, and merely as the result of her new military regulations, without taking account of the increase of population, Germany will have available in 1922 at least 10,000,000 men subject to military service. To keep such an army in the field would require over 76,000,000 francs a day, more than 2,000,000,000 francs a month, or over 27,000,000,000 francs a year. And even these figures neglect the inevitable increase in the price of food and the numerous expenses imposed by the necessity of sustaining an entire population reduced to poverty.

Under the present conditions of war, these expenses, which it would be impossible to disregard, would reach a figure too enormous to estimate. Not only is there no financial organization strong enough to warrant undertaking a long war, but the inevitable expenses of all sorts are so great that they rigorously limit armaments. "Obligatory military service merely constitutes a reservoir of men, which can be drawn upon only to the extent of the available financial resources. But, nevertheless, the financial preparation for war can not be considered as complete unless this eventuality has also been foreseen."^a It is therefore true to state that nowadays the fighting power of a nation seems to be strictly limited by the financial effort it can endure. More than ever governments must base their plans for military mobilization on a most

^a Captain Painvain "*La préparation financière et la guerre*," *Revue du Cercle Militaire*, December, 1902, and January, 1903.

carefully prepared financial mobilization.^a Financial plans exist in every country, but are kept jealously guarded like everything pertaining to national defense.

Let us, however, consider for a moment of what effort Germany is capable, that great military nation the development of which particularly interests us to-day. To meet the very numerous expenses which we have briefly indicated, the Reichsbank may, in time of war, issue an additional 1,000,000,000 marks. But in order to avoid being discredited, it would be at the same time prudent to cease publishing its weekly reports.^b On the other hand, the system of requisitions, many of which could not be paid for, would constitute the normal way of obtaining supplies.^c German forecasts even count in the largest measure upon requisitions of food and money to be made in the enemy's country.^d Thus, financially speaking, Germany is conscious of being unable to carry on a modern war with all the required development, unless it be on the express condition of operating in the enemy's territory. Financial mobilization would compel Germany to invade, at any cost; in no case could it sustain a war for any length of time in its own territory.

Since, in determining the sources whence the colossal sums required may be derived, reliance can be placed only

^a A. E. Sayous goes so far as to say: "It is perhaps as much to its financiers as to its generals that contemporary Germany owes its greatness and power." "*Les banques allemandes*," *Revue Politique et Parlementaire*, 1899, III, p. 311.

^b Cf. Raffalovich, "*La mobilisation financière*," *Semaine Politique et Littéraire*, December 7, 1901.

^c Is not the result of this at once to exasperate the population, and after starving it to incur the heavy burden of later assuring its subsistence?

^d Cf. Painvain, *op. cit.*

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to a very small extent upon the national taxpayers, it will be necessary to resort to loans and to various credit operations. But "among the most precious instruments of which the State is obliged to make use must be placed good and sound money resting upon a solid basis, and a central bank of issue provided with a strong metallic reserve, without an excessive note circulation, thus permitting the domestic channels of trade to be fully supplied with gold."^a The advantages of a perfectly solvent bank of issue, which is able to avoid forced currency or redemption of its notes, are obvious. To maintain confidence and to develop stronger credit conditions is indeed a necessity for that unstable period when the abnormal expansion of credit results almost certainly in a crisis, and thus complicates the difficulties of war by domestic disturbances.

In this respect, Germany has but little power of resistance. We are aware of the moderate size of its cash holdings, and we have witnessed the monetary uneasiness which troubles it while in the midst of peace. We may therefore say that the weak point of its military organization is the monetary side. The entire German press is the first to recognize and to deplore this fact.

The recent Russo-Japanese war, for which financially Russia was as well prepared as, from a military standpoint, it appeared to be poorly prepared, furnishes a striking example of what may be expected in time of war from a firm financial organization. During that distant and costly war, despite disorders at home, Russia was able to

^a K. Raph, "*La Banque Impériale d'Allemagne en cas de guerre*," *Economiste Européen*, October 27, 1905, p. 323.

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maintain its credit at a high level by reason of its immense holdings of gold, only little impaired, and at the same time to acquire, on advantageous terms, all that was necessary to meet the imperious needs of war.

