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Renewal of Reichsbank Charter

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[Articles published in the *Frankfurter Zeitung* during December, 1908]

RESULTS OF THE GERMAN BANK INQUIRY OF 1908.

I. THE INQUIRY COMMISSION—WHAT CAUSED THE MONETARY STRINGENCY—GERMANY'S FOREIGN TRADE—THE NATIONAL WEALTH OF GERMANY—THE DEMAND FOR CAPITAL AND CREDIT MONEY.

The bank act confers upon the State the right to revoke the charter of the Reichsbank on January 1, 1891, and at intervals of ten years after that date upon one year's notice. The charter, therefore, cannot be revoked before January 1, 1911, notice having been given not later than January 1, 1910. Recommendations for the renewal of the charter have to be submitted by the Imperial Government to the Reichstag during the session 1908–9, which has just opened. The Government appointed last April a representative commission which was intrusted with the examination of a large number of experts. The inquiry commenced on May 1 and was conducted in such an efficient manner that the hearing of the experts was concluded during the same month. Since then, after sifting the material and collecting additional data, the commission on October 12 began to wind up its labors, finishing on October 19. The results became known the same day through an inspired press notice which appeared with our comments in the second morning edition of the *Frankfurter Zeitung* for October 20 and 21. Full information may be expected by the public from the discussions of the proposed measure in the Reichstag, from the amendments to the bank act which have now been drawn up by the Imperial Government and from the explanation of these amendments, and also from the minutes of the inquiry commission, which will most likely accompany the Government's proposals. The statements of the expert witnesses, in accordance with a promise given them, will not be published, nor is it at present intended to prepare a summary of the deliberations of the commission. The publication of the minutes just as they stand will, it is true, make it more difficult for one to inform oneself of the main points by a rapid glance; at the same time, it will enable the careful reader to get at the complete arguments pro and con, and weigh them against each other, instead of depending solely on a count of votes.

How far the Imperial Government will embody in its draft of the proposed measures the results of the inquiry, and how far the Reichstag will approve or alter this draft, are questions for the future. It will be remembered that, although more time and work had been devoted to the problems of the bourse inquiry fifteen years ago—the commission then appointed rendered a very full report containing well-considered proposals—yet the Government materially changed the proposals of the commission and the Reichstag in its turn "improved for the worse" the plans presented by the Government. This time the problems are much simpler and clearer, at least as far as the work of the commission goes. Nevertheless the members of the commission were asked to remain silent for a while; but the problems put before them have lately been discussed so thoroughly and generally that beyond the meagre information given out for publication one may easily acquire a definite and interesting knowledge of the whole question.

The valuable and very comprehensive statistics compiled by the Reichsbank for the purposes of the inquiry have also helped to enlighten a wider circle of the public. We are therefore of the opinion that we shall broaden and deepen the general interest in these important questions if now, upon the conclusion of the inquiry, we follow up our comments on the questions put to the inquiry commission (cfr. *Frankfurter Zeitung*, April 26 to May 12, 1908) with our observations on the work of the commission and on the subject-matter of the inquiry.

It is generally recognized that the deliberations of the commission under the chairmanship of the president of the Reichsbank, Mr. Havenstein, were conducted on all sides very impartially, even when opinions were widely divergent; consequently, such refining of views and such an elucidation of the pros and cons of the questions have been reached by the opposing groups that very beneficial results may be expected therefrom by all concerned, more particularly by the Imperial Government and the Reichstag. In so far as a change of views took place, it must be ascribed to the slackening of the demand for credit facilities and to the fall in interest rates which has meanwhile occurred. Had this taken place a year ago an inquiry would perhaps not have been instituted at all. At least up to the year 1907 it seemed that the inquiry into banking matters which had been promised was to consist merely of the examination of a few expert witnesses—especially of some men who had already advocated certain changes. But when, during the year 1907, in spite of a gradual lessening of the industrial activity, the monetary stringency increased, and at last our bank rate reached its record figure of 7½ per cent, the public as well as the Reichstag became fairly alarmed.

This apprehension has since considerably subsided, owing to easier money markets and the enlightening influence of the bank inquiry. The popular view has more and more come in line with that so long expressed by the *Frankfurter Zeitung* that the strain on the money market and rise of interest rates have not been caused through any inadequacy of the Reichsbank, nor through mistakes of its management nor through lack of currency, but principally through a steadily increasing disproportion between the supply and demand of capital. Moreover, we have long ago shown that the stringency and its effect were not confined to ourselves alone, but were international, although it must be admitted that Germany was especially hard hit. With us the transition to a commercial and industrial nation has made and is making rapid strides; in particular the large industries have made signal progress. The result is that wealth, capital, and credit have quickly grown, but more money has also been locked up in new plants and investments; the standard of living, wages, and prices have also risen, and the demand for capital has created a correspondingly high demand for circulating media. Yet our economic policy, as we have shown on former occasions, does not favor the formation of new capital, but rather retards it through high tariffs and their exploitation by the industrial combines (cartels), through weakening the effectiveness of the stock exchange and through other legislative blunders. All these subjects were omitted from the list of questions submitted to the inquiry commission, and were therefore not fully discussed by it. The statistical material contains very little information concerning them, but we now add a few figures showing the development during the last two decades. The events of more recent times will be discussed later on.

Our foreign trade with the principal countries, taking together the import and export of goods (excluding precious metals) shows the following changes since 1889:

[In millions of dollars; $1=4.20 marks.]

Country.	1907.	1889.	Increase, 1907.	Per cent of increase.
Germany	$3.682	$1.703	$1.979	116.2
France	2.235	1.546	688	44.4
England	4.767	2.966	1.800	60.1
United States	3.346	1.597	1.749	109.6

As will be seen from the above, Germany's trade has increased much more than that of France and England, and even a little more than the trade of the new country, the United States. Besides this growth of Germany's foreign trade a heavy increase of the domestic trade must be taken into account, which was bound to create an increased demand for capital, money, and credit. More significant still is the difference influencing the international balance of payments. Looking at imports and exports separately, and taking the excess of imports over exports, we find that the amount owed by Germany for goods imported from abroad has grown much more than the corresponding item in other countries, while in the United States the amount to be received for exported goods has risen enormously; and whereas in the United States the excess of exports during 1907 does not mark a record (the years 1898, 1900, and 1901 having shown a greater excess) the excess of imports into Germany has had a steady upward trend and reached its highest mark during the year 1907.

[In millions of dollars; $1=4 20 marks]

	1907	1889.	Increase (+) or decrease (−) for 1907.
Excess of imports into—			
Germany	$411.5	$196.4	+$215.1
France	97.5	118.2	− 20.7
England	621.3	545.0	+ 76.3
Excess of exports—			
United States	500.1	56.6	+ 443.5

How far during this period the increasing demand for currency necessary to settle balances was met by currency-saving devices will to some extent be evident in the next table. Concerning Germany this table covers collections passed through the clearing-houses of the Reichsbank, and one-half of the turnover effected without actual cash payments; concerning France the table shows one-half of the turnover effected in "compensations" of the Parisian bankers; England is represented by the collections passed through the London Clearing House; the United States by the collections passed through the New York Clearing House. This table does not show the clearings outside of the principal banking centers of the United States and England, nor does it show the increased saving of currency resulting from the use of postal orders, checks, etc.

[In millions of dollars; $1=4.20 marks.]

	1907.	1889.	Increase, 1907.
Germany	$37,050.9	$10,884.5	$26,166.4
France	2,534.5	487.8	2,046.7
England	61,924.3	37,059.7	24,864.6
United States	87,182.1	34,798.8	52,383.3

In spite of certain disadvantages Germany, as will be seen, shows some marked progress, thanks to the energetic efforts of the Reichsbank, but a good deal remains still to be desired. There is no doubt that the wealth of Germany has considerably increased. When, toward the end of 1893, Schmoller made an estimate for the stock-exchange inquiry commission he thought it likely that the savings of the German nation amounted then to between 2 and 2½ billions of marks ($500,000,000 to $625,000,000) annually, of which 1 billion ($250,000,000) went into investment securities. Since then in Prussia alone taxable incomes exceeding $750.00 had grown from $726,050,000 in 1892 to $1,371,520,000 in 1907. The deposits in the German savings banks (at the end of 1907, $3,307,000,000) have, during the last decade, increased by a yearly average of about $143,000,000. Therefore, the annual savings of the German nation must to-day be taken as far exceeding those of 1893 or 1889. Recent estimates put the annual savings of Germany between $625,000,000 and $750,000,000, the *Grenzboten* of July 9, 1908, even rating them as high as $1,000,000,000. On the other hand, capital, too, has been in increasing demand. Schmoller's estimate in 1893 that we invest every year about $250,000,000 in securities agrees with the statistics of new issues of securities floated during that period. Yet during the last five years (1903–1907) German securities, not including conversions, totaling about $625,000,000 annually, have been admitted to quotation on the German stock exchanges. This figure is taken from the official statistics which, among other things, include mortgage bonds authorized to be issued by the mortgage banks, and also mining stocks, etc. According to the statistics of the *Frankfurter Zeitung* (leaving out mortgage bonds and mining stocks, but including foreign securities) the new issues for the seven years 1901–1907 reached an average of nearly $524,000,000 annually, and for the years 1905–1906 alone nearly $714,000,000. In addition to this brisk demand for capital and money, for investment as well as for circulation, Germany has had to cope with the greater demands of agriculture due to an increase in the price of land and its products, and above all with the greater demands of manufactures due to a rapid enlargement of plants and of output. It is only necessary to point to the following statistics of German consumption:

	Average yearly consumption in kilograms for—			
	1886–1890.		1907.	
	Amount.	Per capita.	Amount.	Per capita.
Coal	58,735,000	1,225.00	136,934,000	2,210.00
Pig iron	4,278,000	89.20	13,046,000	213.80
Cotton	201,046	4.19	[a] 385,280	[a] 6.28

[a] For the year 1906.

Naturally the demand for credit money has also increased very considerably. Taking stamp fees as a basis for determining the amount of commercial paper put in circulation (deducting 10 per cent on account of the sliding scale fixed for such fees) we arrive at the grand total of $3,144,300,000 in 1889, which has since steadily increased from year to year until it reached $7,325,000,000 in 1907. This is an increase of $4,180,700,000, or about 133 per cent. If we add that of all the bills created in Germany less than 40 per cent passed through the Reichsbank—that of the average of the outstanding bill circulation the average holdings of the Reichsbank amount to only about one-seventh (in the first decade of its existence only 11 to 12 per cent, reaching in 1889 a maximum of 15.3 per cent and in 1907 about 13.8 per cent)—then we have furnished sufficient proof that the monetary stringency and the high interest rates of 1907 were, speaking broadly, caused by phenomena that had nothing to do with any flaws in the organization of the Reichsbank or mistakes of its management.

II. GOVERNMENT OWNERSHIP OF REICHSBANK — PRIVATE BANKS OF ISSUE — NEW REICHSBANK SHARES — INCREASE OF SURPLUS—DISTRIBUTION OF PROFITS—TAX-FREE BANK NOTES AND INVESTMENT OF AVAILABLE FUNDS.

Although the members of the inquiry commission and the general public are satisfied by this time that the existing organization of the Reichsbank cannot be held responsible for a monetary stringency of such severity as we have recently passed through, and that no change of the organization could possibly prevent a recurrence of such an event, the affairs of the Reichsbank have been the main feature of the commission's work. It is that part of the deliberations which has been brought to a conclusion, whilst the discussions regarding the protection of depositors were broken off and are to be continued next year. The commission was guided in its work by the list of questions which had been submitted to it by the Government, and we will treat the different subjects in the same order as they appeared on that list. The preliminary question as to whether it would not be better to place the Reichsbank under government ownership was not touched upon, but the Government opened the inquiry by declaring that the constitution of the Reichsbank should not be changed in any respect, and the way in which the questions were put clearly showed that it was the intention of the Bundesrat to renew the charter of the Reichsbank, and by no means to make use of its lawful right to abolish the institution. This policy is quite in keeping with the position which the authorities have always taken. While the sessions of the commission appointed to consider the banking act of 1899 were in progress, the representative of the Bundesrat announced in definite terms that it was unanimous in the determination "to oppose the nationalization of the Reichsbank for political, economic, and financial reasons."

At the time when the Reichsbank was established we should have preferred to have had the capital supplied from imperial funds alone. Instead of that the Empire contented itself with the power to revoke the Reichbank's charter at intervals of ten years, and when in 1889 this prerogative first led to discussions, we pointed out that the question hinged upon whether the Imperial Government considered itself entitled, in return for treating the resources of the Reichsbank as private property in case of war, to an insurance premium the amount of which has been steadily reduced at every renewal of the charter. The demands of the Agrarians that the Reichsbank should be compelled "to assist the economically weak" were later on met, in a measure, by state aid for agricultural credit institutions. In spite of this, however, the agrarian wishes carried considerable weight at the deliberations preceding the first renewal of the Reichsbank charter in 1889. We insisted at the time that the Reichsbank, in pursuance of its most important duty, the regulation and protection of the monetary system, had to consider above all the fluidity of its investments; and also that its policy already favored the demands of agriculture for financial help as distinguished from those of commerce and industry, and even from those of the banks and the bourse. And yet a member of the Reichstag, Doctor Arendt, has announced his intention of again proposing the nationalization of the Reichsbank. It seems likely, however, that his political followers will not support him in this, and he himself declared not long ago "that the business methods of the Reichsbank would not be changed in the least if the bank were continued for account of the Empire alone," which to him seemed purely a "financial question." The Reichsbank has demonstrated on many occasions—for instance, in the Reichstag and in its historical review for the period 1876–1900—that the financial importance of its privilege of note issue is generally overestimated and that the return which the Reichsbank makes for this right and the legal conditions governing the issue of its notes are either overlooked or considerably underrated.

If government ownership of the Reichsbank meets with a more decisive defeat this time than in previous agitations—as is generally expected—it would be advisable to give this question a longer rest than ten years, as in all likelihood the same reasons which now influence the retaining of private capital would be equally potent ten years hence. In the interests of the Reichsbank and even, it may be, in the interests of the Empire, it would seem to be better not to provoke the same discussions again after a lapse of only ten years, the question having so often been fought out without gaining in import or interest. No suggestion seems to have been made as yet that the charter should be renewed at once for twenty or thirty years instead of ten years only. If such a new departure were advocated, it could not be passed without the strong support of the Bundesrat.

The inquiry commission has apparently not discussed at all the renewal of the privileges of the four remaining private banks of issue. If the question had been up for discussion, a continuation of these institutions would undoubtedly have found zealous advocates not only in the governments of the respective countries where these banks are located, but also among the members of the commission, whether conservative or otherwise. When the legal-tender provision for the notes of the Reichsbank was considered, it was often urged that the same privilege be extended to those private institutions. This recommendation was strongly opposed; the most that seems attainable is that these notes may be decreed legal tender in the country where they are issued. Strenuous objections would be raised even to a law which should permit the acceptance of private notes by public offices outside the State in which the notes were issued. The notes of the four private banks do as a rule circulate only in their home countries, which is sufficient. However, when a traveler wants to pay his fare at a North German railway station by tendering a South German bank note, the refusal which he gets is always resented as a nuisance if not a serious flaw in our monetary system. Provision should be made to prevent such occurrences, and this could be done by a simple agreement without amending the banking act. It will be seen in the following table what an unimportant part the private notes play nowadays.

[In millions of dollars; $1=4.20 marks.]

Year.	Number of banks.	Assets.			Circulation.	
		Discounts.	Loans.	Investment securities.	Total.	Noncovered.
1876	18	$67.01	$10.73	$4.35	$56.45	$20.42
1891	8	48.39	5.83	2.91	41.77	19.05
1907	4	28.73	14.21	2.61	33.80	14.28

The inquiry commission seems to share our conviction that a permanent regulation of discount rates can not be achieved by increasing the capital of the Reichsbank. The bank was forced by the last amendment to the bank act to raise its capital from 120,000,000 to 180,000,000 marks ($28,570,000 to $42,860,000). One-half of the increase took place during 1900, the other half during 1904. It has since become apparent that this increase served hardly any other purpose than merely to shift capital from the open market into the Bank, but it fulfilled the wish of the Reichsbank not to let its capitalization remain too far behind that proper to a great credit bank. It also gave the Reichsbank the opportunity to increase its loans on collateral. Permanent influence, however, upon discount rates can never be attained by simply shifting more private capital into the Reichsbank. The present capital seems to afford ample security for the Bank's operations, and it looks as if the commission would prefer to strengthen the surplus in case a larger working capital should really become necessary. The Treasury would thus suffer a loss in so far as new shares become at once entitled to dividends, thus reducing the excess profits, of which the Imperial Treasury receives three-fourths; but no considerable increase of profit is derived as a rule from new capital either added to the surplus or provided by shareholders, while on the other hand every addition made to the surplus means three times as much taken from the government's share of the profits as from that of the shareholders. The investment of capital in building plots which the Reichsbank has already made extensively and will without doubt make on a yet greater scale in the future, might serve as a motive for increasing the surplus as the profit share of the shareholders. In 1876 $3,160,000 were invested in that way; in 1896 $7,900,000, and at the end of 1907 $13,040,000. The surplus, however, may, in point of fact, increase faster than the Bank's building investments.