To provide for such an eventuality, which must never be lost sight of, France appears to be armed as well as possible by the enormous reserve held by the Bank of France. There is every reason to believe that a credit even stronger than ours would long have been shaken while we would still be offering resistance. And who knows but that these sinews of war would save us? "War carried on without good provision of money has but a mere breath of vigor. Money makes the sinews of war."^a

The constitution and the employment of this force are, we may say, mere details of internal organization, regulated by the plans of mobilization. These are not known, but it is evident that in time of war the Bank of France, covering the entire territory by its numerous branches, the cashiers and managers of which are not subject to military service, would be entrusted with the duty of meeting the financial needs of the army, by distributing currency or notes to the military units in accordance with their requirements. It would also be obliged to distribute the metal reserves over the entire territory in order to diminish the chances of their falling into the hands of the enemy.

From a political and even from a diplomatic point of view the indisputable strength of France places us in a peculiarly advantageous position. When there exists

^a Rabelais, Bk. I., Chap. XLVI.

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between two states the relation of creditor and debtor, or, what is better still, when one of them possesses a kind of pecuniary supremacy, has not the stronger the very justifiable right to use its superiority in order to obtain political concessions or economic advantages? Although this factor has no recognized weight in international relations, it nevertheless carries "a prestige, which, on many occasions, may be valuable for our diplomacy. From this point of view, the position of France is particularly enviable. It is courted by all foreign nations."^a

The resources of France may not only assure pleasanter relations, in a general way, with foreign countries, but even bring about effective intervention. "At the time of the Algeiras conference the financial groups of Berlin had used all their influence to induce their government to recede from its uncompromising attitude."^b This is, indeed, a pleasing instance of direct intervention. The Berlin bankers, who better than anyone else were aware of their insufficient preparation for war, and of our great financial strength, are entitled to unanimous gratitude for having prevented this scourge.

Even before this, "if war had broken out between France and England at the time of the Fashoda incident, what would have become of the German banks?" The withdrawal of considerable amounts would have had very serious consequences.^c It would perhaps not be inaccurate to state that, even on this occasion, the German finan-

^a Lewandowski, "*Le marché de Paris*," *Revue Economique Internationale*, 1906, II, p. 223.

^b Lewandowski, *op. cit.*

^c André E. Sayous, "*Les banques allemandes en cas de crise ou de guerre*," *Revue d'Economie Politique*, No. 13, p. 149, note 2.

cial groups influenced international politics in favor of the friendly agreement at which we arrived.

It may therefore be said that at the present moment the question of armament in its full sense is more and more a question of finance. It is money which limits the expansion of credit; it is also money which limits the expansion of military force. Here again we see that, as always, the race is to the richest, not in imponderable treasures, but in money. The centuries have not yet accustomed us to this sad philosophy, which nevertheless must be acknowledged and endured. If man, taken individually, has the right to be altruistic, he is none the less bound, from a social standpoint, to take every means of guarding against foreign invasion, since he must defend his hearthstone, his family, his very existence. It is our duty jealously to preserve our National Bank, which is our strength, to glory and take pride in it, never forgetting what we may expect from it. Some will say that this is a policy of selfishness. Perhaps, but it is a national selfishness which the exigencies of foreign politics will impose upon us for many years to come despite ourselves and despite M. Luzzati's proposals.

CONCLUSION.

There exists a close correlation between monetary holdings and the credit system. Their importance and their quality constitute its entire power. This fundamental idea, which we expressed at the beginning of this work, is also its conclusion and should be clearly evident. If we have attained our object, we have shown that the formation and maintenance of the powerful Bank reserve is the

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safeguard of French commerce, the guaranty of our prestige abroad, the palladium of our independence.

We have seen how the Bank of France increases the gold reserve of which it is the guardian, how it watches over its quality, and assures for circulation an abundance of sound money. Thus, in its gold supply, France is the richest of countries, and this unshakable strength will permit the gradual elimination, though not the entire abolition, of silver, which as a monetary medium is depreciated but in some respects is still useful. It is because we have relied on the reserve that we have taken such a decided stand on the question of bimetallism, and that we have declared ourselves for the *statu quo*.

The immediate consequence of our superior monetary position is the low discount rate, and, in this respect, as we have pointed out, France enjoys the greatest stability and the best money market. It is this same condition which permits the Bank to act as guardian both of national and international credit.

An examination of the physiology of the agencies for distributing national credit has shown us that it often needs to be purified. We have seen that by the evolution of banking methods the weakening or even the disappearance of any one of our great financial institutions should not be considered as *a priori* impossible. For this reason it has seemed to us that the social interest demands a tutelary institution always ready to intervene in their behalf. The examples we have given of the intervention of the Bank are neither isolated nor accidental. They are the normal manifestation of the part the Bank designs to take in the work of distributing credit. We have shown that

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under all circumstances it knows how to fulfill this lofty mission without trammeling the freedom of action of other banks. It confines itself to serving them as regulator, and intervenes only so far as is necessary to curb speculation, and thus to protect credit against all dangers.

Through its reserves the Bank is also able to encourage the development of the instruments of credit, especially of checks and transfers, and to make itself accessible to the small dealer, the small rentier, and the plain husbandman. We have seen how its territorial expansion is further increased indirectly by the recent institution of outside accounts, and what efforts it makes in favor of agricultural credit. This is certainly one of the most interesting indications of its position as guardian of the metallic holdings. It assures low rates for money to everybody, everywhere, sometimes at the expense of its own interests, but always for the greater benefit of national commerce and industry.

It accomplishes even greater and better things in the markets of the world through that preponderant influence of its reserve, the importance of which must constantly be emphasized. We have been obliged, in this connection, to take up the study of monetary questions in order to show that international financial solidarity has no other basis than the metallic holdings. Since France is in this respect so rich, its position appeared to us then as exceedingly privileged.

Our reserve has such a powerful influence upon the international financial situation that it is able to avert foreign crises and to furnish effective means of preserving France from dangerous reactions by bringing relief to the foreign source of disturbance. In order to formu-

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late properly this serious question of crises we were obliged to use a somewhat detailed classification; but it alone could lead to the definite conclusion that, whatever their character, they may be successfully combated by the banks, in so far as they become monetary.

Since 1893 France has experienced no crises. Such is at least our claim. The means employed by the banks to avert them held for a time our attention, and permitted us to form a sufficiently correct idea of the present policy of the Bank. It is apparent that, with a view to modifying the harshness of the unavoidable discount policy, it has abandoned the policy of the gold premium for another, that singularly happy device of internationalism, which we have just characterized. Admiration must be accorded to this policy, which is a great credit not only to the Bank but also to all France.

Its strong reserve, admirably managed, is not only our insurance against crises but also our surest guaranty against the recurrence of great wars. We have shown that the fighting power of a nation has now no limit other than the financial effort of which it is capable. It is not going too far to state that the formidable cost which a war would involve has more than once caused our possible enemies to recoil, and that in the settlement of political or diplomatic questions the nation which is richest in gold is always the one which commands the most respect.

Gold is always the great motive of human activity. It is above all the soul of credit; from this point of view it is indispensable, and we have no apology to offer for having given it such an important place in this study.

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It is owing to its wealth in gold that "France need not fear the considerable progress made by the commerce and industry of the surrounding countries,"^a and the formidable cost of armed peace. Recognizing the great importance of monetary questions in political and social economy, we know that while our advance may be slow and must not, indeed, be unduly hurried, we are assuredly on the road of progress.

A large part of our power of resistance we owe to the institution of the Bank of France, as guardian of our enormous monetary reserve. But what would become of this reserve without the wise and firm management of men who join to experience of affairs the science of distinguished economists? It is to the Bank and to its eminent staff that our respects are naturally addressed in concluding this study of their labors.

^a J. Siegfried, "*Expansion commerciale de la France*," *Revue des Deux Mondes*, June 15, 1907.

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French Savings and Their Influence
Upon the Bank of France and
Upon French Banks

By

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Editor of "Le Rentier"

FRENCH SAVINGS AND THEIR INFLUENCE UPON THE BANK OF FRANCE AND UPON FRENCH BANKS.

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I.