The bank act provides that after a præcipuum dividend to the shareholders has been set aside, 20 per cent of the remaining profits are to go to the surplus as long as the latter does not equal one-fourth of the capital. The premium received for the last issue of new shares brought the amount of the surplus up to $15,430,000, i. e., 36.007 per cent of the increased capital. A further increase of the surplus would present only one advantage to the shareholders, namely, that they would be entitled to half of the surplus if government ownership should be decided upon, and in this way would get back a part of the high price which they had to pay for their new shares, whereas they are entitled to one-fourth only of the excess profits. They will hardly find much consolation in this, as they know full well that conditions do not favor the setting up of government ownership at present or for a long time to come. Moreover, if the Reichsbank should be put under government ownership it would take an additional $23,800,000 in the surplus to refund to the shareholders even the 47 per cent premium and expenses which they paid for the new shares. Meanwhile the proposed contribution to the surplus means to the shareholders a considerable reduction of their dividends. If fully 20 per cent of all profits remaining after a præcipuum dividend of 3½ per cent had to go to the surplus—as was the case in former years—the surplus would receive from profits like those of 1907 not less than $2,190,000. This would have meant a loss to the Imperial Treasury of about $1,640,000 and to the shareholders of $547,600, which would have reduced the dividend from 9.89 per cent to 8.61 per cent, i. e., not less than 1.27 per cent. This would have been the dividend for a year of brilliant economic success. A charge of 20 per cent to the surplus would mean a dividend of 7.1 per cent instead of 8 per cent, 6.3 per cent instead of 7 per cent, and so on. Yet no discussion seems to have occurred during the bank inquiry on the qestion of how the surplus, after having been reopened, should be alimented. In some quarters it was thought that the contributions to the surplus should cease when the latter reaches about 40 per cent of the capital. This is not far above the present figure, but the idea is not in accordance with the prevailing intentions.

A number of ways might receive consideration, such as, for instance, to provide that in a bad year nothing should be written off to surplus. This, however, would leave a discretionary power in the hands of the management which it might find rather irksome. The simplest way would be to fix a certain percentage, but if 20 per cent of all excess profit—as provided at present in the bank act—were to go to the surplus, it would mean, as stated before, a very considerable reduction of the receipts, both of the shareholders and of the Imperial Treasury. For the next ten years a charge of 10 per cent ought to be sufficient for all purposes. However, it seems to us well worth carefully considering whether a better plan would not be to establish a sliding scale under which a transfer to surplus would be made only after the profits of the shareholders and the Imperial Treasury had reached a certain minimum, say a dividend of 6 per cent, and of any profits exceeding a dividend of, say 8 per cent, the surplus would get not 10, but 20, per cent.

In any case the shareholders will have to reckon with influences tending to reduce their dividends, not only because of economic ups and downs, but also because of the efforts of the Reichsbank to restrict some of their overzealous officials in the extension of credits and the intention of the Reichsbank to make pecuniary sacrifices in order to attract gold and to establish its control of the foreign exchange market. It is not altogether impossible that a proposal may be made in the Reichstag to change the present manner of dividing the profits between the shareholders and the Imperial Treasury, but we do not anticipate any success for such a move. Doctor Arendt, member of the Reichstag, has again declared in the press that the dividend should be limited to 6 per cent. The same motion was turned down in the Reichstag in 1899, on the ground that the introduction of the measure would stamp the Reichsbank even more as a state institution. The Government declared at that time that the proposition was unacceptable because it tended toward government ownership. Here and there the fear has been expressed that the fact that the Imperial Treasury receives the largest share of the profits of an imperial bank, which is controlled and managed by the Government, constitutes a serious menace in times of war. The maximum of 6 per cent would give to the shareholders not above 4.869 per cent on the stipulated amount of capital actually paid up, and only 4.081 per cent on the purchase price of the last issue (144 per cent plus 3 per cent expenses), not to speak of the risk of a possible falling off of the earnings and the ever present fear that the bank may some day be dissolved by order of the Government. Such a considerable curtailment of the earning chances would frighten away capitalists for a time at least, if not altogether; whereas it is of great importance to the Reichsbank as well as the Empire that the shares should be held continuously by strong and permanent investors. It will be seen in the following table how the changes in the bank act have affected the distribution of the profits of the Reichsbank up to the present.

[In millions of dollars; $1 = 4.20 marks.]

	Net profits.	Paid to the—			
		Imperial Government.	Stockholders.		Surplus.
			Amount.	Per cent.	
1876–1890	39.41	8.28	27.11	6.32	4.03
1891–1900	46.27	23.47	22.56	7.90	.24
1901–1907	51.37	29.42	19.31	7.03	2.65

The shareholders in 1879 received 86.7 per cent of the net profits, which were then at the lowest mark, the Government only 8.8 per cent; but in 1890 the shareholders received only 51 per cent and the Government 34.2 per cent. The amendment to the bank act which was passed in 1890 reduced the quota of the shareholders in 1891 to

48.5 per cent and raised that of the Empire to 46.1 per cent. In 1907 the shareholders received 34 per cent only, whilst the Empire's share amounted to 66 per cent. The next table shows the extent to which the distribution of profits has been affected by increases of capital.

[In millions of dollars; $1=4.20 marks.]

	Capital.	Share of profits paid to—		Stockholders received on—	
		Imperial Government.	Stockholders.	Nominal capital.	Actual investment.
				Per cent.	*Per cent.*
1876–1890	28.57	31.74	49.67	6.95	6.043
1901–1904	35.72	11.73	8.91	6.24	5.238
1905–1907	42.86	17.69	10.39	8.09	6.563

The average dividends received during the period 1900–1905 by the shareholders of various central banks of issue are as follows:

	Per cent.
Reichsbank	6.22
Bank of the Netherlands	9.16
Bank of England	9.50
Bank of France	12.60
National Bank of Belgium	15.00
Austro-Hungarian Bank	4.61

The governments received the following share of profits for 1907:

From the—	Amount.	Per cent
Reichsbank	$8,210,000	66.0
Bank of the Netherlands	1,360,000	54.8
Bank of France	1,410,000	16.9
National Bank of Belgium	500,000	21.0
Austro-Hungarian Bank	2,270,000	37.5

The question whether the existence of the "contingent," or limit to the tax-free note issue of the Reichsbank, affects the determination of its discount rate was in fact hardly a question with the inquiry commission. The statistics show that the Reichsbank kept its discount rates at a minimum of 3 per cent in 1895, 1896, 1897, 1898, also in 1902 and 1905, even during periods when its circulation exceeded the nontaxable limit. Even during the years of our greatest industrial expansion the Reichsbank disregarded altogether the tax which it had to pay and managed to keep the discount rates at their lowest—e. g., 4½ per cent in 1899 and 1906—at a time when its circulation exceeded the tax-free limit. The system of limiting the issue of bank notes by imposing a tax has this advantage, that not only the management of the Reichsbank, but the business world and the public at large are enabled by this automatically sliding scale to gauge the fluctuations in the demand for money, and have grown accustomed to look to it as a signal of possible stringency. It is necessary to fix the legal maximum with a view to this useful purpose. At first the limit of the tax-free note-issue happened to be fixed at 250,000,000 marks ($59,520,000), and it had actually risen by 1894, through the lapse of the privileges of private banks of issue, to 293,400,000 marks ($69,850,000).

The last amendment to the bank act, which went into force in 1901, fixed the limit at 450,000,000 marks ($107,-140,000), and it has since been increased to 472,829,000 marks ($112,570,000). It has happened a number of times that the total outstanding circulation was more than covered by the cash resources, so that the limit set for non-taxable circulation became practically ineffective. In 1888 this occurred 28 times; in 1892, 27 times; in 1894, 22 times; in 1895, 20 times. Later on such cases gradually dwindled down to 4 in 1902 and 1 in 1905. Nowadays the outstanding circulation frequently exceeds the legal maximum. During the boom years, 1898 and 1899, the legal maximum was exceeded sixteen and twenty times, respectively; in 1902 three times; but seventeen times in 1906, and even twenty-five times in 1907. Not only the years of great industrial activity, but also the intervening periods, are accompanied by such rapid expansion of business and demand for money which the Reichsbank has to cope with, that there can be no doubt that an actual need for currency and for uncovered notes exists in this country. The following table shows the investment of funds by the Reichsbank during periods of five years, and their proportional growth as compared with the figures for the first five years. The fluctuations in the loans are quite marked, a great increase having taken place during 1891–1895 and a pronounced decrease during 1901–1905. Still greater were the fluctuations in those investment securities which depend upon the Empire's floating-debt requirements. The chief item, bills discounted, shows a continuous and uninterrupted increase, and the sum total of the Reichsbank's investments has increased correspondingly. Uncovered notes show a decrease only during the period from 1886 to 1896, when business was quiet, but since then they have substantially increased. It is also significant that the number of officials employed by the Reichsbank has increased from 1,904 in 1876 to 3,024 at the present time.

[In millions of dollars; $1=4.20 marks.]

	Discounts.		Loans.	
	Amount.	Per cent.	Amount.	Per cent.
1876–1880	84.89	100.0	12.25	100.0
1881–1885	87.37	102.9	12.34	100.8
1886–1890	110.29	129.9	14.88	121.5
1891–1895	131.94	155.4	21.65	176.8
1896–1900	172.49	203.2	22.45	183.4
1901–1905	199.94	235.5	17.52	143.1
1906	235.58	245.5	19.91	162.6
1907	262.99	274.0	23.37	190.8

	Securities.		Total investments.		Uncovered bank notes.	
	Amount.	Per cent.	Amount.	Per cent.	Amount.	Per cent.
1876–1880	1.55	100.0	98.68	100.0	24.35	100.0
1881–1885	5.58	360.8	105.29	106.9	27.88	114.5
1886–1890	4.75	306.4	129.91	131.6	17.61	72.3
1891–1895	1.89	122.3	155.48	157.5	11.64	47.8
1896–1900	2.78	179.5	197.72	200.3	54.43	223.7
1901–1905	19.23	1,242.3	236.69	239.2	66.37	272.4
1906	27.88	1,801.3	283.37	262.0	104.40	365.4
1907	23.73	1,530.6	310.09	286.7	126.44	442.5

While it thus appears that an increase of the "contingent" is justified, the question remains how great this increase should be. A separate consideration of the special needs that arise at the close of the quarter is inadvisable in this connection; it would tend to confuse the issue, and would be of no practical use. The management of the Reichsbank and the general public have grown accustomed to these regular flurries and do not overestimate their importance. Aside from this, it is a delicate task to determine a new limit. After passing through a period of unprecedented activity we are now in the midst of an era of stagnation, and nobody can say whether the lowest level has been reached and what the normal level will be in future. It remains to be seen what will be the effect of the Reichsbank's new policy of cutting down certain credits and of the increased use of currency-saving methods, although it must be admitted that progress in this direction is slow on account of a too timid fiscal policy which, to mention one instance only, stands very much in the way of the newly created postal checks. On the other hand the economic fluctuations during the last decades have never touched again the low records of former declines. We are rapidly and steadily progressing, and this causes a corresponding strain on the Reichsbank. It is to be hoped that the limit of the tax-free note issue will not be raised too quickly, since it might thus be rendered useless as our financial barometer in normal times. Nobody can expect that the contingent will be raised above 600,000,000 marks ($142,850,000). The opinion seems to prevail among well-informed men that a limit of 500,000,000 marks ($119,040,000) would be best. It is doubtful whether the shareholders of the Reichsbank will benefit from such a change in the contingent. The need for uncovered notes remains always uncertain, and if the last amendment of the bank act had fixed the legal maximum at 600,000,000 marks instead of 450,000,000 marks it would have meant to the shareholders an increase of their share of the profits of only about 0.167 per cent on the average capital or about 0.152 per cent on the present capital. This is only an insignificant fraction compared to the loss which the shareholders will sustain by reason of the reopening of the surplus reserve.

III. GOLD EXPORTS—GOLD IMPORTS—OUR STOCK OF GOLD—ADVANCES ON GOLD IN TRANSIT FREE OF INTEREST—FOREIGN EXCHANGE POLICY—INVESTMENTS IN FOREIGN EXCHANGE—CREDIT BALANCES ABROAD.

We have already stated that the inquiry commission showed a remarkable consensus of opinion on a number of questions. This has been particularly the case on the questions dealing with the desire to strengthen the gold reserves of the Reichsbank by means of (1) the discount and foreign-exchange policy, (2) interest-free advances on gold in transit, and (3) gold premiums. On the last point our opinion is generally shared that such a premium policy is out of the question for Germany. The advocates of the measure have taken the idea from the example set by the Bank of France; but in France demands for specie can be satisfied with silver currency. In Germany this can not and must not be done. Nobody who can appreciate the advantages of a uniform monetary standard will advocate the imitation of the example set by France, which for years saw a depreciation of its standard with a premium on gold in 1898 of almost 0.4 per cent (0.395), and for a time even 0.65 per cent. Since 1904 the Bank of France, too, has abandoned gold premiums. We infer that the commission also agreed with us that the outflow of gold to foreign countries should not be prevented whenever and as long as the metal is required as a medium of exchange. Our foremost object must be the maintenance of the exchange parities in order that our credit in the international market and the reputation of the German gold standard may not suffer, with the purpose in view of finally placing the latter beyond all doubt and on the same firm basis on which the English sovereign stands to-day. We may safely say that all business men agree in considering it detrimental and regrettable that no gold was sent abroad when exchange for awhile in the fall of 1907 ruled above the gold export point; and it may be well to emphasize the fact that the management of the Reichsbank reached the same conclusion. As we have explained before, it must have been either mistaken patriotism or fear of antagonizing the Reichsbank which for so long a time kept our bankers from exporting gold, and which really created a depreciation, however short lived, of our monetary standard in the international money markets. Since that time it has come to light that the apprehensions of the bankers were quite unwarranted in fact, and all exporters of gold know better now.

The next table deals with the movement of gold between Germany and foreign countries since 1900. The output of gold throughout the world had steadily increased up to 1899, when it reached $306,430,000. The next year it was reduced through the Boer War to $254,520,000, but it has increased each year since, amounting to $400,000,000 in 1906, and to $404,760,000 (estimated) in 1907. Imports of gold during recent years have exceeded the exports in the principal countries. According to the trade bulletins of the last seven years (1901–1907) Germany's excess of gold imports over gold exports for that period was $316,120,000; France alone went ahead of Germany with its net import of $496,790,000, while England reported only $156,000,000, the United States $190,000,000, and Austria-Hungary not more than $54,050,000. The statistics, to be sure, are not complete, as they do not account for gold which travelers carry with them across the frontier in their pockets and portmanteaux. But it cannot be doubted that the inflow of gold into Germany during the years 1904 and 1906, for instance, was much larger than the outflow. In 1907, on the other hand, the exports and imports of the yellow metal nearly balanced each other; during October and November alone between $40,000,000 and $50,000,000 in gold had to be sent out of the country to maintain the par of exchange. In this connection it is worth while to notice that Germany's own gold production—derived either from foreign ores or from domestic and foreign residues—rose from $400,000 in 1884 to $2,785,000 in 1906. This domestic production, however, is more than offset by the extensive use of gold in industry, which seems to have increased considerably in recent years. The amount of gold thus absorbed has lately been estimated at not less than $25,000,000 annually, but the exact figures are not yet available.

Imports of gold.

[In millions of dollars; $1=4.20 marks.]

	Germany.	France.	England.	Austria-Hungary.	United States.
1901	+50.9	+ 54.8	+32.9	+27.1	− 3.1
1902	+ 9.5	+ 60.5	+30.2	+16.9	+ 8.1
1903	+46.7	+ 35.7	+ 4.3	+ 8.8	+ 20.95
1904	+94.7	+102.9	+ 4.0	+11.2	− 36.4
1905	+45.3	+125.0	+37.6	− 0.95	+ 3.3
1906	+68.2	+ 52.1	+16.7	− 1.7	+108.8
1907	+ 0.88	+ 65.2	+30.2	− 7.4	+ 88.1

The changes which the stocks of gold of the central banks of issue have undergone since the Reichsbank came into being will be shown in the next table by yearly averages. The Reichsbank's stock of gold touched its lowest mark in 1881, being then not more than $49,210,000. By 1888 it reached $144,830,000, and did not rise much above that figure until the end of 1907—a fact which is quite remarkable considering the heavy gains which were made by the other banks of issue during the same period.

Gold reserves of the central banks of issue.

[In millions of dollars; $1=4.20 marks.]

	Imperial German Bank.	Bank of France.	Bank of England.	Austro-Hungarian Bank	Imperial Bank of Russia	Bank of the Netherlands.
1876	68.3	297.9	138.8	33.4	157.0	29.6
1888	144.8	209.7	100.1	29.0	169.6	25.7
1896	143.3	381.5	214.6	112 3	425.3	13.2
1900	135.9	406.9	161.1	183.3	399.4	23.4
1905	177.5	551.1	169.6	227.8	459.5	30.9
1906	160.7	555.4	161.2	225.6	405.7	27.8
1907	150.9	521.1	165.7	221.9	481.0	28.8

In view of this great disparity, the *Frankfurter Zeitung* has for many years urged that the Reichsbank should make strong efforts to attract gold to this country by adopting a more effective and businesslike policy. This advice has not been entirely disregarded. So far back as 1879, when Germany stopped selling silver, the Reichsbank began to make advances against gold in transit, free of interest. At first these loans were granted for five or eight days, subsequently for longer periods—according to the provenance of the gold—and lately even for periods of more than six weeks. The Reichsbank admits the need for precaution lest advances should be made on gold which would find its way there anyhow, or which might merely pass through Germany in transit to another country. During the present year the Reichsbank has again resorted to this policy with the gratifying result that during the first nine months $56,170,000 of gold have been secured (in 1907, $9,400,000; in 1906, $54,000,-000); and that the large increase in bullion and specie, which amounted to $259,050,000 on November 30 against only $161,660,000 a year ago, consists largely of gold.

Not only has the Reichsbank gradually brought its policy with regard to gold imports in line with our suggestion; it has also come over to our view in the matter of foreign bills. The bank act does not prevent the Reichsbank from "discounting, buying, and selling" foreign bills. On the contrary, foreign bills may be used like domestic bills—in addition to its cash holdings—to cover the bank's outstanding notes. In view of this, there is a more and more general opinion that, as we have said, the Reichsbank might influence the national balance of payments through its policy as to foreign bills. The influence would of course not be permanent, but on occasion it would be very useful.

The rate of exchange does not very often go beyond the gold-export point, and even in 1907 sterling exchange ruled above that point only for twenty days. But that is quite bad enough, and a quotation for sterling as high as 20.60—as it was then—does not speak well for the esteem which our monetary system enjoys abroad. Fluctuations in the balance of payments and in the price of bills will always occur; nor will it be possible to avoid even sharp advances in the rate of exchange, such as are brought about either periodically, as by the demand for exchange to pay for grain, cotton, etc., or accidentally, by a change in the movements of commodities, subscriptions to foreign issues, withdrawal of foreign credit balances, etc. With a good supply of foreign bills at its command, the Reichsbank could prevent a sudden and forced rise of the exchange rates and meet the needs of international payments in time to prevent in many cases an actual exodus of gold. It is hardly necessary to state that the Reichsbank has long recognized that possibility. As late as 1898 its foreign bills amounted to but a few millions. The commission for the purchase of long-time foreign bills was then reduced from 0.1 per cent to 0.05 per cent, and by the next year the holdings had already increased. A summary for the last few years will be found on the following page.

[In millions of dollars; $1=4.20 marks.]

Year.	Purchases of foreign exchange.	Per cent English bills.	Average holdings.	
			Amount.	Per cent.
1895	12.86	79.3	0.61	0.5
1900	50.41	95.1	6.37	3.3
1905	54.53	90.2	7.88	3.7
1906	69.49	81.7	10.29	4.4
1907	63.84	81.8	10.59	4.0

Year.	Maximum holdings.		Minimum holdings.		Profits.
	Date.	Amount.	Date.	Amount.	Per cent.
1895	Aug. 15	0.76	Feb. 28	0.51	5.05
1900	Dec. 31	17.70	Feb. 23	0.78	4.24
1905	Dec. 30	12.45	Aug. 23	4.84	3.81
1906	Nov. 23	14.93	Sept. 15	4.12	5.24
1907	Jan. 15	14.98	Dec. 31	5.61	6.14

The growth of the Reichsbank's foreign bill portfolio has been considerable, especially in view of the fact that the currency of such bills, which in 1895 did not exceed seventeen days, was gradually increased until in 1907 they ran sixty days. However, the Reichsbank still carries a much smaller quantity of foreign bills than the other central banks of issue. Of all bills bought by the Reichsbank in 1907, 4 per cent were foreign bills, while the Austro-Hungarian Bank's proportion of foreign bills amounted to 8.3 per cent, that of the Bank of the Netherlands to 12 per cent, that of the National Bank of Belgium (which treats them like its metal reserve as cover for outstanding circulation) to 23.9 per cent. The restraint of the Reichsbank cannot be ascribed to any reluctance on its part to make material sacrifices. The explanation is to be sought rather in the fact that for years the management held the opinion regarding gold imports and foreign exchange that it would be better not to interfere with the international movement of money, because attempts at artificial improvement were apt to be succeeded by vehement counter movements. Under the present management the Reichsbank has come to share our conviction that, when the balance of payments is favorable, it is wiser not to look on idly until the natural movements of foreign-exchange rates force an influx of gold and to run the risk, by such inactivity, that the surplus of Germany's commercial credit balances abroad be invested in foreign loans or used for other purposes.

While gold imported into Germany upon the first favorable opportunity might be taken away again, it is nevertheless possible with constantly changing conditions that it might remain in this country longer than seemed at first likely. The inquiry commission did not discuss plans for adapting the foreign-exchange policy to this purpose, as the Reichsbank of its own accord had already begun to put to practical use the lessons learned in Vienna and Brussels. The National Bank of Belgium, as we have already pointed out, holds large amounts of foreign bills for its own account, besides those which it holds for the Treasury and savings banks, so that it has an enormous amount of such exchange at its disposal. The Austro-Hungarian Bank reports a considerably smaller quantity of such bills, and yet it is due to the efforts of that bank that the foreign-exchange rates have since 1901 never risen in Vienna more than 0.2 per cent above parity, while in Berlin in 1907 the sterling rate at

20.60 was 0.83 per cent above the mint parity and 0.5 per cent above the exchange parity. This enabled the Vienna institution to maintain a steadier discount policy. For further information we refer to the article of our Vienna correspondent in the second morning edition of May 17, 1908, which contains a number of valuable data on this subject. Our correspondent outlines the remarkable methods by which the Austro-Hungarian Bank has gradually gained in its country the supremacy in the foreign exchange and bullion markets and perfected its arbitrage system in foreign exchange through correspondents all over the world. The article also describes how that Bank looks after its business and makes ready beforehand to meet expected heavy demands of money on the quarter or settlement days. The Reichsbank evidently intends to follow this example, if for no other purpose than to gain practical experience. It remains to be seen whether the Reichsbank will open check accounts in foreign centers, such as the Vienna institution maintains, and whether a proposition which came from Vienna about ten years ago, that the two banks should keep a permanent gold balance with each other, will be taken up again.

The Reichsbank has apparently not decided yet on the amount of foreign bills which it will take at any one time, but seems to be anxious to make very careful observations before coming to a decision on that question. In its quarter-century report, the Reichsbank gave expression to the idea that its purchases of foreign bills might encroach upon the domestic demand for money.

This contention no longer holds good, since the Reichsbank will from now on buy bills based on legitimate commercial transactions only and avoid all finance bills, and, in buying foreign bills, simply takes the place of other banking firms which formerly used to employ their funds in that way. Another objection—that the Reichsbank offers its funds to foreign countries at their low rates of interest—seems unjustified as long as the Reichsbank does not make purchases abroad, and this, according to banking circles, the Reichsbank has never done. The Reichsbank has managed to increase its foreign portfolio by continuously appearing in the Berlin market as a buyer. The Reichsbank has thus acquired large amounts of foreign gold, not only through its investments in foreign bills, but also through its credit balances abroad, which it has kept with its correspondents out of the proceeds of matured foreign bills. In its weekly statement the Reichsbank does not separate the foreign bills from the foreign credit balances and it wants to continue keeping the respective figures secret, pointing to the example of the Austro-Hungarian Bank, which does not disclose the total amount of foreign gold at its disposal in excess of the $12,000,000 which serves as cover for its outstanding note circulation. The Austro-Hungarian Bank's powerful control of the foreign-exchange rates and market is attributed solely to its practice of leaving the market in perpetual ignorance about the extent of its foreign-exchange investments. The annual report of the Reichsbank, however, will undoubtedly continue to give this information. At the end of 1907 the total of foreign bills was reported to be only \$6,140,000 and the total of credit balances with correspondents \$2,400,000, the latter evidently being balances with foreign correspondents exclusively. It is certain that the Reichsbank's investments in foreign bills have during 1908 considerably exceeded those of the previous year and that its credit balances abroad have also largely increased. This is evident from the weekly statements which show the "other assets" during the first months of the new year to have been practically the same as last year, but disclose a heavy increase since the end of April. On April 30 the "other assets" amounted to \$11,430,000 more than last year, and on June 30 to \$29,050,000 more than last year. This includes short-term advances against gold in transit. The excess of "other assets" over last year's figures did not fall below \$11,660,000 even on September 30; on October 15 it amounted to \$15,470,000, and on November 30 to \$22,380,000.

IV. GERMANY'S STOCK OF GOLD AND ITS DISTRIBUTION—SHALL THE NOTES OF THE REICHSBANK BE DECLARED LEGAL TENDER?—SMALL BILLS—SILVER CURRENCY—ADDITIONAL ISSUES OF SMALL BILLS.

The question whether and in what way the cash holdings of the Reichsbank, particularly its stock of gold, may or should be augmented by attracting money from domestic trade, forces upon us for preliminary consideration this difficult question: What *is* the total gold supply of Germany? Unfortunately, the available estimates are not reliable. It is definitely known that up to the end of 1907, after deducting currency withdrawn from circulation, $1,044,750,000 of gold coin had been minted. It is not known, however, how much of this gold coin has been shipped out of the country or whether it has been melted down abroad or been held in its original shape. Nor is it known how much has been absorbed by domestic industries or other channels. The only statistics available at present are those issued by the Director of the Mint at Washington. The latter estimated the amount of gold in Germany at the end of 1906 to have been $1,030,200,000, of which $16.75 per capita were in circulation. Both figures seem too high, considering that the gold coin minted at that time did not exceed the Mint Director's estimate, while on the other hand allowance must be made for coin exported or used for purposes other than circulation, as well as bar gold and foreign coin in our possession which is not considered in the estimate. However, it is worth while to make a comparative study of the reports of the Director of the Mint, which for years have been compiled under a uniform system. The next table is reprinted from the Washington report. Germany's stock of gold, it will be seen, is relatively high, and gold coin circulates to a much greater extent in Germany than in any other country. The circulation of gold per capita is as follows:

United States	$6.71
England	7.00
Russia	2.54
France (which is so rich in gold)	10.33
Germany	14.64

[In millions of dollars; $1=4.20 marks.]

Country.	Stock of gold.		In banks.		In circulation.	
	End of 1906.	Increase during 1906.	End of 1906.	Increase during 1906.	End of 1906.	Increase during 1906.
Germany	1,030.2	+112.9	190.7	− 27.4	887.1	+140.2
England	486.7	− 72.4	196.4	+ 8.3	290.2	− 80.7
France	926.4	−106.2	520.0	− 35.5	406.2	− 70.7
Russia	939.3	+ 84.3	609.0	+174.5	330.5	− 89.5
United States	1,593.3	+172.6	1,081.4	+125.7	511.9	+ 46.9

We will show next how Germany's gold is distributed between the Reichsbank and the public. From 1876 to 1907 the Reichsbank bought $821,700,000 in gold bars and foreign coin, of which only $98,500,000 were resold and $725,880,000 went to the mint for coinage. The German coined gold held by the Reichsbank has not increased in a ratio proportionate to these purchases, and this is true also even of its total stock of gold, including gold bars and foreign coin. After deducting the gold coin minted in Germany and held by the Reichsbank from the total amount of gold coined at the mint, there remained at the end of 1907 $919,820,000 of gold which was possibly in the possession of the banks and the public. This estimate includes gold which has since been exported, consumed, or lost. Yet, in spite of the liberal allowance which has been made for coin thus withdrawn from circulation, the quantity of gold which still circulates in our country will be found to be very large.

[In millions of dollars; $1=4.20 marks.]

Year.	Gold holdings of the Reichsbank.			German gold coin.		
	Total.	Bars, etc.	German gold coin.	Minted.	In possession of the Reichsbank.	Remaining in circulation.
1876	68.27	10.12	58.14	341.70	58.14	283.40
1881	49.20	13.37	35.84	419.53	35.84	383.69
1900	135.89	31.52	104.36	871.85	104.36	767.53
1907	150.91	25.99	124.92	1,044.75	124.92	919.83

NOTE.—The amounts are averages for the years given.

It had been suggested in the list of questions submitted to the inquiry commission that in order to strengthen the Reichsbank's stock of gold by money drawn from domestic trade, the notes of the Reichsbank should be declared legal tender.

Such a provision obviously by itself would scarcely suffice to draw gold out of circulation into the Reichsbank, as the notes of the Reichsbank have been taken in payment by everybody without objection for more than three decades. We pointed out last spring that England, as well as France, has legal-tender notes, and yet in England the amount of notes in circulation is quite small, whereas in France it is greater than anywhere else, the figures per capita for 1907 being:

England	$3.19
France	23.59
Germany	5.69

As it is, the notes of the Reichsbank are handled with an absolute confidence which could hardly be increased by declaring them legal tender. It might therefore be just as well to wait until an emergency arises and then to issue the decree making the notes legal tender, and at the same time to enact by law that they be accepted at their face value in payment of debts, as France did in 1870. But the inquiry commission, which at first, we believe, was also of this opinion, has changed its mind, and now considers it advisable that the situation which already actually exists should receive legal sanction through the notes of the Reichsbank being made legal tender. The Reichsbank seems to have exerted itself to bring about that end, and the members of the inquiry commission, while thoroughly aware that the notes of the Reichsbank are freely taken all over the country, probably had in mind the burlesque "Schnäbele" incident, when gold was hoarded for one whole day in Berlin, any serious disturbance being sufficient to remind the people of the fact that a tender of Reichsbank notes does not constitute a legal discharge from debt. It is therefore deemed preferable to proceed along these lines immediately, for, should the country be involved in a prolonged economic or political crisis, it would by that time have become accustomed to the legal-tender status of the notes of the Reichsbank and would in consequence be less inclined to hoard gold.

To our objections that the enactment of a legal-tender law will cause a more frequent use of the gold clause in mortgages, etc., the advocates of the legal-tender measure point out that, even in the nineties, when our monetary system sustained for the last time the severe attacks of the bimetallists, the gold clause was hardly used and never enforced; only here and there, as in Frankfort, is it still to be found under ordinary conditions. On the other hand, we should not care to see the gold clause entirely abolished by law; if it were, a temporary depression of our monetary standard—should one really take place—would surely find the money lenders and money seekers inventing some expedient, or money lenders might favor foreign gold bonds to the disadvantage of our own borrowers. No proposition seems to be under way to amend the law so as to change the present provisions for the redemption of the Reichsbank notes, as stated in article 18 of the bank act, which compels the Reichsbank to redeem its notes "at its main office in Berlin upon presentation"—that is to say, to an unlimited extent—and at all its branches "as far as cash holdings and money requirements permit." We have pointed out before that the Reichsbank is quite willing to do more than the law requires, and to exchange its notes for gold whenever this is necessary for the maintenance of the par of exchange; but it has not changed its views that, with its extended business throughout the country, it has no right in critical times to make it still more profitable for the exporters to ship gold by sending them whatever quantities of gold they desire to Kattowitz, or to Cologne, or to Hamburg. Nor will the bank in Berlin furnish to the exporter gold coin of full weight. On the contrary, as is also the case with the Bank of England, it prefers to pay out short-weight pieces, which, as experience shows, come back more quickly than others. On the other hand, it is to be expected that the law which at present compels the Reichsbank to redeem its notes "in current German money" will be so amended as to compel it to redeem its notes in gold.

This provision should be extended also to the 20-mark notes, whereas, according to article 9 of the present currency laws, payments up to 20 marks may be made in silver. It is advisable to embody this obligation as to redemption in gold, which has existed in practice for a long time, in an express law, mainly for the instruction of foreign countries, where to our knowledge even an expert has misinterpreted the purpose of the legal-tender decree. In any case it will be recognized abroad when the next reports of our big banks appear, that the stringency of last year was due to the reaction from an unprecedented trade activity and to nothing else. The condition of the Reichsbank, and especially its stock of gold, will also prove this. We have already mentioned that the Reichsbank has at last come over to our view and intends to specify the gold holdings in its weekly statements. It will be well for it to do this as soon as possible, at any rate not later than the beginning of the new year.

It is to be regretted that the inquiry commission approved the issue of more notes of small denominations. This recommendation, however, did not receive the unanimous approval given to the legal-tender provision, but it was approved by a "majority of votes," in spite of the recent increase in the number of small notes. In 1906 the Reichsbank received permission to issue small notes of 50 and 20 marks, and in 1908 the maximum limit of silver currency per capita, which had been raised in 1900 from 10 to 15 marks, was increased to 20 marks per capita. The effects of these measures are evident from the next table, which shows how the denominations of the notes have changed in the course of years. In spite of the steadily increasing amount of the total circulation, the largest notes, those of 1,000 marks, have steadily decreased in number in the last decade, whereas the number of 100-mark notes has steadily increased, not only immediately after the abolition of the old 500-mark notes, but even afterwards during the ten years preceding 1905. Since the issue of the 50 and 20 mark notes the circulation of 1,000-mark notes fell off still more, but so did that of the 100-mark notes, so that it is possible that the 50-mark notes drove out of circulation, in the main, only the 100-mark notes. At the end of 1907, 50 and 20 mark notes to the amount of $69,150,000 were in circulation, and since then there has been a slight increase, until now the total is nearly $71,420,000, which is the maximum that may be issued in small denominations. Of the total circulation at the end of last February, 8 per cent consisted of 50-mark and 9.4 per cent of 20-mark notes.

[In millions of dollars; $1=4.20 marks.]

Year ending December 31—	Total circulation.	1,000-mark notes.		100-mark notes.	
		Amount.	Per cent.	Amount.	Per cent.
1895	$314.31	$119.98	35.6	$201.73	64.2
1900	335.70	90.81	27.1	244.35	72.8
1905	394.45	101.10	25.6	293.45	74.4
1906	422.83	94.45	22.3	307.32	72.7
1907	449.04	79.58	17.7	300.30	66.9

Year ending December 31—	50-mark notes.		20-mark notes.	
	Amount.	Per cent.	Amount.	Per cent.
1895				
1900				
1905				
1906	$12.54	2.9	$8.53	2.1
1907	33.16	7.4	36.0	8.0

It was to be expected that the 50 and 20 mark notes of the Reichsbank would temporarily drive the treasury notes out of circulation. The Reichsbank took in such large quantities of treasury notes that in 1906 it held more than $8,570,000 (against $5,230,000 to $6,190,000 in former years), and in 1907 more than $19,520,000, which left only $8,810,000 in circulation, as against about $22,610,000 in former years. But it is possible that the Reichsbank held these treasury notes back on purpose, because it was intended to split them up also into smaller denominations; moreover, during the present year $7,610,000 of treasury notes were again restored to circulation. At the end of 1907 there were in circulation about $79,760,000 in treasury notes and new notes of the Reichsbank of smaller denominations whilst of smaller bills only the $28,570,000 treasury notes were available, of which only about $22,610,000 were usually in circulation. Of those $28,570,000 treasury notes, $16,660,000 were 50-mark notes; $7,140,000, 20-mark; and $4,760,000, 5-mark notes; now it is proposed to put out $21,420,000 in 10-mark notes and $7,140,000 in 5-mark notes, besides about $33,330,000 of 50-mark and $35,710,000 to $38,090,000 of 20-mark notes, all issued by the Reichsbank. The idea which originally guided our monetary reforms was that notes should be used for large payments, coin for all others, and small notes for remittances out of town. There were good reasons for this, because the purer our gold standard the finer an instrument it becomes to link us with the commerce of the world. England permits no bank notes under £5; Austria, since the resumption of cash payments, none below 50 kronen (only up to that time were notes of 20 kronen in circulation); France and Italy, none below 50 francs. It would have been better to do without the 20-mark notes of the Reichsbank altogether; and now that we have them, it is all the more necessary for us not to overburden our monetary system with small notes.