SOME FACTS AND FIGURES.

In view of the monetary, financial, economic, commercial, and industrial crises which break out almost periodically in all countries, and with the destructive force of a cyclone sweep everything before them, the question has been asked how France has escaped these disturbances, or at least has been able to meet with ease their reaction. Many reasons have been given, some of which could not be passed over in a careful examination, for the scientific and mathematical truth of the resulting conclusions is so clearly evident. These reasons are in our opinion:

- (1) The large amount of French savings and of available capital.
- (2) The increase and distribution of French and foreign securities held in France.

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(3) The influence exercised upon the rate of interest, the discount rate, and upon the banks, their reserves and deposits, by this wealth of resources.

Many volumes would be necessary to develop these few facts in all their details, but we shall confine ourselves to their demonstration by brief and precise figures. This will be our contribution to the thorough investigation which is being conducted by the National Monetary Commission of the United States and in which it has asked us to collaborate.

2.

FORMATION AND DEVELOPMENT OF FRENCH SAVINGS. THE PSYCHOLOGY OF FRENCH RENTES.

There are in France 10,000,000 electors, almost all taxpayers. All or nearly all save their money with the intention of putting something by for their old age. There are savings in the special organizations called savings institutions, in the mutual benefit societies, in banks and securities, in lands, unimproved property, and in houses, improved property. Such is the composition of the private wealth of France, a wealth which is infinitely disseminated. It can be proved, in fact, that of these 10,000,000 electors 9,000,000, at least, have a book at some savings institution, a government rente, a railroad or Crédit Foncier bond or some other security, a strip of land, or a house, whether large or small. And this is not all. The French rentier does not invest everything he has, but always keeps by him some available means in gold, silver, or bank notes to provide for sudden

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emergencies. He wishes thus to avoid having to realize his investments either in whole or in part, since to sell his securities is a resolution he takes only in case of absolute necessity.

3.

SAVINGS INSTITUTIONS.

What is, then, the situation as regards savings in France? How is the capital arising from savings divided and distributed? That is the first question which must be answered.

On January 1, 1908, there were in France 4,976,000,000 francs deposited in the savings institutions and divided among 12,828,847 books, representing an average of 387 francs per book. In these figures, 395,000,000 francs and 1,797,542 books are counted in Paris and the department of the Seine.

According to the statistics as to the distribution of books, of these 12,828,847 books more than 4,000,000, that is to say more than one-third, were for 20 francs or less; almost 2,500,000 were for 21 to 100 francs; about 1,100,000 were for 101 to 200 francs. This is the democratization of savings in its most extreme form. Of sums for 1,001 to 1,500 francs, which is the highest amount authorized for deposit in the savings institutions, there are less than 1,100,000 depositors. It can not be said that these 5,000,000,000 francs, in round numbers, deposited in the institutions for savings belong to the wealthy class. It is not the wealthy who resort to such institutions for the investment of their capital, but people of modest means who gather a little property, franc by franc,

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and lay it aside in order to use it later, either in temporary or in definite and more profitable investments.

The development of these interesting small savings can be clearly shown by three figures. In 1850 there were deposited in the savings institutions 135,000,000 francs; in 1869, 711,000,000 francs; to-day the sum is 4,976,000,000 francs. In the nineteen years from 1850 to 1869 the increase was 576,000,000 francs; in thirty-eight years from 1870 to 1908 it has been 4,265,000,000 francs.

4.

FRENCH RENTES.

Let us take the case of a small investor who has placed his first earnings. When he obtains new funds to invest he turns to government rentes. He determines to possess a French rente and to make it the basis of his holdings. The following situation results. There are, in round numbers, 26,000,000,000 francs worth of French 3 per cent rentes, part perpetual and part redeemable. From these 26,000,000,000 francs there must be deducted 3,800,000,000 francs of redeemable rentes which are found in the hands of large investors; also, 1,000,000,000 francs of rentes belonging to the great insurance companies, endowments, and various associations, leaving 21,000,000,000 francs. It has been estimated that these 21,000,000,000 francs are in great part in the holdings of 1,500,000 investors. The attempt has even been made to determine the average amount of rentes which these investors might possess, but as averages are always disputable we shall not pause to discuss them. What is certain is that three-fourths of

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these 21,000,000,000 francs of rentes consist of registered certificates. Of every 100 francs of rentes in circulation, 75 francs are in registered certificates and 25 francs in certificates payable to bearer. It is interesting to note, then, as a sign of the confidence with which the credit of the State inspires the French democracy, that of 10,000,000 voters 1,500,000 persons hold a government rente, and that there are more than 12,000,000 persons, adults or minors, who have a book at some savings institution.

5.

LOTTERY BONDS.

The third stage to which the French investor advances in placing his savings is the acquisition of a lottery bond. Everybody desires to leave the door open to fortune, and the smallest holdings, as well as the largest, contain a lottery bond of the city of Paris, of the *Crédit Foncier*, or of some provincial town, or some foreign lottery certificates negotiable in France, such as the Austrian bonds of 1860, etc.

We possess 6,000,000,000 francs in lottery bonds, representing 17,000,000 certificates outstanding, and yielding annually 30,000,000 in lottery premiums. The capital invested in these bonds results again from the economy of small investors and represents part of the savings of the democracy. Neither in England nor in the United States is there found such a use of funds, for there is not in those countries, as in France, an army of people who put by small savings.

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If, now, we recapitulate this first division of the popular savings, we have 5,000,000,000 francs in savings institutions; 21,000,000,000 francs in State rentes; 6,000,000,000 francs in lottery bonds.

This constitutes a first total of 32,000,000,000 francs in investments essentially of the nature of savings belonging to millions of persons.

6.

RAILROAD BONDS.

Let us ascend a step further in the scale of capitalists and small investors. We shall then have before us those pieces of paper called railroad bonds, and, higher still, railroad shares. The capital represented by railroad bonds amounts to 14,500,000,000 francs, while that represented by railroad shares amounts to 3,500,000,000 francs. Now, to whom do these 18,000,000,000 francs belong? To more than 700,000 families, numbering more than 2,000,000 persons. These 18,000,000,000 francs are in certificates payable to bearer and in registered certificates. The registered certificates exceed 900,000. We have, then, including the railroad bonds, 50,000,000,000 francs invested from savings and 55,000,000,000 to 56,000,000,000 francs if we add the rentes belonging to the great holdings. It is certain that there can nowhere else be found a similar accumulation and dissemination of wealth invested in securities yielding such low interest—1 to 1½ per cent in the savings institutions, 3 to 3½ per cent from railroad bonds and shares, and 1 to 2½ per cent from lottery bonds.

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But this is not all, for we now come to what may be called the fourth degree in the scale of investments, French securities of variable revenue, and foreign rentes and securities of fixed revenue and of variable revenue. Furthermore, among these varieties of investments belong the funds placed in mutual benefit societies and funds deposited in financial institutions, to say nothing of those which every person keeps by him without investing to provide for unforeseen expenditures or needs. Let us examine these different classes to see what the exact statistics may tell us.

7.

TOTAL OF SECURITIES BELONGING TO FRENCH CAPITALISTS.

On December 31, 1908, the total of French and foreign securities, including government bonds, negotiable only on the Paris Bourse, without counting securities negotiable either at the banks or on the departmental exchanges, amounted to 133,383,000,000 francs, of which 65,738,000,000 were in French bonds and securities, and 67,645,000,000 were in foreign bonds and securities. Together with the securities negotiable on the market, at the Bank, and on the departmental exchanges, the total of the securities negotiable in France is not less than 155,000,000,000 to 160,000,000,000 francs. At the present time French capitalists possess 105,000,000,000 to 110,000,000,000 francs in bonds and securities, yielding them annually from 4,000,000,000 to 5,000,000,000 francs, for the income from these investments must be estimated not according to the present reduced rate, but according to the rate at the

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time when the investments were made. To these 105,000,000,000 to 110,000,000,000 francs must still be added the capital invested abroad in banks or various enterprises, the capital described as deposited in the savings institutions, and that which has been paid into mutual benefit societies, an amount exceeding several hundred million francs. There must finally be added what may be called the floating funds of savings—that is, capital deposited in current accounts or accounts subject to check in the banks and financial institutions—which, year in and year out, are above rather than below 2,000,000,000 francs.