We showed above, for gold coin, the amounts of coin minted, and held by the Reichsbank and by the public, respectively; and we shall now give the corresponding statistics for silver coin. The taler coins having only gradually disappeared from the Reichsbank and from circulation, we have also added the number of talers which at each of the stated times were in the possession of the Reichsbank. We have left out the nickel and copper coins, as almost all of them passed into circulation. Up to 1907 $24,380,000 were minted (39 cents per capita), of which the Reichsbank held only $476,000, while all the rest—$23,810,000—was in circulation.

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[$1=4.20 marks.]

	Population.	Silver in circulation. Taler (3 marks).	Per capita.	Imperial silver coins.	Per capita.	Total.	Per capita.
	Millions	*Millions.*		*Millions.*		*Millions.*	
October 31, 1880	45.2	$115.14	$2.55	$101.69	$2.24	$216.83	$4.79
October 31, 1900	56.4	89.88	1.59	125.93	2.24	215.81	3.83
December 31, 1907	61.9	7.83	0.12	215.76	3.48	223.59	3.60
January 31, 1908	61.9	5.57	0.09	217.52	3.52	223.09	3.61

	In the Reichsbank and other government offices.		In circulation.	
	Total.	Per capita.	Total.	Per capita.
	Millions.		*Millions.*	
October 31, 1880	$86.48	$1.91	$130.35	$2.88
October 31, 1900	60.40	1.07	155.41	2.76
December 31, 1907	55.95	0.86	167.64	2.74
January 31, 1908	61.52	1.00	161.57	2.61

It will be seen that at the beginning of the year about $3.57 per capita had been issued in silver coins, of which about $2.61 were in circulation. At the time the coinage laws were last amended the Government declared that the demand for silver coins (mainly 5 and 2 mark pieces) had increased to such a degree, especially for the payment of wages, that many branch offices of the Reichsbank were very far from being able to satisfy the demand for them. It was also argued that a careful policy required that the Bank should have at its disposition regularly at least $71,420,000 in silver to meet crises—in which case it would really have at its command, if we count the silver reserves of public treasury offices, about $78,570,000. If during the next four or five years another $60,470,000 were to be coined, Germany would then have $276,900,000 in silver coin. After deducting the above $78,570,000 there would remain only $198,330,000 for circulation, or, assuming the population by that time to have increased to 64,600,000 people, not more than $3.09 per capita. This calculation is perhaps an underestimate; for, since an issue of $4.76 per capita is authorized, the population of 64,600,000 would warrant the coinage of $91,190,000, and not $60,470,000 only. The Government, however, is pledged to issue new coins only in proportion to the real needs of trade, and these the Government expected to become somewhat smaller on account of the issue of the 5-mark treasury notes up to the value of $21,420,000. We are nevertheless afraid that the Reichsbank may find the keeping of stock of $71,420,000 in silver (at the end of 1907 it was not quite $49,280,000) not permanently practicable unless it succeeds in attracting and keeping a proportionate gold reserve. We think, too, that the need for small media of exchange will be amply satisfied as long as an amount of silver coin (apart from the reserves of the Reichsbank and public treasury offices) equal to $3.09 or even $3.57 per capita, and of small bills totaling $100,000,000, equal to about $1.66 per capita, remains in circulation. We are the more sure of this in view of the fact that the extension of the check system and the introduction of the postal check may be expected to lessen the demand for bills of small denomination.

The suggestion of the inquiry commission that the Reichsbank be authorized to issue still more small bills deserves very careful consideration. When, in 1905, the first issue of small bills by the Reichsbank was proposed, the *Frankfurter Zeitung* pleaded strongly that this authorization should be strictly limited to 50-mark notes, and that even for these a maximum be fixed. The sum of $71,420,000 was, in point of fact, set as a maximum not, indeed, by law, but by a binding declaration from Count Posadowsky. But besides these 50-mark notes, the 20-mark notes have since been authorized. If in future the 50-mark notes, which in moderate quantities are really needed, should no longer continue to be regarded as small notes, that would strangely contrast with the spirit in which the limit of $71,420,000 was declared and accepted. In that case a maximum for the 50-mark notes should be fixed and the limit for the 20-mark notes should be reduced considerably under the $71,420,000 fixed for the 20 and 50 mark notes together. We attach great importance to the fact that, although an increase in the amount of the 20 and 50 mark notes was suggested in the questions submitted to the inquiry commission, the official information given out to the press on the 19th of October mentioned only an additional issue of *50-mark* notes as having been approved by the majority of the commission. The inquiry commission is supposed to have considered the issue of small notes preferable to the issue of silver coin because these notes must be covered in exactly the same manner as the larger ones; and yet, as things stand now, an increase of the silver circulation has been determined on which will exceed the requirements anticipated by the Government. A strong inflationist sentiment still exists among some powerful interests in this country, which have recently been humored by the introduction of the 3-mark piece, which does not at all fit into our monetary system. It would be well to remember that "Gresham's law" is as good as ever, and that bad money drives good money out of a country.

V. CHECK SYSTEM OF THE REICHSBANK—NATIONAL CLEARING SYSTEM—MORTGAGE CLEARING SYSTEM—INTEREST ON DEPOSITS—PRIVATE AND PUBLIC DEPOSITS—THE DEPOSIT MINIMUM—DEPOSIT AGGREGATES.

It is generally agreed that the best way to reduce the demand for currency is to encourage the practice of settling debts without the use of actual cash. The inquiry commission also regards as highly useful the efforts to make transfer, check, and clearing methods popular throughout the country. The schemes, however, which have so far been advocated with that object in view would, if adopted, improve matters but little. It is to be hoped that the German public will from now on make more use of the check system, and the check law recently promulgated and the thorough propaganda which has been conducted on behalf of the system seem to justify this hope. The Reichsbank is in a position to support these efforts effectively, and agrees with the inquiry commission that its powers should be enlarged so as to permit it to purchase checks. If, however, the Bank intends, as is rumored, to deduct five days' interest on all checks purchased, the object intended is not likely to be attained. This action would be in keeping with the half-hearted methods employed by the Reichsbank in the collection of checks—methods which have been the cause of many letters of complaint written to the *Frankfurter Zeitung*. To quote one instance, it has transpired that one branch of the Reichsbank, "as an exceptional favor," complied with the request to take for collection and remittance of proceeds a check drawn upon itself, but stated at the same time that the sender must as a rule get his checks cashed at the local branch of the Reichsbank in his own city, which usually means two days' loss of interest and a deduction for postage and commission. The Reichsbank has the most vital interest in popularizing the check system as a means of economizing currency. One would therefore think that, like the large banks, the Reichsbank might credit to the account of the payee free of charge checks drawn upon itself. In buying checks the Reichsbank should drop—wholly or partly, according to distance—its minimum charge of five days' interest, seeing that checks are not intended for circulation, but for collection.

We are still far from realizing the idea of a national clearing-house. The idea is generally regarded with favor, but the banks can hardly be expected to lend their unanimous cooperation, although the first suggestion came from the large Berlin banks, which were interested in the clearing-house as a means of simplifying their business with their branches. At first it was planned to make every check payable not only at the place upon which it is drawn, but also in Berlin. To this the independent provincial banks objected. The discussions were then and there dropped, and it seems that the Berlin Bankers' Association has not paid any attention to the proposal for many months past. The establishment of a national clearing-house was repeatedly recommended by the inquiry commission, but with the precautionary suggestion that several other cities besides Berlin be designated as national clearing-house cities. The latter suggestion might meet with more general favor, as might also a plan to make these national clearing-houses an adjunct of the postal-savings banks which will shortly be established. Success in this field depends entirely upon time and tireless effort.

A little over a year ago the Reichsbank was authorized to accept and make payments in connection with mortgages, but so far very little progress has been made in that new branch of its business. The opening of the proposed mortgage clearing-house has been deferred until April 1, 1909. In order to attract a fairly large business to that institution, the cooperation not only of mortgage banks outside of Berlin, but also of other large dealers in mortgages should be solicited. Among the latter class, the insurance companies are conspicuous by their lack of interest. Our progressive insurance department would add to its laurels if it could successfully draw the attention of this class of the community to the great benefits which would be derived from their cooperation by the public as well as by themselves. State institutions as trustees of a considerable number of mortgages are also important to the development of this clearing system and yet seem to need a stirring up from above.

The proposal that the Reichsbank take interest-bearing deposits met with almost unanimous opposition. The bank act authorizes the Reichsbank to do so up to a total amount not exceeding its capital and surplus. This privilege, however, was used only during the first years of the Bank's existence. If the Bank were to try to attract large quantities of money by paying interest thereon, it would have to change its present policy of letting business come to it, and would have to hunt for suitable business to enable it to pay such interest, especially at times when money is abundant—that is, when it flows into the Bank in unusually large quantities, but is also unusually hard to dispose of. This would force the Reichsbank to adopt methods and run risks similar to those of the big banks—a course which is to be deprecated in view of the fact that the Reichsbank is the guardian of the German monetary system. As early as 1878–79 the Reichsbank ceased to allow interest on deposits, because through the speedy development of its deposit and transfer system, it obtained a considerable quantity of noninterest bearing deposits. At that time these deposits reached an average of hardly $47,600,000; in 1907 their average for the year was nearly $142,900,000. There is surely no need for the Reichsbank to accelerate this growth of its resources by paying interest on deposits. The statistics furnish interesting evidence as to the composition of the deposits. The Reichsbank has again refused to fulfill the urgent request made by us for years that it should separate the public from the private deposits in its weekly statements, as it does in its annual report. This we regret in the interest of the community, which should be enabled to watch the fluctuation in the private deposits, so that it may form a judgment as to the weekly statements and as to the position of the money market. The Reichsbank is scarcely justified in refusing our request; the Bank of England and the Bank of France set an example in this respect which our public institutions would do well to follow. Particularly in Prussia, the old dread survives that to bare the cash resources of the Government to the public view might obstruct the negotiation or spoil the issue price of a public loan. This is not as true now with our highly developed banking system as it was formerly. The big banks generally know the requirements of the Empire and of Prussia, even though the public deposits in the Reichsbank are not separated from the private deposits; and they are as a rule not surprised when the Government announces the issue of a new loan. On the other hand, it has long been known that the credit balances of public institutions increase during the summer and decrease in the fall and until the beginning of the new year; the difference between the high and the low figure amounts to about 200,000,000 marks ($47,600,000) or more; it reaches that figure sometimes within a single month. The public and private deposits do not move up or down together, but are rather apt to vary in opposite directions. The present system of combining the two items is therefore liable to obscure the real movements and to be misleading.

[In millions of dollars; $1=4.20 marks.]

Years.	Total deposits.	Private deposits.		Public deposits.	
		Amount.	Per cent.	Amount.	Per cent.
1876–1880	46.02	34.31	74.5	11.71	25.5
1881–1885	48.35	39.03	80.7	9.32	19.3
1886–1890	84.08	62.31	74.1	21.77	25.9
1891–1895	115.26	73.18	63.5	42.08	36.5
1896–1900	117.52	76.41	65.0	41.11	35.0
1901–1905	135.57	87.58	64.6	47.99	35.4
1906	137.06	94.14	68.7	42.92	31.3
1907	137.92	95.84	69.5	42.08	30.5

This table gives the impression that the deposits at the Reichsbank, after increasing rapidly, have, for some time past, attained a certain stability. This, however, applies chiefly to the aggregate amount. It will be seen that the public deposits have somewhat decreased since about 1900, while the private deposits show a steady increase. When in the fall of 1906 the Reichsbank raised the amount of the minimum balance to be kept on check account, loud complaints were made which were not altogether unjustified. The statistics of the Reichsbank do not sufficiently show the effect of this measure, because they can be used only for a comparison between the 15th of September, 1906, and the 31st of March, 1908—dates which do not correspond. Looking at the figures in that way, the account of the Reichsbank shows the minimum balances of private depositors to have increased from $19,410,000 to $27,000,000, i. e., from 28.3 to 43.7 per cent of their actual balances. Yet the total deposits had declined from $68,510,000 to $62,000,000. It therefore remains at least an open question whether the private deposits have actually been increased through the raising of the deposit minimums. It is well known that this measure has caused many large concerns to do their own clearing; even now the big banks try to do this, particularly with the out-of-town collections, so as not to provoke the Reichsbank to further demands through an increase in the bulk of their business. The public and the Reichsbank, however, have such a vital interest in the further development of the currency-saving check system that the Reichsbank should be as accommodating as possible in the matter of fixing the amount of the minimum balance. Experience does not warrant another raising of it, as was suggested in the list of questions submitted to the inquiry commission. It is our firm conviction that no considerable increase in the cash resources of the Reichsbank could be brought about in that way. We again refer the reader to the articles by our Vienna correspondent which appeared in our columns last May. According to him the Austro-Hungarian Bank does not require a minimum balance in excess of 20,000 kronen ($4,250), even from the big banks; the Reichsbank demands as much as 1,000,000 marks ($250,000), and more. Allowing even for the extended field of the Reichsbank operations, one must agree with our correspondent that the Vienna institution does much more than the Reichsbank in the way of giving its valuable services to its cilents "without charge or for an obviously insignificant remuneration."

We admit, however, that the Reichsbank in its transfer system shows results which are of the greatest value to our economic life. The next table will show, alongside of the total turnover of public institutions and private customers, the proportion of the turnover which was effected by means of the currency-saving transfer system. In 1876, 39.5 per cent of the turnover was effected in cash, in 1890, 27.9 per cent, falling to a little over 15 per cent in 1906–7. To every mark in the transfer accounts the total turnover in 1907 reached 451 marks, i. e., about 65 per cent more than twelve years before; 382 marks of this turnover was settled without cash payment, an increase of about 70 per cent. As an interesting feature we add to the next table an analysis of the accounts concerning the occupations and individual credit balances of the depositors. Of all the private accounts existing on March 31, 1908, 32.8 per cent were kept by commercial and transportation enterprises and insurance companies, 40 per cent by trade and industrial concerns, and only 16.7 per cent by banks and bankers. Of the sum total, however, of all private credit balances, only 13.8 per cent belonged to commercial and transportation enterprises and insurance companies; 27 per cent to trade and industrial concerns; and 51.6 per cent to banks and bankers. Each deposit made by commercial and transportation enterprises and insurance companies averaged $1,345; by the trade and industrial concerns, $2,150; by banking concerns, $4,172; by joint stock banks, $21,566. The deposits under $2,500 constituted 16.48 per cent; those from $2,500 up to $12,500, 19.83 per cent; from $12,500 up to $25,000, 10.57 per cent; from $25,000 up to $250,000, 29.64 per cent; and still larger ones, 22.69 per cent. The latter, 22 in number, averaged about $654,500

[In million dollars; $1=4.20 marks.]

Year.	Total transactions.	Effected by cash payments.		Effected by book transfers.		Credit balances.	On every dollar in transfer balances.	
		Amount.	Per cent.	Amount.	Per cent.		Total turnover.	Turnover settled without cash payment.
1895	$22,309	4,053	18.2	18,256	81.8	81.51	274	224
1900	38,960	6,534	16.8	32,426	83.2	121.96	319	266
1905	52,890	8,183	15.5	44,707	84.5	139.14	380	321
1906	58,481	8,936	15.3	49,545	84.7	136.67	428	363
1907	62,061	9,537	15.4	52,524	84.6	137.61	451	382

VI.[a] DOMESTIC BILLS—GERMANY AND FRANCE—BANK RATE AND PRIVATE RATE—ILLEGITIMATE PAPER—LOANS ON COLLATERAL.

The question has come up for discussion whether efforts should be made to reduce within smaller limits the demands for financial assistance which are being made upon the Reichsbank at present. In this connection we refer to our next table, regarding the nature of the concerns in the different parts of the country whose bills were handled by the Reichsbank during the year 1907. The northeast provinces include Brandenburg, East and West Prussia, Pomerania, Posen, Schleswig-Holstein, while the "other provinces" include Silesia, Saxony, the Thuringian States, Hanover, Oldenburg, Brunswick, Hesse-Nassau, and Rhineland-Westphalia. It will be seen that of all bills discounted by the Reichsbank nearly 53 per cent were tendered by banks and bankers, nearly 27 per cent by industrial concerns, not quite 18 per cent by commercial houses, and a

[a] Gold bars and coin converted at 1,392 marks ($331.42) per pound fine.

little more than 1½ per cent by interests connected with agriculture. This statement, however, may lead to false conclusions, unless certain facts are kept in mind. Bills of agricultural origin, which seldom are commercial but nearly always accommodation bills, are as a rule not tendered directly to the Reichsbank; and when the bills that reach the Reichsbank indirectly are included in the total, the number of agricultural bills will be found to have amounted in 1893–94 to 4.3 per cent and in 1897 to 5.1 per cent of all bills discounted. In the eastern provinces alone 20.2 per cent of the bills discounted were of agricultural origin; at some of the branch offices nearly one-half of the discounts consisted of such bills—in Flensburg, for instance, and also in Köslin, Tilsit, and Posen. Prussia's share in the Reichsbank's bill portfolio was nearly 77 per cent, and amounts falling to Prussian banks, manufactures, and commerce formed approximately the same percentage of the various totals in question. The details naturally vary somewhat; thus, Berlin alone contributed 7½ per cent of all bills, but only 2 per cent of the bills drawn by industrial concerns, 5 per cent of bills by commercial houses, 11 per cent of bills by banks and bankers, while Rhenish Prussia contributed 12 per cent of the bills drawn by banks and bankers, 8 per cent of bills drawn by commercial houses, and fully 30 per cent of bills drawn by industrial concerns.

[In millions of dollars; $1 = 4.20 marks.]

	Domestic bills.	Percentage of all domestic bills bought by the Reichsbank.	Amount of domestic bills bought by the Reichsbank, drawn by—							
			Banks and bankers.		Industry.		Commerce.		Agriculture.	
			Amount.	Per cent.	Amount.	Per cent.	Amount.	Per cent.	Amount.	Per cent.
Prussia	193.9	76.82	99.7	74.8	53.2	78.6	35.2	78.6	2.3	87.3
Berlin	19.0	7.52	15.2	11.4	1.4	2.0	2.3	5.2	0.05	1.5
Northeast provinces	54.6	21.63	28.4	21.4	9.8	14.4	13.4	30.0	1.1	41.3
Other provinces	120.4	47.67	56.1	42.4	42.1	62.2	19.4	43.3	1.2	45.0
Other parts of Germany	58.5	23.18	33.6	25.2	14.5	21.4	9.6	21.4	0.3	12.2
Total	252.5	100.0	133.3	100.0	67.8	100.0	44.7	100.0	2.65	100.0

The comparison between the bill transactions of Germany and France will also be found of interest. The income derived from bill stamps justifies the conclusion that in this country, as well as in France, the volume of bills put into circulation has for years been on the increase. While only $3,333,330,000 of bills were created in Germany as recently as 1890, the same item ran up to $4,880,950,000 in France. This is the more remarkable when one takes into consideration that it is less usual across the Vosges than in our country to allow commercial debts to stand on the books for any length of time. But by 1907 the circulation of bills had increased in Germany to nearly $7,321,420,000; in France only to about $6,904,760,000. Therefore the increase in France amounted to about 40½ per cent only, but in Germany to nearly 120 per cent. This shows how rapidly the demand for accommodation, hand in hand with the demand for capital, has increased in this country. Although the total amount of bills is nearly equal in both countries, yet, if we look at the distribution per capita, we find the relatively large amount of $174.52 in France, while in Germany it is only $118.33, a figure which France had already reached about the year 1880 but hardly exceeded before 1895. Assuming the average duration of all bills in circulation to be ninety days, it may be said that the Reichsbank participated in this circulation to the extent of only 13.8 per cent in 1907, and the Bank of France to the extent of only 12.5 per cent. The average time to maturity of bills discounted by the Reichsbank, which gets large quantities of bills when they are nearly due, is in the neighborhood of thirty-two days, while bills taken by the Bank of France have an average of only twenty-six days to run. Up to about 1894 the average time to maturity of bills held by the Reichsbank had increased from thirty-five to about forty-one days, and it has since then gradually fallen from forty-one to thirty-two days. Of all bills put into circulation during the year 1907, 38.6 per cent were discounted by the Reichsbank, and 44.3 per cent by the Bank of France.

The Reichsbank is naturally desirous to ascertain as far as possible how many bills circulate in the country and what the standing of the individual borrowers may be. That the Reichsbank does not obtain such a large proportion of all the bills as the Bank of France is partly explained by the fact that the difference between the bank rate and the open discount rate in Paris rarely exceeds 0.5 per cent, whilst in Berlin it generally is as high as about 1 per cent or even more; in London the difference is subject to wide fluctuations; it amounted to fully 1 per cent ten to fifteen years ago, whereas in 1906 it shrank to 0.22 per cent. In this country, too, the difference has been smaller at times. In 1896 to 1900, for instance, it was only 0.71 per cent; it rose in 1906 to 1.11 per cent, fell in 1907 to 0.91 per cent, and rose again in the first six months of 1908 to 1.26 per cent. Each temporary shrinkage of the difference coincided with a period of monetary stringency, being caused by a rise in the market discount rate. On the other hand, as money usually fetches a higher price here than in London and Paris, the international currents of money are apt to depress our open discount rates, money being sent to Germany and German bills going abroad whenever the difference between the official and the private rate is sufficiently attractive. There are some differences in the methods of quoting the discount rates. In Berlin the discount rate for prime bankers' bills is quoted as the regular market price, while in London one has to pay commissions, and the bank rate is not always effective there. There is little prospect of a change until a readjustment of the relation between capital and credit is accomplished in Germany. The Reichsbank can, of itself, do little to gain greater control of the open discount market except through its discount policy and perhaps by rediscounting treasury bills in times of monetary stress, which might cause the market rate temporarily to advance within the neighborhood of the official bank rate.

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At any rate, it would be bad policy to attempt to increase the cash holdings of the Reichsbank by reducing its discount operations. But apart from that, it will be remembered that in a series of articles published last spring and entitled "The Problems of the Bank Inquiry," the *Frankfurter Zeitung* expressed the view that the Reichsbank should not resort to artificial methods of attracting discounts. Some of its branches have at times been guilty of doing this, and have even tried to obtain bills while a rise in the bank rate was imminent, thus rendering the Bank's own discount policy ineffective. It has since become known that the Reichsbank had to put a damper on the zeal of its officials about two years ago. So-called finance bills, drawn by bankers on bankers, and open to the suspicion of being drawn simply for the purpose of getting hold of money, have long ago and repeatedly been put on the index. Yet it was discovered that the branches of the Reichsbank frequently discounted bills which obviously were created for the sole purpose of furnishing their makers with permanent working capital. It even appears that on many occasions one or more renewals upon maturity were promised and discount credits granted against deposit of securities. Of course, it can not be denied that such renewals may represent perfectly straightforward transactions, but practical experience evidently has induced the Reichsbank to demand that as a general rule all transactions should terminate upon maturity of bills. Agricultural interests alone are to be allowed one renewal in case of need as heretofore. Discounts against deposits of securities are henceforth to be granted in exceptional cases only; all other paper taken for discount by the bank and its branches must be genuine commercial paper, and all factitious bills are to be rejected. These are the instructions which were again sent to all the branches last spring, and provisions have also been made to enable the head office to keep posted on all discount transactions entered into throughout the country. In this way the Reichsbank is sure to minimize its risks and to keep its funds in a more liquid state. Undesirable accommodation is being withdrawn with careful moderation, so that the cleaning-out process should not bring about disturbances. The banks and bankers have taken over some of the accounts which the Reichsbank no longer cared to finance.

It remains to be seen how long the new regulations of the Reichsbank can dampen the overzeal of its branch managers. It can not be said that the laxer methods were principally confined to officials who were desirous to increase their share of the profits. On the contrary, the illegitimate and undesirable bills were generally found in the possession of the small branches. The latter constitute about four-fifths of all branches, and their managers are not entitled to a share of the profits. Some of the banks' managers did not seem to be aware at all of the fact that the Reichsbank when investing its money had to be no less careful to insure quick convertibility of its funds than it must be to obtain proper security; nor were they alone to blame, as it is more than likely that the mistake had been made of judging the work of the individual manager too much by the profits which his branch showed at the end of the year. It will be the duty of the head office to convince its subordinates that in the future the quality of their work will be judged not solely by the scale of profits which they can show.

The Reichsbank can not do a collateral-loan business to an unlimited extent. Such loans are not to be counted as cover against outstanding circulation; and since they are made to one individual debtor, they do not offer the same chance of quick convertibility as do the bills, which bear the names of more than one person. It is true that these loans are secured by a pledge which can be liquidated by a forced sale, which, in case the security was in the form of stocks and bonds, would tend to depress prices. The bank act has, therefore, provided a maximum limit for the loans, which is fixed from time to time by the executive committee of the Reichsbank. If the capital of the Reichsbank should be increased, or if the surplus should be opened, this limit will most likely be raised. It is proposed that the Reichsbank should be authorized to make loans against hypothecations entered on the books of the Empire or its constituent States.

The maximum limit provided for loans on collateral has up to the present never been made public, and the central management of the Bank seems to take it as an approximate guide only; but it is known that the limit has often been exceeded—in 1895, for instance, and afterwards, and in 1907 to a considerable extent. The former limit of $42,850,000 is supposed to be still in force, although it was actually exceeded after the increase of the Bank's capital to such an extent that on one occasion, on December 31, 1907, $86,660,000 were outstanding in loans on collateral. It is likely that the proposed new limit will be fixed with reference to this figure. The actual amount of loans on collateral gradually increased during the first decades, rising from a yearly average of $10,710,000 or $11,900,000 to $25,710,000 in 1897. At that time the Landschaften requested that the Reichsbank should accord to mortgage bonds the same preferential treatment extended to imperial and state securities. Instead of complying with this request, the Reichsbank gave up discriminating in favor of any securities, and since then its average loans fell to $17,140,000 in 1905, and amounted to only about $23,330,000 in 1907. Most of the loans were made against investment securities (95 per cent to 98½ per cent). The percentage of loans against commodities was still as high as 14.9 in 1876, gradually decreasing to 1.5 per cent in 1907. The percentage of loans against precious metals was insignificant—only about 0.4 to 0.002 per cent. The distribution of the loans according to the occupations of the borrowers and according to the different parts of the country is shown in the next table, which gives the figures as of December 31, 1907.

[In millions of dollars.]

	Total amount of loans.	Banking.	Industry.	Commerce.	Agriculture.
Berlin alone	36.66	34.50	0.30	1.06	0.03
Eastern and northeastern Germany, excluding Berlin	15.83	9.02	1.95	1.26	0.37
Central Germany	18.06	13.08	0.81	1.99	0.04
Rhineland-Westphalia	9.41	6.24	1.49	0.34	0.03
South Germany	6.76	5.85	0.18	0.35	0.005
	86.72	68.69	4.73	5.00	0.475

The fact that, out of loans to the value of $86,720,000, $36,660,000 were made in Berlin alone, of which banking concerns secured $34,500,000, is explained when one remembers that at that time the Preussische Central Genossenschaftskasse alone owed $16,100,000 to the Reichsbank in the shape of loans on collateral. On the 23d of January and the 23d of March, 1908, that institution owed the Reichsbank only $119, but on March 31, 1908, again $9,280,000. In view of the fact that the Preussenkasse makes severe demands on the money market at the close of the quarter, our belief is confirmed that the Preussenkasse is largely to blame for the stringency at those times which is the subject of so much complaint. The following table shows the nature of the pledges in the different parts of the country where the loans have been made, giving the figures as of August 15, 1907:

[In millions of dollars; $1=4.20 marks.]

Description of collateral.	Amount of collateral.	Amount of loans.	Total amount of loans granted in— Berlin.	Eastern and northeastern Germany.	Central Germany.	South Germany.	Rhineland-Westphalia.
			Per cent.	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*
State bonds	69.45	9.31	8.7	25.0	26.8	7.3	32.2
Provincial bonds	43.67	0.57	12.7	28.0	15.9	3.0	40.0
Municipal bonds	5.75	0.69	4.0	29.0	34.6	4.2	28.2
Mortgage debentures	12.66	2.31	26.5	58.7	7.7	0.6	6.5
Mortgage bank bonds	10.22	1.92	4.9	25.6	33.8	8.2	27.5
Rentes, etc	2.59	0.46	1.5	13.7	59.3	22.3	3.2
Second-class securities (50 per cent)	1.75	0.22	20.1	29.6	24.9	11.6	13.8
Merchandise	1.67	0.64	--------	97.3	0.1	2.6	--------
Precious metals	0.002	0.002	100.0	--------	--------	--------	--------
Bills	11.14	2.79	15.1	20.3	41.5	19.1	4.0

VII. DEPOSITS OF THE CREDIT BANKS—PUBLICATION OF THEIR STATEMENTS—PRIVATE BANKERS—PUBLIC CRITICISM.

The inquiry commission postponed its discussion of the deposits of the private credit banks, and we confine ourselves to a few remarks on that subject. The combination of taking in deposits, granting credits and financing, which prevails among our banks, was without doubt invaluable in promoting the economic progress of the last decades. The natural course of events may be trusted to bring about a separation of these different activities that will be sound and lasting. The larger banks might proceed in that direction at once, although it is doubtful whether such a step on their part would be immediately followed by the practical gain which advocates of that policy expect. A general and compulsory separation, if prematurely carried out, might lead to serious consequences, and the Government lost no time in informing the inquiry commission that it did not contemplate enforcing such a change. The only question submitted to discussion was whether it was necessary to insure the security and quick convertibility of deposits and savings by an act of legislation. It remains to be seen what other practical suggestions the inquiry commission will make. The commission knows, as well as we do, that it would not be feasible to treat alike all the concerns which accept deposits, if for no other reason than that they are incorporated in so many different forms (banks, bankers, savings banks, cooperative institutions, etc.), and that it would scarcely be possible to differentiate between deposits and savings on the one hand and ordinary credit balances on the other. Preferential treatment of genuine depositors would either inflict an injury upon the other creditors and thus hold up our economic progress, or else would not be a sufficient protection to those for whose benefit it would be instituted. Supposing that laws could be framed which could be depended upon not to destroy Germany's vital economic interests and yet not to fail of their object through an amateurish timidity; even then, how, in the face of the ever-increasing number of credit institutions and their complex machinery, could we be sure of a strict observance of the laws and a proper system of supervision when our bank examiners have shown themselves so utterly incapable in the supervision of the mortgage banks, of which there are comparatively few, and whose machinery is much more simple? It would be dangerous to make the public believe that their money was absolutely safe because the banks where they kept their deposits were under the supervision of the Government. The best laws are liable to violation. Transgressions might occur from careless business methods, which, unfortunately, are not infrequent. No law could afford protection against fraudulent malversations, which, starting with unsuccessful attempts "to get rich quick" and proceeding to minor offenses, grow to larger proportions step by step. The cases of the Leipziger Bank, the Spielhagen banks, and the Pomeranian Bank afford ample illustration of this truth. No law can be framed so as to free men from the duty of watching with their own eyes and on their own responsibility those to whom they give confidence or money.

The great banks in Berlin will soon begin publishing statements once in two months, so as to facilitate such watching of their affairs. One can hardly expect these banks to publish the "detailed balance sheets" suggested in the list of questions which was submitted to the inquiry commission. The work would absorb too much time and money. The statements which have been promised will for the present satisfy all requirements. It must not be assumed, however, that frequent publication of these statements will of itself give greater security to the depositors, but, if carefully analyzed and compared, they will yield valuable information. Of course the figures will not reveal what is really behind them—whether the bills discounted consist of quickly realizable bankers' and commercial bills, or to what extent they represent dubious outstanding accounts; what the quality of the other debit items may be; how many of the securities could be sold at short notice if necessary; whether the liabilities become due on call or within a short time, or were entered into for longer periods, or whether they are merely transitory obligations, etc. These defects, however, do not render annual reports worthless, nor do they speak against the publication of more frequent statements. On the contrary, "window dressing," so long as it was done only once a year, may have been an easy task; but to "dress up" an account which is rendered every month or two would hardly be worth while, if it were not altogether impossible. Statements issued at frequent intervals during the year show at once whether the December statement was in any way "doctored." This will gradually cure the temptation to "beautify" balance sheets. It will also become a thing of the past for long-sighted financial operations involving large amounts of money to be turned down toward the end of the year, but immediately afterwards taken up in the expectation that the transaction can be wound up before the next report is due. The new practice will deter the financial leaders from plunging light-heartedly into new commitments, but it need not be feared that the banks will refuse any legitimate demands for accommodation. The lively competition among our banks makes it safe to say that if any credits are withheld they are refused for the very good reason that the risk is not desirable.

So far nearly all the members of the Reichsbank clearing house in Berlin have promised to publish their statements every two months, and the clearing house will in future admit to membership no institution which does not bind itself to follow a similar practice. Private bankers are exempt from this ruling. It would have been gratifying, and beneficial to their own interests, if they too had adopted the same plan, but we have to admit that in foreign countries also private banks do not as a rule publish such statements. While England was disturbed over the Baring crisis, some bankers adopted that policy, but it failed to become a general rule. The wealthiest and most respected banking firms are the very ones who do not take kindly to the idea. They do not want to disclose their resources, and it is certainly not in the interest of the public to force such private firms as still exist to emigration, liquidation, or incorporation. The absorption of private concerns by the big banks, the growth of these monster institutions, and the indirect consequences of this concentration as shown in the banking business—all this has come about with such swiftness that the tendency must not be accelerated any further by legislative interference. The future will reveal more clearly than the present that the mammoth form is not the ideal in the banking business. We shall also learn that we can not light-heartedly dispense with the services of intelligent private bankers. Sooner or later these men will prove most valuable, as they are not forced by the mass and pressure of business—like the managers of the big banks—to rush through their work, but retain enough leisure for profound study and careful consideration of difficult financial problems, giving their ideas time to mature and retaining the faculty of constructive thought.

The Berliner Handels Gesellschaft intends to refuse the bimonthly publication of its statement on the plea that it maintains no branch offices in Berlin to attract deposits. This contention is hardly sound, as the Berliner Handels Gesellschaft obtains its share of foreign deposits just the same as other Berlin banks; and we do not think it will be able to keep up its defiant attitude very long. It is expected that the provincial clearing-houses will in their own interest find it advisable to adopt the new method. The publication of their statements ought to be a good advertisement for the banks, as it reaches all classes and impresses them with the large figures on both sides of the account—those of the deposits already made, and those of the investment of the funds. In fact it is not at all improbable that firms of questionable standing, who least deserve the confidence of the public but know how easily small capitalists are fascinated by the title "bank," will resort to publications of that kind in order to attract savings and deposits. It is therefore of great importance that the new statements be carefully analyzed by the public. This will be beneficial to the interests of depositors and banks alike.

Three decades ago, when the *Frankfurter Zeitung* first began to analyze the published reports and look into the convertibility of the reported assets, the corporations thus criticised raised strong objections. Gradually the objections were dropped, and instead we received praise for teaching the German public how to study and critically analyze such reports. As another result of our work the corporations themselves increased their efforts to maintain a sufficiently liquid state—the industrial corporations because they did not want to become too much indebted to their bank, and the banks that furnished accommodations because they did not want to lock up their depositors' funds indefinitely. Our method of analyzing balance sheets has now become common property among the press and the public, the Government and the parliaments. The inquiry commission has adjourned its further deliberations on the protection of depositors until next year. The credit banks will by that time have started publishing their statements at short intervals, and the commission will therefore have more information to go upon. It will have to be borne in mind, however, that the regularly published statements may be misleading, whether this be caused by accident or on purpose. Nor will this new departure satisfy all wishes. The banks are not compelled to itemize their obligations on bills rediscounted nor to explain items which are not easily intelligible to the outsider. It would be necessary to change our corporation laws in order to force them to do that, and legislation should keep away from that difficult subject as long as possible. Painful experience has shown what harmful results may be caused by such interference. It rests with the banks themselves to go ahead and introduce in their periodical statements and annual reports the uniformity and instructive comments which are needed so urgently. The promised reforms are welcome as a first step, and if further progress in the same direction be made, the bank inquiry will indeed have achieved most commendable results.