8.

ANNUAL SAVINGS.

Thanks to the abundance of its resources, of its economies, and of its available funds, France—that is, the French investors—saves annually on the average 1,500,000,000 to 2,000,000,000 francs (more rather than less), whatever may be the inclemency of the seasons, whatever the political crises at home or abroad, whatever may be even the speculative crises and the losses which, from time to time, are borne by capitalists in hazardous investments such as the Panama Canal or the gold mines. Such losses, however extensive they may be, produce only a temporary effect, because they are divided among a large number of persons. It is seldom that a capitalist loses all he possesses in a single venture; he loses something, to be sure, but not all that he has put by, just as he does not make his fortune by engaging simply in one prosperous and successful enterprise.

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9.

IMPROVED AND UNIMPROVED PROPERTY.

To this wealth, consisting of movable securities, must be added that consisting of immovable securities, improved and unimproved property. A single statement will suffice to make this situation clear. Of 12,000,000 households in France, there are 9,000,000 each possessing and occupying its own house without renting from others. As for unimproved property, there are 150,500,000 parcels of land and 62,000,000 town lots, while the number of proprietors is estimated at 8,500,000.

10.

INHERITANCE STATISTICS.

France is a country of financial democracy. The inheritance statistics show that there are less than 20,000 millionaires. There were altogether 401,574 inheritances declared in 1907, which may be tabulated according to the amount of the inheritance as follows:

1 to.....	500 francs.....	116,323
501 to.....	2,000 francs.....	106,807
2,001 to.....	10,000 francs.....	114,691
10,001 to.....	50,000 francs.....	47,967
50,001 to.....	100,000 francs.....	7,703
100,001 to.....	250,000 francs.....	5,018
250,001 to.....	500,000 francs.....	1,713
500,001 to.....	1,000,000 francs.....	814
1,000,001 to.....	2,000,000 francs.....	360
2,000,001 to.....	5,000,000 francs.....	134
5,000,001 to.....	10,000,000 francs.....	33
10,000,001 to.....	50,000,000 francs.....	7
50,000,001 to.....	7

Hence, if we should use a pyramid to represent the gradation of inheritances according to their importance,

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allowing the breadth of a millimeter at the summit to indicate inheritances under 50,000,000, this pyramid would enlarge rapidly until it reached a base besides 16 meters broad, indicating the number of small inheritances in proportion to large inheritances.

II.

THE IMPORTANCE OF FRENCH SAVINGS AND THEIR CONSEQUENCES.

It is clear, therefore, without the necessity of further emphasis, what enormous strength is imparted to the country by the extent of its savings.

(1) Since France is everywhere a creditor and nowhere a debtor, each year brings in, under the form of interest and of repayments, the capital which has been loaned abroad and which is then invested anew.

(2) As France puts aside every year 1,500,000,000 to 2,000,000,000 francs, it has no need to borrow abroad, but has abundant means to supply its own requirements.

(3) Since, as we have seen, the total of the French holdings in foreign securities and bonds yields a yearly average of 1,500,000,000 to 2,000,000,000 francs, this sum, which is paid to us annually, comes back in the form of gold, and, allowance being made for the new uses to which we put a part of these returns of the yellow metal, increases our gold reserve.

(4) As we utilize a portion of our savings to make new investments abroad, the income of these new investments is added to the old and increases by so much the sums which are annually paid to us in gold by foreign borrowers.

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These simple facts explain why the stock of gold possessed by France (the most considerable that it has ever had) automatically increases every year.^a

This stock would diminish—

(1) If one or more poor harvests should make it necessary to export gold for the purchase of cereals.

(2) If, on the other hand, foreign loans effected in France should take on a greater development.

(3) Or, again, if for any reason we should be obliged to purchase a larger quantity of commodities abroad, and if the sum of these purchases should not find a full or practical equivalent in the sales which we should effect.

(4) It must also be said that the visible stock of gold might diminish in the event of a serious political crisis abroad.

(5) But as things are, simply by the natural play of economic and financial laws and facts, and as long as France remains a creditor abroad, gold will continue to

^a The following table indicates the triple movement of gold, silver, and notes of the Bank of France within the last ten years.

[Amounts are expressed in millions of francs.]

End of December—	Gold.	Silver.	Bank notes.
1898.....	1,810.4	1,205.5	3,754.1
1899.....	1,866.4	1,156.6	3,937.8
1900.....	2,334.3	1,099.5	4,146.4
1901.....	2,449.0	1,096.8	4,072.2
1902.....	2,519.2	1,098.4	4,304.3
1903.....	2,357.4	1,100.0	4,244.2
1904.....	2,650.2	1,098.9	4,257.7
1905.....	2,864.3	1,071.2	4,151.1
1906.....	2,671.9	993.5	4,689.4
1907.....	2,676.1	917.6	4,800.6
1908.....	3,489.2	883.3	5,225.5

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increase in the country normally and automatically. Contrary to what might be thought, and to what has been stated in several foreign journals, we do not purchase and we do not need to purchase gold abroad. This gold, as has been said, comes to us naturally in payment of the interest or capital of debts. And such will be the case, we repeat, as long as France remains a creditor abroad and not a debtor.^a

(6) This, furthermore, explains the fact that from 1898 to the close of 1906 the difference in favor of gold imports into France was 2,613,000,000 francs. In 1907 the excess of imports over exports—although the customs statistics as to the precious metals must be used with caution—was 296,000,000 francs. This would give, then, a total of about 2,909,000,000 francs in gold, which in the natural course of business entered France between 1898 and the close of 1907.

^a According to our latest valuation the foreign securities held by French capitalists (government bonds included) reach the minimum figure of 30,000,000,000 francs. The distribution by countries is as follows:

	Billions of francs.
Russia	9-10
England	½
Belgium, the Netherlands	½
Germany	} ½
Turkey, Servia, Bulgaria	
Roumania, Greece	3-4
Austria-Hungary	2
Italy	1-1½
Switzerland	½
Spain, Portugal	3½
United States, Canada	½-1
Egypt, Suez	3-4
Argentine, Brazil, Mexico	2½-3
China, Japan	1
Tunis, the French colonies	2-3

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The economic, monetary, and financial strength of France, which protects it from crises, is therefore clearly shown by the facts which we have presented.

(1) An abundance of exportable securities. We possess 30,000,000,000 francs in foreign bonds and securities, of which 20,000,000,000 to 25,000,000,000 in international bonds are negotiable on our markets and upon the exchanges of those foreign countries which are our debtors. This is a great advantage to us, for these debts, as long as they are regularly settled, guarantee us favorable conditions of exchange and are the equivalent of an addition to our exports of commodities yielding a good profit.

(2) A considerable metallic reserve; that is, again, an amount of exportable money which at any given moment can, and always should, procure us important economic and commercial advantages, not to mention political compensations and advantages.

(3) A great abundance of floating funds issuing from our savings. These funds are continually renewed, for each year, whatever may be the political or other crises or the unfavorable character of the seasons, France saves 1,500,000,000 to 2,000,000,000 francs (some even claim that these savings exceed 2,500,000,000),^a so that we are able not only to provide for our own needs, but also to lend a portion abroad.^b

^a "*L'épargne française et son développement annuel. À combien s'élèvent annuellement les placements de l'épargne française.*" Communication to the Société de Statistique de Paris, March 26, 1906. Published 1906.

^b "*L'épargne française.*" Discussion of the Société Amicale de la Marne, October 28, 1908. Published 1908.

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(4) An indisputable credit, as shown by two circumstances. First, the French 3 per cent rente sells for 11 francs more than the German rente. Furthermore, when recently the the minister of finance, M. Caillaux, raised the rate of interest on treasury bonds, payable from three months to one year later, by only one-half of 1 per cent, more than 200,000,000 francs entered the treasury within twenty-four hours. No one will suppose that the increased interest attracted the subscribers, nor will it be maintained that unless the credit of France were unquestionable such a large amount of capital would be confided to the treasury.

(5) The fact that France is everywhere a creditor and nowhere a debtor^a explains also the return of capital which under the form of arrearages or repayments comes in from all sides, while France owes nothing, and so has nothing to pay anywhere.