II.

Draft of a Bill for the Amendment of the German Bank Act.

[For No. 1178.]

DRAFT OF A BILL FOR THE AMENDMENT OF THE GERMAN BANK ACT.

I, WILLIAM, BY THE GRACE OF GOD GERMAN EMPEROR, KING OF PRUSSIA, ETC., issue in the name of the Empire the following decree, subject to the assent of the Federal Council and the Imperial Diet:

ARTICLE I.

§ 24 of the Bank Act of March 14, 1875 (*Reichs-Gesetzbl.*, p. 177), shall read as follows, article 2 of the act of June 7, 1899 (*Reichs-Gesetzbl.*, p. 311), being canceled:

Of the total net profit of the Reichsbank ascertained at the close of the year:

(1) a regular dividend of 3½ per cent of the capital stock is first to be paid over to the shareholders;

(2) of the remainder one-fourth is to be handed over to the shareholders and three-fourths to the Imperial Treasury; of this balance, however, 10 per cent is to be assigned to the surplus, the amount being contributed in equal parts by the shareholders and the Imperial Treasury.

If the net profit does not amount to 3½ per cent on the capital stock the deficiency is to be made up out of the surplus.

Whenever an issue of shares of the Reichsbank yields a premium, the sum thus realized is to be assigned to the surplus.

Dividends unclaimed after a lapse of four years from their date of maturity shall accrue to the bank.

ARTICLE II.

The following provision takes the place of article 5 of the act of June 7, 1899 (*Reichs-Gesetzbl.*, p. 311):

The share of the Reichsbank, as provided by the supplement to § 9 of the Bank Act, in the aggregate amount of the uncovered tax-free note circulation, inclusive of the shares of the banks listed under Nos. 2 to 12, 15 to 17, and 20 to 33, which have meanwhile reverted to the Reichsbank, is fixed at 550,000,000 marks, while at the same time the aggregate amount is increased to 618,771,000 marks.

In the reckoning to be made for taxation purposes in connection with the statements appearing at the end of March, June, September, and December (§ 10 of the Bank Act), the share of the Reichsbank is increased to 750,000,000 marks and the aggregate to 818,771,000 marks.

ARTICLE III.

The notes of the Reichsbank are legal tender. Otherwise the provisions of § 2 of the Bank Act remain unchanged.

ARTICLE IV.

I. In § 18 of the Bank Act the words "legally current German money" are replaced by the words "German gold coins."

II. § 19, section 1, of the Bank Act shall read as follows:

The Reichsbank must accept in payment at their full nominal value the notes of the banks designated by the Imperial Chancellor according to the terms of § 45 of this act, as long as the issuing bank punctually fulfills its duty of redeeming its notes. The Reichsbank must accept these notes in Berlin as well as at its branches in cities of more than 80,000 inhabitants and also at the branch office established in the place where the note-issuing bank is located.

Under the same assumption the Reichsbank is obliged to give its notes in exchange for the notes of each of the aforementioned banks at its branches within the state that has authorized them to issue notes, as far as the note reserves and needs of the branch offices will permit it.

The notes accepted or exchanged according to sections 1 and 2 may be presented by the Reichsbank only for redemption or in payments to the bank that issued them, or in payments in the place where the bank has its principal seat.

ARTICLE V.

I. In § 8, section 2, of the Bank Act following the word "drafts" in No. 2 are inserted the words "and checks."

II. In § 13 of the Bank Act following the words "are liable" in No. 2 are inserted the words "also checks, for which at least two guarantors known to be solvent are sureties."

III. In § 17 of the Bank Act following the words "are surety" are inserted the words "or checks, for which at least two persons known to be solvent are liable."

IV. In § 32, section 1, of the Bank Act following the words "relative to the purchase and sale of gold, bills" is inserted "checks."

V. After § 47 of the Bank Act, the following amendment is inserted as § 47*a*:

§ 47*a*. For those private note banks to which the restrictive provisions of § 43 do not apply the decrees of § 17 are in force in regard to the covering for their outstanding notes.

ARTICLE VI.

I. Article 6 of the act of June 7, 1899 (*Reichs-Gesetzbl.*, p. 311), is remodeled as follows:

To § 13 of the Bank Act No. 3 under (*b*) is added, following the words "of the market value," "on the same footing with these mortgage bonds are the debentures of domestic incorporated mortgage institutions made out to bearer, as well as those debentures made out to bearer of the other aforementioned institutions and banks which have been issued against loans made to domestic municipal corporations, or against the acceptance of a guarantee by such corporations."

II. In § 13 of the Bank Act the following provision is inserted under No. 9: Interest-bearing loans for not longer than three months may be made on the security of claims which are entered in the imperial register of debts or in the state register of a German state. The maximum amount of such loans is to be three-fourths of the market value of the government bonds for which such claims may be exchanged.

III. Following § 20 of the Bank Act are inserted the following provisions as § § 20*a* and 20*b*:

§ 20*a*. If the lien on a claim entered in the imperial register of debts or the state register of a German state (§ 13, No. 9) is to be recorded in the public register of debts in favor of the Reichsbank, it is sufficient to have the motion certified to by the persons whose signature, according to § 38, will render the Reichsbank liable. Where § 38 demands the signatures of two members of the Reichsbank Directorate, other officers of the Reichsbank, made known to the board of the register of debts by the bank, will be permitted to certify.

The provisions of § 183 of the law relative to matters of voluntary jurisdiction apply to the certification.

§ 20*b*. If a lien has been entered in the register of debts in favor of the Reichsbank (§ 13, No. 9), the bank acquires the lien even if a third party should have a right to the claim, and the lien takes precedence over the prior lien of a third party unless the claim of the third party was registered at the time of the registration of the lien in the register of debts, or was at that time known to the Reichsbank or was not known through gross negligence.

Should the debtor be dilatory in paying the debt secured by the lien, the board of the register of debts is empowered and bound to hand out to the Reichsbank, even without proof of such delay, government bonds payable to bearer, against cancellation of the registered lien or part of the lien, unless there exist a legal order prohibiting such delivery to the Reichsbank, or unless there are recorded in the register of debts rights of third parties or restrictions in favor of third parties which were registered prior to the lien of the Reichsbank. The lien is also liable for the expenses incurred in the delivery of the bonds.

The board of the register of debts must inform the Reichsbank of subsequent entries when the bonds are handed out.

The provisions of § 20 apply to the satisfaction of the claims of the Reichsbank through the bonds handed out to it by the board of the register of debts.

ARTICLE VII.

The following provision is substituted for § 22 of the Bank Act:

The Reichsbank is obliged to take charge of the business of the Imperial Treasury without compensation.

The Reichsbank is empowered to take charge in like manner of the business of the treasuries of the federal states.

ARTICLE VIII.

Articles 3, 4, 5, and 6 of this act become operative on January 1, 1910; the remaining articles will take effect on January 1, 1911.

Given under our own hand and imperial seal.

EXPLANATORY BRIEF.

In accordance with § 41 of the Bank Act of March 14, 1875 (*Reichs-Gesetzbl.*, p. 177), the Imperial Government reserved to itself the right, after giving one year's notice, either to liquidate the Reichsbank (the first date being

January 1, 1891, and after that every ten years) and to acquire its real estate at its book value, or to acquire all of the shares of the Reichsbank at their nominal value. The consent of the Reichstag has to be obtained for an extension of time.

The Imperial Government has not as yet exercised its right to give notice of the termination of the existing status. The current term of ten years will terminate on December 31, 1910; the last day for notice to be given is December 31, 1909.

There is as little reason now as there has been heretofore to make any changes in the organization of the Reichsbank created by the Bank Act. The constitution of the Reichsbank has effectually stood the test during its life of more than thirty years, even in the face of the extraordinary strain to which the institution was subjected by the great demand for capital and money which manifested itself in the years 1906 and 1907.

This bill therefore leaves unchanged the tried fundaments of the bank's constitution. While upholding the existing banking system, it embodies provisions designed to meet the increasing needs of business.

In the first place, the purpose of the bill is to enable the Reichsbank to exert its activity on a larger scale. This is to be accomplished through the reopening and gradual increase of the surplus (art. 1) as well as through the elevation of the limit of the tax-free note circulation (art. 2). Furthermore, the bill looks to the stability of the currency by making the notes of the Reichsbank legal tender (art. 3). In connection therewith it gives a larger sphere of usefulness to the notes of the four private banks of issue still in existence (art. 4). With reference to the act of March 11, 1908, relative to checks (*Reichs-Gesetzbl.*, 1908, p. 71), the bill authorizes the Reichsbank and the private banks of issue to purchase checks (art. 5). Finally, it increases the kinds of collateral on which the Reichsbank may make loans (art. 6), and substitutes for § 22 of the Bank Act, in regard to the obligation of the Reichsbank to take charge of the business of the Imperial Treasury, a new provision which removes any doubt concerning the meaning of § 22 (art. 7).

I.

The Reichsbank's own resources consist of the capital stock and the surplus. The capital, which in the beginning was fixed at 120,000,000 marks, was increased by Article I of the act of June 7, 1899 (*Reichs-Gesetzbl.*, p. 311), to 180,000,000 marks. The surplus has, through its reopening provided for in article 2 of that act, as well as through the addition of the premium realized on the issue of shares of the Reichsbank, been brought up to 64,814,000 marks. Thus the Reichsbank's own resources amount at the present time to 244,814,000 marks. The funds of the other largest European banks of issue compare as follows:

	Bank of France.	Bank of England.	Bank of Austria-Hungary.	Bank of Russia.
	Francs.	*Pounds.*	*Crowns.*	*Rubles.*
Capital	190,502,314	14,553,000	210,000,000	50,000,000
Surplus	34,513,194	3,000,000	15,305,349	5,000,000
Total	225,015,508	17,553,000	225,305,349	55,000,000
In German currency (marks)	182,262,561	358,607,790	191,509,547	118,800,000

Thus the resources of the Reichsbank are exceeded only by those of the Bank of England. This bank, however, as well as the Bank of France, and the Bank of Austria-Hungary to some extent, has invested its capital in loans to the State or in government bonds, while the Reichsbank has its capital fully at its disposal for the performance of its actual tasks.

In deciding the question as to whether nevertheless a further increase of the resources of the Reichsbank is desirable, it should be borne in mind that in the case of a central bank of issue its own funds are of less importance than they are in the case of other banking institutions; they serve principally as a guaranty fund for the creditors of the bank while the working capital is created through the notes issued and the funds deposited in the bank. The experience of all the banks of issue prove this. As a guaranty fund for the creditors of the Reichsbank its present capital is fully sufficient. The bank does not require an increase of its resources for the task directly laid upon it as a bank of issue and for the sake of the bulk of its business resulting from this capacity. Such an increase would lead, however, to an improvement in its condition, although, considering the aggregate of the liabilities of the Reichsbank, particularly in the matter of outstanding notes and outside funds, the condition of the Reichsbank would not be greatly affected even by a considerable increase in the capital. The supposition that an increase in the capital would find immediate expression in an increase in the metallic stock of the Reichsbank is erroneous. At any rate there is no guaranty that the shares disposed of within the country will be paid for in gold. Very likely the payments would be made principally through the medium of bank notes or by means of deductions from current accounts, which would for this purpose have been strengthened through the discounting of bills or the obtaining of loans on collateral. Thus payments would either be made from the funds of the Reichsbank itself or the money be taken from the currency in circulation, which latter withdrawal in turn would, in part at least, have to be made good by recourse to the Reichsbank. An increase in the capital of the Reichsbank would not therefore permanently increase its specie reserves. An increase in capital will not influence the rate of discount, at least not for any length of time. It might have a temporary influence, but it would only tend toward dearer money. The original capital of a bank of issue is of no importance with respect to the rate of discount, which is governed by the state of the money market at large. Considering the large sums circulating in the money market, the capital of the Reichsbank can not, even if increased considerably, have an important influence on this market, the more so as it has no direct connection with the metallic stock of the Reichsbank.

Neither does the Reichsbank need its own capital for the foreign exchange business—the purchase of foreign bills—the importance of which with respect to the discount policy of the bank is universally acknowledged. This business can be done exclusively with its own notes. From this point of view, therefore, an increase in the capital is not necessary.

The Reichsbank requires a working capital of its own for investment in real estate or in securities which are not a legal covering for notes, and especially for its loan business, and the discounting of treasury bills, and for no other purpose. For this branch of its activities, however, the deposits may be employed in addition to the capital and surplus. Appendix I will show that even at the times of the greatest strain the bank's own funds plus the deposits have exceeded by far the aggregate of loans and of the treasury bills discounted, while on an average during the year the original capital alone sufficed for these investments, so that the surplus was available for the real estate account, whose development may be ascertained from Appendix II. Only for the remainder of the assets (credits with foreign correspondents, noninterest-bearing advances in connection with gold importations) was it necessary to employ part of the deposits.

Although up to the present time the Reichsbank's own funds have thus sufficed for the purposes for which they are intended and the necessity of adding to them does not make itself felt at present, it is of course impossible to tell whether the operations of the bank will not develop in future years to an extent which would render desirable the existence of larger funds of its own. An increase in the volume of loans, in particular, is quite possible, and moreover, it can hardly be expected just now that the demands upon the bank in connection with treasury bills will decrease. It has happened repeatedly (see Appendix I)—and this is a contingency that may of course occur in future—that the maximum demands on the Reichsbank in both these connections have been made at the same time and perhaps at a time when the volume of deposits has been below the average. Furthermore an increase in the operations of the Reichsbank will naturally result in an increase of the other assets, those not available as covering for note circulation, particularly the real estate account, the credits with foreign correspondents, and the noninterest-bearing advances in connection with gold purchases. For these reasons it is advisable to consider, even at the present time, an increase in the funds of the Reichsbank, based on these possibilities.

For this purpose, on the one hand, the increase of the original capital, on the other, the strengthening of the surplus, must be considered. As regards the significance of its own resources for the Reichsbank, it makes no difference which of the two funds is increased; both have the same tasks to accomplish. The only question is whether the increase of the original capital or the strengthening of the surplus will be the best means of augmenting the capital.

In view of the possibility of strengthening the surplus by gradual additions and considering the status of the surplus as distinguished from the original capital, it seems advisable to choose the method of strengthening the surplus. This would achieve for the Reichsbank the same results that an increase of the original capital would bring about, while presenting in a lesser degree the disadvantages of the latter course.

First of all it is impossible that an increase of the surplus, effected through yearly assignments from the net profits of the Reichsbank, should have a disadvantageous effect upon the money market, such as might result from the increase of the capital at one stroke. The enlargement of the resources of the Reichsbank through yearly additions out of the net profits is better adapted to the development of business than the augmentation of the original capital by means even of several successive additions. While an enlargement of the capital makes it more difficult for the Reichsbank to adjust its business to general economic conditions increases the danger that the capital could not be used profitably in times of redundant money, this objection does not hold in the case of an increase of the surplus, as no interest is paid on it. Although the management of the Reichsbank has never laid particular stress on the obtaining of especially large profits, it is, on the other hand, its duty to see to it that the profits rise to their due level relatively to existing conditions. It would be a mistake to assume that the profits which the last annual statement shows as a result of peculiar economic conditions will be permanently realizable. On the contrary, periods of cheap money will of themselves bring about a decrease in dividends. It is not altogether impossible that at times when money is very cheap the Reichsbank, whose sphere of operation will become more limited with the growth of the national wealth, the constant expansion of other credit institutions, etc., will be compelled to draw upon the surplus for the distribution of the regular dividend of 3½ per cent.

This possibility would be still greater in case of an enlargement of the actual capital and might result in a permanent drop in the value of the shares of the Reichsbank below their rate at the time of emission, possibly even below their par value. Such a drop in the market value of the shares would not only injure the credit of the Imperial Government, but would also shake the confidence of the nation in the Reichsbank and thereby in the stability of the German monetary standard, which would react unfavorably upon the entire economic life of Germany.

For these reasons the bill proposes to effect the increase of the Reichsbank's own funds, which is acknowledged to be desirable, by means of additions to the surplus.

II.

The system, created by § 9 of the bank act, of indirectly limiting the volume of notes in circulation by imposing a tax of 5 per cent on the amount of notes issued over and above a sum which exceeds the cash reserve by a certain amount (stipulated separately for each bank of issue), has been shown to have worked perfectly well by the experience of the many years that have elapsed since the establishment of the Reichsbank. Although a certain indirect connection between the limit of untaxed note circulation and the action of the Reichsbank in regard to the discount rate must be admitted in so far as the exceeding of the contingent and the raising of the discount rate presuppose increased demands upon the Reichsbank, a direct influence on the discount rate through the fixing of the note contingent can not be expected. In fact, the management of the Reichsbank has never allowed the tax imposed on the excess circulation to have any decisive influence on its discount policies. As therefore the discount policies of the Reichsbank will not be favorably affected by the elimination of the contingent, there is no reason to abandon this system. On the other hand, it seems altogether desirable to maintain the contingent system, as the exceeding of the contingent has more and more developed into a danger signal heeded by business men.

The present amount of the tax-free note contingent can, however, no longer be regarded as sufficient. As has already been stated in giving the reasons for the draft of the act relative to the amendment of the bank act of June 7, 1899 (Reichstag Documents, No. 95, tenth legislative period, first session 1898–99, pp. 8, 9), the conditions on which the adjustment of the tax-free note contingent of the Reichsbank was originally based no longer exist, nor could the increase of the contingent provided for in the act mentioned above keep up with the development of business. Appendix III shows how the amount by which the contingent has been exceeded has been steadily growing since 1901. The figures for 1906 prove the inadequacy of the present contingent, showing that it was exceeded seventeen times with a maximum excess of 572,644,757 marks, but this is evinced above all by the events of the year 1907. That year shows no less than twenty-five instances, of which the excess reported on December 31 reached the amount of 625,974,363 marks, a maximum never reached before. At the same time it happened for the first time in 1907, by reason of the large demands of business, that the Reichsbank had a note circulation which even in its yearly average exceeded the contingent, and that by more than 58,000,000 marks. Although one can not consider these two years as a general demonstration, because they were periods of exceptional financial strain, it has become evident that the present contingent of the Reichsbank is insufficient for the increased demands of business due to the increase of the population and the accelerated economic development in Germany. Under such conditions the present limitation of the Reichsbank's note circulation ceases to have any value. The too frequently resulting transgression of the normal limit causes a useless disturbance of business.

The increase of the tax-free note contingent therefore appears to be a measure the justification and necessity of which are to be found in the increased development of our national economy. In establishing this increase the fact has to be reckoned with that the demands on the Reichsbank are regularly made to an especially large extent at the quarter days. The condition, resulting from custom, that at the beginning of a quarter large liabilities have to be met—for instance, in regard to mortgages, rent, interest, and salaries—causes at those times an extraordinarily heavy demand for instruments of payment, which it is the Reichsbank's unavoidable obligation to meet. The present contingent has proved absolutely insufficient in view of this increased demand, which has nothing to do with the fluctuations in the general economic situation. It is particularly on account of the periodical excess at the quarter days that the Reichsbank has had to pay considerable taxes on its notes.

Such restriction in the satisfying of legitimate needs is unjustified and not in accordance with the intent of the contingent system. It therefore appears necessary to adapt the contingent to the demands of business by a further increase operative at the quarter days only.

A corresponding increase of the tax-free note contingent of the private banks of issue can not be considered, for reasons explained in detail in the draft of the act of June 7, 1899 (Reichstag Documents, 1898–99, I, No. 95, p. 9), on the occasion of the last increase of the note contingent of the Reichsbank.

III.

§ 2 of the Bank Act states expressly that there is no obligation to accept bank notes for payments which legally are to be made in currency. As can be seen from the report of the eighth commission on the draft of a bank act (No. 195 of the Documents, second period of legislature, second session, 1874, p. 22), when the Bank Act was under discussion, the suggestion to make the notes of the Reichsbank legal tender did not meet with general approval. The report of the commission assigns as a particular reason for this the circumstance that such a measure could not be considered because shortly before, at the time of the discussion of the bill regarding imperial treasury notes, this quality had been denied the notes issued directly by the Imperial Government. The disinclination shown here to making the notes of the Reichsbank legal tender can be explained principally by the earnest desire then prevailing to do away with the existing paper régime and to place the metallic currency on a firm foundation. This aim has been realized to such an extent that at the present time Germany's metallic circulation, and particularly that of gold coin, is abundant and sufficient for all demands of trade. On the other hand, bank notes also are regularly taken in payment, and for payments of large amounts they are used almost exclusively. It can not be denied that the present legal status of this mode of payment is somewhat uncertain. The legal disadvantage of the existing situation for the debtor is, in the first place, that the creditor has the privilege to refuse the acceptance of bank notes, which may put the debtor into demur. Even if thus far there has been no trouble of any consequence in this connection, nevertheless such institutions which have to make numerous payments, banks especially, generally feel obliged for precautionary reasons to provide themselves with a considerable stock of gold in order to be prepared for any demand for gold that they may have to meet.

Although the situation as created by § 2 of the Bank Act has not been such as to demonstrate the imperative necessity of an amendment of this provision, still the fact can not be overlooked that the present state of the law makes it possible that, as a result of contingencies that can not be foreseen, especially such as are connected with financial crises, our monetary intercourse will be very injuriously affected, in such a way as to threaten the depletion of the stock of gold in the Reichsbank.

The bill in making the notes of the Reichsbank legal tender, is simply giving a firm legal basis to the existing situation, i. e., the acceptance of notes as instruments of payment in all monetary transactions. The obligation of the Reichsbank to redeem its notes remains unchanged, as a matter of course. The essential characteristics of the bank notes—their security, the method of emission, the possibility of adapting the amount of their circulation to the fluctuating demands of the market—remain unchanged, as well as their legal character, which embodies a claim on the Reichsbank. The investment of the notes of the Reichsbank with the quality of a legal tender can not possibly result in any harm to the currency system, while it has the advantage of preventing trickish behavior on the part of creditors and of securing for critical times a discharge of pecuniary obligations in accordance with existing methods.

In proposing this measure the bill follows the examples of England and France. In England the notes of the Bank of England have been legal tender since January 1, 1834. In France the notes of the Bank of France were invested with this quality by the acts of August 12, 1870, and August 3, 1875.

The conferring of the legal-tender quality upon the Reichsbank notes does not in any way affect the maintenance of the gold standard, as is proved by the example of the Bank of England. In order to emphasize this more strongly, the words "legally current German money" in paragraph 18 have been replaced by "German gold coin." This expresses beyond a doubt that even a single note of the denomination of 20 marks must be redeemed in gold, although the amount of 20 marks comes still within the limit up to which imperial silver coin is decreed a legal tender in article 9 of the currency act of July 9, 1873. (*Reichs-Gesetzbl.*, p. 233.) That on the presentation of a number of 20-mark notes, the amount exceeding 20 marks must on demand be paid in gold, would, as it is, follow from the existing provisions pure and simple.

In view of the fact that the private banks of issue are not permitted to issue any notes of the denomination of 20 marks, it seems unnecessary to enact a provision with reference to them in accordance with the amendment of paragraph 18. The provision, therefore, in regard to the redemption of the notes of the private banks of issue remains unchanged—that is, according to § 44, section 1, No. 4, of the Bank Act, redemption has to be effected in legally current German money. The unambiguous language used leaves no doubt but that "current German money" means metallic coin solely, and not the notes of the Reichsbank which are to be invested with the legal-tender quality; this is, moreover, expressly confirmed by the tenor of paragraph 8, section 2, of the bank act, which mentions current German money as part of the metallic stock.

Heretofore the Reichsbank has, indeed, as far as the provisions of § 18*b* allowed it free action, complied without exception to all legitimate demands of business. The necessity of maintaining unimpaired credit of the bank notes and the absolute stability of the gold standard demands that this remain unchanged. The management of the bank therefore will at all times earnestly endeavor in the discharge of the obligations imposed upon it with respect to redemption to act in accordance with the wishes of business.

The action of the Bank of England is restricted by the provision that in payments made by the bank itself its own notes are not a legal tender. On account of the peculiar nature of the giro business (the system of payments by means of transfers to, and deductions from, accounts current) and the large number of branches of the Reichsbank, there are serious objections to embodying a like provision in the bank act. The Reichsbank might otherwise be under the necessity, in the transfer of sums from one account to another, to make gold payments at its branches up to any amount, although it is altogether impossible for the bank to keep at all times and in all places gold reserves exceeding the regular demand in order to provide for such emergencies. Furthermore, the organization of these branches, which are in most cases managed by a single official, necessarily limits the amount of their gold reserves. Until now such demands have not been made upon the Reichsbank; they may, however, occur in future. Under these circumstances the clause, which seems fair as regards the Bank of England, in view of its different business methods and the small number of branches, appears inapplicable in the case of the Reichsbank, just as, for like reasons, it could not very well be applied in the case of the Bank of France. Furthermore, the obligation of the Bank of England to redeem its notes is limited in practice almost exclusively to London, the obligation of its branches to redeem the notes issued by them being relatively of slight importance.

It goes without saying that the Reichsbank will continue in the future, as it has done heretofore, to endeavor to make all payments as far as possible in the kind of money desired by its clients.

The objection raised by the commission which drafted the Bank Act against investing the notes of the Reichsbank with the quality of a legal tender on the ground that this was denied to the imperial treasury notes can not be sustained. At the present time the imperial treasury notes, which, by the act of June 5, 1906 (*Reichs-Gesetzbl.*, p. 730), have been limited to denominations of 5 and 10 marks, count for very little now in the circulation compared to the large issues of the Reichsbank notes. It should be particularly noted in this connection that already at the time of the debates relative to the draft of the Bank Act in the year 1874, according to the report of the commission (Reichstag Documents, 1874, II, No. 195, p. 22), "a number of the members of the commission declared themselves to be of the opinion that it would be advisable to invest the notes of the Reichsbank with the legal-tender quality, and that such a step would have great advantages and no disadvantages for the public."

It is necessary in the interest of uniformity in the German currency system that the quality of a legal tender be reserved for the notes of the Reichsbank. If these privileges were to be extended to the notes of the private banks of issue, the result would be the creation of various kinds of money for Germany, and the uniformity of the German currency system, so laboriously acquired, would be again destroyed. Regard for the interests of the private banks of issue does not justify such a measure. In order, however, to enable the private banks to exploit the privilege of issue more thoroughly, the bill provides that the Reichsbank shall not only continue to accept in payment the notes of the private banks according to paragraph 19 of the Bank Act, but shall also exchange them for Reichsbank notes within their natural zone of circulation. By means of this provision, which insures to the holders of notes at all times the possibility of exchanging their notes for legal tender at all of the Reichsbank branches within their state limits, the notes of the private banks will be rendered much more available for the purposes of business than they have been up to the present.

IV.

The bill authorizes the Reichsbank and the private banks of issue to purchase checks. Since the act of March 11 of this year, in relation to checks, has made it possible for the holder of a check to obtain legal protection for his claim, just the same as the holder of a bill, the fundamental objections to the purchase of checks have been removed. In view of the altered economic conditions, the Reichsbank considers it desirable and even necessary that it be empowered to engage in the business of purchasing checks. Whether or to what extent it will make use of this authorization will depend mainly upon the development of the economic situation, the question presenting some factors that have to be carefully considered.

Such an arrangement would offer to the public the advantage that the holder of a check payable in another city could get cash for it at any moment by having it discounted, whereas under the present method the amount is paid only when the check has been collected—that is, after a lapse of several days, and no liability is accepted by the bank for the presentation of the check for payment within the legal time limit. The discounted check, in accordance with its intrinsic purpose, would be presented for collection by the bank as quickly as possible and its equivalent put at the disposal of the party presenting it by means of the giro (his account current being credited with the amount), the necessity of a cash remittance being thus avoided.

It is to be expected that the purchase of checks by the Reichsbank will stimulate the use of checks and in general promote monetary intercourse without the employment of cash. In the interest of the public such an extension is greatly to be desired. This new function of the Reichsbank would be fully in line with the task assigned to it in § 12 of the Bank Act to facilitate monetary settlements.

V.

According to article 6 of the act of June 7, 1899 (*Reichs-Gesetzbl.*, p. 311), debentures made out to bearer, issued against loans made to domestic municipal corporations or guaranteed by them, are placed on a level as regards their availability as collateral for loans with the bonds of agricultural, municipal, or other institutions under government supervision, or of German mortgage banks. This extension of the class of securities against which loans may be made is based on the fact that these debentures offer fully the same measure of security as the bonds do and, in the general opinion of business men, are held to be their equal. (See Reichstag Documents, 1898–9, I, No. 95, p. 15.) The same applies to other debentures issued by agricultural, municipal, or other public mortgage institutions, for the security of such paper is eo ipso established by the constitution of these institutions, which are invested with a public character. It seems advisable, therefore, to admit these debentures as collateral for loans, independent of the nature of the claims which serve as security.

The bill makes, in addition, the claims registered in the imperial and state registers of debts available as collateral. The act of May 31, 1891 (*Reichs-Gesetzbl.*, p. 321), makes it possible for a holder of imperial bonds to convert them into registered debt of the Empire made out in the name of a particular creditor. The conversion is effected by registration in the imperial register of debts against delivery of the bonds. In case of cancellation of the registered claim the creditor receives bonds bearing the same rate of interest and of equal nominal value. A number of federal states have made similar arrangements in regard to their bonds.

While, according to § 13, No. 3*b*, of the Bank Act the holders of imperial and state bonds can secure loans on them at the Reichsbank, the Bank Act in its present form does not permit of such loans against claims entered in the government register of debts. This in a measure places the holders of government bonds in a favored position relatively to those having credits in the government register of debts. Such a preference is not justified in view of the purely technical difference between the two classes of creditors. This disadvantage will naturally be felt more and more with the extension of the use of the public register of debts. Even now many financial institutions, particularly the savings banks and provident societies, have invested a considerable part of their resources in registered claims. In order to enable them to utilize their registered claims for credit purposes without losing time through their reconversion into bonds, which loss of time might prove disastrous in times of crisis, it is urgently to be desired that the Reichsbank be authorized to loan on such claims. This will, at the same time, enable those creditors of the Government who are now in the habit of keeping large amounts of government securities permanently with the Reichsbank, in order to borrow temporarily against them, to have recorded in their stead for such purposes a claim entered in the public register of debts, a remark being duly inscribed regarding its serving as security. This would relieve the Reichsbank of the custody of the securities and the tasks it would impose, and would simplify interest payments to the creditors of the state.

The carrying out of this measure makes it imperative that the legal status of pledges of this kind be such that they will absolutely guarantee the security and liquidity of the lien. The general ordinances of the Civil Code re mortgage rights on claims are not sufficient for this. They would not protect the Reichsbank in case of a previous assignment of the claim to a third party, that might not be recorded in the register of debts, nor against a prior unrecorded proof of the right of third parties to the claim. It is further not possible for the Reichsbank, according to the existing laws governing the register of debts, to demand the delivery of bonds, particularly without the participation of the holder of the claim in the transaction. For this reason, the bill, after the pattern of the act of March 22, 1893 (*Reichs-Gesetzbl.*, p. 131), which at present is operative only with regard to the official bond of the Reichsbank employees, places the mortgaging of such a claim to the Reichsbank on the same footing with a mortgage on movables, and provides in case of tardiness on the part of the debtor for the immediate payment to the Reichsbank out of the amount of claim.

The privileged position of the Reichsbank resulting from this is justified on the ground that the Reichsbank, as the ultimate source of money and credit in the country, must in critical times be the first to satisfy the demands of credit and because this institution alone can have anything to do with loans of the kind in question. For the rest the Reichsbank enjoys even at the present time through § 20 of the bank act certain privileges in the matter of realizing on pledged property; it enjoys these privileges in view of the importance which the liquidity of its investments has for the entire economic life of

Germany. At the same time the bill provides in the interest of the creditor of the Government an easier method of recording the mortgage by simplifying the regulations which are in existence in the various laws governing the register of debts, such as, for instance, those of paragraph 10 of the imperial register of debts and paragraph 10 of the Prussian law governing the state register, dated July 20, 1883 (*Preuss. Gesetzsamml.*, p. 120), which require an attestation of the motion by a court or a notary, which is both laborious and costly.

REMARKS RELATIVE TO VARIOUS POINTS.

Re Article 1.

According to the bill the increase in the surplus is to be effected by the assignment to it of 10 per cent of the annual profits, after payment of a dividend of 3½ per cent. Such a provision would mean a probable annual increase in the surplus fund of the Reichsbank of about 1,800,000 marks, according to the estimate given in Appendix V, based upon the actual results of business. This increment appears, on the one hand, to be sufficient; on the other, it precludes an excessive increase in the Reichsbank's own funds for some time to come. The bill therefore does not fix a limit to the increase, especially as, on the termination of the ten-years' period beginning January 1, 1911, an opportunity will be given—in accordance with § 41 of the Bank Act—to determine whether the fixing of a maximum amount should prove necessary or advisable. The bill provides further that the annual assignments to the surplus are to be borne in equal shares by the shareholders and the Imperial Government. In the absence of this provision three-fourths of the amount would have to be borne by the Government and one-fourth by the shareholders, while if, in accordance with § 41 of the Bank Act, the reserve should be distributed, the Government and shareholders would participate equally. Although for this reason alone the provision would be fair and reasonable, it is rendered still more so by the fact that, as the bill provides for an increase in the amount of the tax-free note contingent, the Government will henceforth suffer a considerable loss from the diminution in the amount of the tax. This is of all the greater importance, as the Government is at present endeavoring to find additional sources of revenue for its budget. We must remember besides that out of the profit of the Reichsbank a dividend of 3½ per cent is guaranteed the shareholders by law; in proportion, therefore, as an increase of the bank's own funds tends to increase its sphere of activity and strengthens the foundations on which it rests, the results of such a measure will also be beneficial to the shareholders, particularly in regard to the market value of the shares.

Re Article 2.

The act of June 7, 1899, increased the tax-free note contingent of the Reichsbank to 450,000,000 marks, increasing at the same time the aggregate amount of the tax-free unsecured note circulation of all the banks of issue to 541,600,000 marks. In the meanwhile, in accordance with § 9, section 2, of the Bank Act, the quotas of the Frankfurter Bank, the Bank for Süddeutschland, and the

Braunschweigische (Brunswick) Bank (Nos. 12, 20, and 24 of the supplement to § 9 of the Bank Act) have been added to that of the Reichsbank, whereby the share of the Reichsbank in the total contingent has risen to 472,829,000 marks. The increase of the contingent of the Reichsbank to 550,000,000 marks, as proposed by the bill, would make it conform to the increased note circulation and suffice to prevent a too frequent excess outside of the quarter days.

By reason of the great demands made regularly upon the Reichsbank on the quarter days, a considerably larger increase of the contingent is desirable. The tabulations of the cash reserves and the note circulation, which according to § 10 of the Bank Act must be made on the 7th, 15th, 23d, and last of each month for the purpose of tax calculating, show such a large increase in the amount of the unsecured note circulation at the end of each quarter that the present contingent is exceeded by much larger amounts than that of the proposed regular increase in the contingent. The statements for the last of March, June, September, and December of each year show the highest figures. For these reporting days, therefore, the need of a further increase in the contingent is most urgent. As a remedy the bill proposes a further increase in the contingent of 200,000,000 marks for the quarter days.

The increase in the tax-free unsecured note circulation thus provided for will in all probability suffice to prevent a too frequent and too large excess issue, which is to be deprecated in the interest of sound business. On the other hand, the increase is sufficiently moderate not to render nugatory the policy of restricting bank-note circulation.