(6) France is the only country in the world in which the public debt has not increased for the last ten years.^b

This assertion, incredible as it may seem to those who do not study our budgets and the financial statements annexed to them, is absolutely true, although in other countries the public debt has grown. In the *Rentier* of November 7, 1908, we have given the proof of this apparently bold affirmation, together with figures and documents to support it. The growth of the budgets is, indeed, inevitable, for, in the words of our regretted teacher, M. Léon Say, "Our democracy tends to transfer to the State

^a "La situation financière de la France." Discussion of the Société Amicale de la Marne, October 23, 1907. Published 1907.

^b "L'exposé des motifs et la discussion des budgets de 1907 et 1908."

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many functions with which it was not formerly burdened." ^a But, despite this fact, the budgets of France show, on comparison, the least increase.

And, finally, it is in France that the quotations of government bonds have been most stable, maintaining with English consols the highest level of prices.

12.

THE SUPREMACY OF THE FRENCH BANKS.

All these facts explain the constant support given to the great French banks and the financial institutions which have been established.

The supremacy of the French banks in national and international finance is to-day undeniable. The principal French banks, the *Crédit Lyonnais*, *Comptoir National d'Escompte*, *Société Générale*, *Banque de Paris et des Pays-Bas*, *Banque Française pour le Commerce et l'Industrie*, *Crédit Industriel et Commercial*, and the *Union Parisienne*, had at the close of 1908 a nominal capital of 1,095,000,000 francs, of which 785,000,000 were paid in; they had, besides, more than 250,000,000 francs in reserves. The French banks abroad and in the colonies had a nominal capital of more than 800,000,000 francs, while the French and foreign *Crédits Fonciers* had a capital of nearly 600,000,000 francs without counting the reserves, etc. The paid-in capital of these different French banks, operating in France and abroad, is therefore not less than 1,300,000,000 francs. In this respect few English or American banks can be compared with them.

^aLéon Say, Chamber of Deputies, October 27, 1890. Cf. our "*Vocabulaire manuel d'économie politique*," *Colin et Cie*.

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13.

THE BANK OF FRANCE.

The strength of the French banks has, then, its source first, as we have said, in the magnitude of French savings; second, in their own internal and external organization; and third, and above all, in the effective organization of the Bank of France. The great French banks know that they can count upon it to rediscount their paper. For, to use the expression of M. Léon Say, the difference between the Bank of France and all the other banks and financial institutions is that it could liquidate them all, while not one of them could liquidate it. The Bank of France regulates the monetary situation of the country; it releases the banks from all fear regarding internal circulation and, consequently, regarding domestic commerce. The fixed and stable value of the notes of the Bank of France, the credit which they enjoy at home, and the favor with which they are received abroad, on an equality with gold, give to the domestic and foreign affairs of the country, in financial or commercial transactions, the greatest security.

A single comparison will make this apparent. If there had been in the United States a central bank operating on the same basis and according to the same principles as the Bank of France, the crisis which recently occurred there could never have reached so acute a stage as it did, for the banks and the bankers of the United States would have found means to have their paper discounted or to procure part or all of the capital which they needed. A healthy circulation of the notes which a bank of issue

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can put out is the basis of a healthy condition of banking; the proof of this economic fact has been given by the Bank of France. The example which it has furnished ought not to be ignored in countries where the banks have a circulation out of proportion to the metallic reserve.

But it must be recognized that the excellent condition of the Bank of France and of the large financial institutions and private banks in France has been aided by that wonderful system of small savings so widely disseminated over the country, and each year renewed and increased. If, in any part of the world, the attempt should be made to establish a central bank of issue with the same statutes and regulations as those of the Bank of France, in the hope of obtaining the same results, the experiment might end in failure if there should be lacking in the country that spirit of thrift and saving which governs the French capitalist, large or small, the rich as well as the most insignificant bourgeois, and the humblest laborers, peasants, and clerks.

Such, then, are the facts which we have endeavored to establish in this brief study of the diffusion of French savings and their influence upon the successful operation and the prosperity of the Bank of France.