Re Article 3.

Article 3 cancels, as far as the notes of the Reichsbank are concerned, the present provision of § 2 of the Bank Act, which prescribes that in the case of payments which legally must be made in money bank notes need not be accepted.

Re Article 4.

The provision given under No. 1 expresses the obligation of the Reichsbank to redeem its notes at all times in German gold coin.

While, furthermore, according to § 19 of the Bank Act, the Reichsbank is merely bound to accept the notes of the banks indicated by the Imperial Chancellor in conformity with § 45 of this act at their full face value, in Berlin as well as at certain branches, as long as the issuing bank punctually discharges its obligation to redeem notes, the bill imposes the further obligation on the Reichsbank to exchange these notes against its own within their natural circulation territory, fixed by the Bank Act—that is, in each case within the State that has authorized the private bank to issue notes. This enables the holder of the notes of a private bank who is not in debt to the Reichsbank to hand them in at one of its offices and get Reichsbank notes in exchange.

Re Article 5.

Article 5 authorizes the Reichsbank to purchase checks. In view of the amendment of § 13, No. 2, of the Bank Act, checks of the class mentioned in § 13, No. 2, may by reason of the provision embodied in § 44, section 1, No. 1, also be purchased by those private banks of issue which are not subject to the restricting stipulations of § 43. In connection therewith the bill makes further amendments in some of the provisions of the Bank Act which are rendered necessary by this authorization. Checks, particularly, will be permitted as cover for the notes under the same conditions that govern bills. In order to admit checks for note covering in the case of the private banks, a special provision has been inserted, § 47*a*.

Re Article 6.

Article 6, No. I, extends the class of securities available for collateral in favor of the debentures of incorporated mortgage institutions. This holds good also for the loan business of the private banks of issue.

Article 6, No. II, authorizes the Reichsbank to grant interest-bearing loans for not longer than three months on the security of claims recorded in the imperial register of debts, or in the register of a federal state. Heretofore interest-bearing loans were limited to movable liens. The limiting of the loan to three-fourths of the market value of the bonds for which such a claim is exchangeable is in accord with the loan limit stipulated in § 13, No. 3*b*, of the Bank Act.

In order to facilitate the recording in the imperial register of debts, or the register of a federal state, of the liens to be entered in favor of the Reichsbank, it is provided (§ 20*a*) that in place of the more rigorous form demanded by the laws relating to the register of debts it shall be sufficient to have the motion for registration of the lien in the register certified to by the persons whose signature renders the Reichsbank liable. (§ 38 of the Bank Act; ordinance of the Imperial Chancellor of December 27, 1875, *Zentralblatt für das Deutsche Reich*, p. 820.) In order to facilitate business the bill provides that in place of the two members of the Reichsbank Direktorium, other officers of the Reichsbank may be assigned by the Reichsbank Direktorium for the task of certification; they must be made known to the board of the register of debts.

The provision in § 20*b* is designed to preclude the possibility that a third party may enjoin the Reichsbank on account of a prior assignment or mortgage which was neither recorded in the register of debts nor known to the Reichsbank or unknown through gross negligence.

The provision in § 20*b* further empowers the Reichsbank, in case the debtor is dilatory, to apply to the board of the register of debts for government bonds against partial or total cancellation of the registered claim. For this the written motion of the Reichsbank shall suffice, and it shall not be necessary that any other person participate in it, particularly the creditor of the register of debts, as would be required by the laws relative to the register of debts. When such a motion is presented, the board of the register of debts shall not ask for evidence of any kind, particularly no proof of the tardiness of the debtor, and the board can decline such a motion only in so far as this is provided for in § 20*b;* in particular, the board is not permitted to decline to hand out the bonds on the score of liens which were entered in the register of debts only after the mortgage in favor of the Reichsbank had been recorded, neither may it make use of the right which it would otherwise have of sequestering the bonds.

After having received the government bonds from the board of the register of debts, the Reichsbank acquires, in accordance with §§ 1287 and 1293 of the Civil Code, a lien on them to which the provisions of the Code relative to liens on movable property apply; as this is a case of a lien on movable property in connection with the business of loaning on security, the privileges accorded the Reichsbank by § 20 of the Bank Act in regard to the enforcement of its claims in the matter of liens will naturally be extended to the bonds thus handed over to it.

RE ARTICLE 7.

Paragraph 22 imposes upon the Reichsbank the obligation to receive payments for account of the Imperial Goverment and to make them up to the amount of the government's balance without compensation for its services. This obligation was extended in § 11 of the acts relating to the Reichsbank of May 21, 1875 (*Reichsgesetzbl.*, p. 203), which makes it part of the business of the Reichsbank to take charge of the funds of the Empire without compensation and keep records of the payments accepted and made for account of the Empire. Doubts have repeatedly arisen as to the extent of the obligations which the Reichsbank has in this respect. The provisions of the present bill prescribe in indubitable terms that the Reichsbank shall transact the business of the Imperial Treasury without compensation. In view of the business which naturally comes within the sphere of the

Imperial Treasury, this can apply only to transactions of the kind connected with the treasury system. The words "business of the Imperial Treasury" will therefore in the meaning of the bill be understood to include all fiscal transactions which the Imperial Chancellor assigns to the Imperial Treasury. § 35 of the Bank Act establishes beyond a doubt that payments are to be made by the Reichsbank for the Imperial Treasury only up to the amount of the balance in its favor in the bank. Otherwise the Reichsbank would be making advances to the Imperial Treasury, which is not permissible. Furthermore § 34 of the "Geschäftsanweisung für die Reichshauptkasse," [a] issued by the Chancellor, fixes the minimum balance of the Imperial Treasury at 10,000,000 marks for the giro or current account by means of which the entire business of the Imperial Treasury is to be carried on. The bill renders superfluous § 11 of the

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[a] This paragraph reads:

By means of the giro account of the Imperial Treasury at the Reichsbank the entire business of the former is done in such a way that the balance at the close of each day represents the credit balance of the government.

The giro account of the Imperial Treasury is subject to the general regulations relative to the Reichsbank giro business; the minimum balance is fixed at 10,000,000 marks, and anybody may make payments into the account at the Reichsbank and all its branches without having to pay any dues. Should the credit balance of the Imperial Treasury fall below the minimum limit, the Reichsbank Directorate may, in accordance with arrangements made, use Imperial Treasury notes whose equivalent is credited to the giro account.

The giro-account customers of the Reichsbank must use the giro account exclusively as their medium for doing business with the Imperial Treasury. The Imperial Treasury must be informed by the giro customer or the payer who has no account at the Reichsbank of every transfer or every remittance to its giro account; if necessary, the name of the debtor is to be given.

statutes of the Reichsbank, as the management of the balance of the Imperial Government at the Reichsbank and the bookkeeping and accounting for payments received and disbursements made for the Imperial Government are part of the functions of the Imperial Treasury.

The privilege of the Reichsbank to undertake business for the treasuries of the federal states as long as such business is of a central nature, as in the case of the Imperial Treasury, remains unaltered.

APPENDIX I.—*Investments of the Reichsbank in loans upon securities and in treasury bills as compared with its own and outside funds.*

[In millions of marks.]

Year.	Capital, yearly average amount.	Surplus, yearly average amount.	Outside funds,[a] total yearly average amount.	Total capital, surplus, outside funds, yearly average amount.	Investments in loans upon securities.			Investments in treasury bills			Investments in both loans and treasury bills.			Outside funds, total on day of column 13.
					Yearly average amount.	Maximum of the year.		Yearly average amount.	Maximum of the year.		Yearly average amount.	Maximum of the year.		
						Date.	Amount.		Date.	Amount.		Date.	Amount.	
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1876	119.1	12.0	218.8	349.9	51.0	Jan. 7	62.1	-------	---------	--------	51.0	Jan. 7	62.1	170.5
1877	120.0	12.8	177.6	310.4	49.3	Dec. 31	65.4	-------	---------	--------	49.3	Dec. 31	65.4	167.0
1878	120.0	13.9	184.7	318.6	52.5	Dec. 31	66.2	-------	---------	--------	52.5	Dec. 31	66.2	161.5
1879	120.0	15.0	199.9	334.9	53.0	Dec. 31	85.4	-------	---------	--------	53.0	Jan. 31	85.4	220.0
1880	120.0	15.5	185.5	321.0	51.3	Sept. 30	104.6	8.8	May 31	30.1	60.1	Dec. 31	117.7	174.1
1881	120.0	16.2	181.1	317.3	57.3	Sept. 30	126.9	18.5	Mar. 31	36.8	75.8	Dec. 31	133.4	166.6
1882	120.0	17.4	171.7	309.1	54.4	Sept. 30	102.8	8.6	Jan. 7	24.0	63.0	Sept. 30	111.8	145.5
1883	120.0	19.0	204.0	343.0	45.8	Sept. 30	81.2	8.6	Dec. 31	28.0	54.4	Dec. 31	103.9	210.8
1884	120.0	20.1	223.0	363.1	49.2	Dec. 31	140.1	21.3	Dec. 7	53.0	70.5	Dec. 31	183.1	267.5
1885	120.0	21.1	235.6	376.7	52.5	Jan. 7	102.5	36.0	Sept. 7	72.6	88.5	Jan. 7	143.5	221.1
1886	120.0	22.2	284.6	426.8	50.1	Dec. 31	115.5	30.0	Sept. 7	50.0	80.1	Dec. 31	162.7	291.1
1887	120.0	22.8	352.4	495.2	51.1	Jan. 7	104.6	13.5	Jan. 7	45.1	64.6	Jan. 7	149.8	274.8
1888	120.0	23.7	381.8	525.5	52.0	Dec. 31	93.1	1.1	Dec. 7	13.0	53.1	Dec. 31	106.1	302.8
1889	120.0	24.3	385.5	529.8	69.9	Dec. 31	186.2	0.6	Dec. 31	25.0	70.5	Dec. 31	211.2	348.2
1890	120.0	25.7	361.5	507.2	89.4	Dec. 31	146.1	7.8	Sept. 30	38.1	97.2	Dec. 31	172.1	347.7
1891	120.0	28.4	464.1	612.5	99.0	June 30	156.3	5.2	Feb. 7	26.1	04.2	June 30	156.3	501.0
1892	120.0	29.8	511.9	661.7	97.6	June 30	128.5	-------	---------	--------	97.6	June 30	128.5	536.9

[a] This is the total of public and private balances.

APPENDIX I.—*Investments of the Reichsbank in loans upon securities and in treasury bills as compared with its own and outside funds*—Continued.

[In millions of marks.]

Year.	Capital, yearly average amount.	Surplus, yearly average amount.	Outside funds, total yearly average amount.	Total capital, surplus, outside funds, yearly average amount.	Investments in loans upon securities			Investments in treasury bills.			Investments in both loans and treasury bills.			Outside funds, total on day of column 13.
					Yearly average amount.	Maximum of the year		Yearly average amount.	Maximum of the year.		Yearly average amount.	Maximum of the year		
						Date.	Amount.		Date.	Amount.		Date.	Amount.	
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1893	120.0	30.0	452.4	602.4	93.8	Dec. 31	149.2	0.3	Apr. 15	5.0	94.1	Dec. 31	149.2	373.3
1894	120.0	30.0	492.3	642.3	1.1	Jan. 7	129.3	-------	---------	--------	81.1	Jan. 7	129.3	331.4
1895	120.0	30.0	499.5	649.5	13.2	Dec. 31	211.2	0.2	Dec. 31	8.0	83.4	Dec. 31	219.2	439.5
1896	120.0	30.0	484.3	634.3	06.0	Dec. 31	197.2	0.2	Jan. 7	8.0	106.2	Dec. 31	197.2	443.3
1897	120.0	30.0	471.4	621.4	108.3	June 30	178.1	0.7	Dec. 31	35.0	109.0	Dec. 31	207.6	426.4
1898	120.0	30.0	474.7	624.7	96.4	Dec. 31	186.1	5.8	Mar. 31	26.0	102.2	Sept. 30	198.2	431.7
1899	120.0	30.0	524.7	674.7	80.7	Dec. 31	141.7	1.5	Jan. 7	25.0	82.2	Dec. 31	161.6	475.6
1900	120.0	30.0	512.8	662.8	80.0	Dec. 31	146.2	13.4	Dec. 31	81.0	93.4	Dec. 31	227.2	497.0
1901	150.0	40.5	596.6	787.1	72.8	Dec. 31	161.4	51.8	Apr. 15	127.8	124.6	Dec. 31	284.4	563.2
1902	150.0	43.9	576.6	770.5	74.1	Dec. 31	189.9	70.9	Nov. 30	190.0	145.0	Dec. 31	372.9	544.0
1903	150.0	47.1	553.7	750.8	74.8	Dec. 31	212.7	77.9	Apr. 15	216.0	152.7	Mar. 31	334.8	535.2
1904	150.0	50.9	534.8	735.7	74.2	Dec. 31	215.1	89.1	Sept. 15	196.0	163.3	Sept. 30	394.6	532.7
1905	180.0	64.8	585.3	830.1	72.0	Dec. 30	204.3	101.7	Apr. 15	248.7	173.7	Dec. 31	404.0	630.8
1906	180.0	64.8	575.6	820.4	83.6	Dec. 31	284.5	113.6	Dec. 31	255.6	197.2	Dec. 31	540.1	652.9
1907	180.0	64.8	579.3	824.1	98.1	Dec. 31	364.3	96.8	Jan. 7	251.6	194.9	Dec. 31	475.8	658.5
1908	180.0	64.8	649.3	894.1	91.4	Mar. 31	255.7	146.6	Dec. 31	383.0	238.0	Dec. 31	558.9	656.6

APPENDIX II.—*Real estate and other assets of the Reichsbank.*

At the close of the year.	Value of real estate.	Other assets.[a]
	Marks.	*Marks*
1876	13,278,000	9,411,000
1877	15,628,600	7,964,400
1878	17,704,600	5,104,400
1879	17,950,600	5,804,400
1880	18,622,600	11,351,400
1881	18,633,000	7,284,000
1882	19,244,500	5,288,500
1883	19,298,500	4,704,500
1884	19,493,500	5,675,500
1885	19,663,500	11,299,500
1886	19,888,500	5,751,500
1887	20,207,500	26,776,500
1888	21,113,500	13,115,500
1889	21,282,500	11,101,500
1890	21,517,500	10,274,500
1891	22,261,500	21,916,500
1892	22,913,500	27,096,500
1893	22,945,500	42,588,500
1894	24,293,500	43,164,500
1895	29,857,700	21,332,300
1896	33,196,700	20,886,300
1897	33,452,700	63,969,300
1898	35,493,700	65,521,300
1899	35,623,700	18,764,300
1900	36,026,000	33,872,000
1901	37,267,200	43,869,000
1902	40,552,900	32,231,100
1903	42,523,800	53,925,200
1904	45,416,700	55,997,300
1905	47,509,600	51,281,400
1906	50,095,400	71,472,600
1907	54,787,400	51,206,600
1908	56,989,000	108,394,000

[a] These are the amounts given in the annual reports of December 31 of each year sub "Other assets" reduced by the value of the real estate.

APPENDIX III.—*Note circulation and metallic reserve on the days of an issue in excess of the contingent.*

Date of excess.	Amount of contingent.	Metallic reserve.	Cash reserve.	Note circulation.	Amount in excess of contingent.[a]	Note circulation and other demand liabilities.[b]	Metallic covering for—		Cash covering, in the meaning of paragraph 9 of the bank act, for—		Rate of bank discount on day of excess.
							Note circulation.	Total of demand liabilities.	Note circulation.	Total of demand liabilities.	
1	2	3	4	5	6	7	8	9	10	11	12
1881.[c]	*Marks.*	*Marks.*	*Marks.*	*Marks.*	*Marks.*	*Marks*	*P. ct.*	*P. ct.*	*P. ct.*	*P. ct.*	*P. ct.*
Dec. 31	273,875,000	514,440,000	559,419,000	859,388,000	26,092,168	1,025,939,000	59.9	50.1	65.1	54.5	5
1882.											
Sept. 30	273,875,000	513,198,000	548,432,000	841,533,000	19,224,097	986,991,000	61.0	52.0	65.2	55.6	5
Oct. 7	273,875,000	503,248,000	538,284,000	824,345,000	12,185,240	964,293,000	61.1	52.2	65.3	55.8	5
1884.											
Dec. 31	273,875,000	517,828,000	547,586,000	854,137,000	32,678,704	1,121,679,000	60.6	46.2	64.1	48.8	4
1885.											
Jan. 7	273,875,000	521,225,000	550,132,000	826,620,000	2,615,328	1,047,686,000	63.1	49.7	66.5	52.5	4
1886.											
Dec. 31	274,834,000	669,509,000	700,524,000	1,009,523,000	34,161,339	1,300,665,000	66.3	51.5	69.4	53.8	5
1889.											
Sept. 30	282,085,000	770,880,000	796,622,000	1,150,527,000	71,824,197	1,477,684,000	67.0	52.2	69.3	53.9	4
Oct. 7	286,585,000	754,964,000	781,279,000	1,113,093,000	45,225,933	1,419,947,000	67.8	53.2	70.2	55.0	5
Dec. 31	286,585,000	734,579,000	764,478,000	1,160,536,000	109,477,598	1,508,732,000	63.3	48.7	65.9	50.7	5
1890.											
Jan. 7	286,585,000	741,967,000	771,069,000	1,108,053,000	50,399,293	1,425,345,000	67.0	52.1	69.6	54.1	5
Sept. 30	288,025,000	724,721,000	752,260,000	1,131,733,000	91,450,838	1,446,746,000	64.0	50.1	66.5	52.0	5
Oct. 7	288,025,000	678,107,000	705,265,000	1,097,497,000	104,204,805	1,365,544,000	61.8	49.6	64.3	51.6	5
15	288,025,000	697,433,000	726,449,000	1,048,322,000	33,849,368	1,366,556,000	66.5	51.0	69.3	53.1	5½
31	288,025,000	718,804,000	745,872,000	1,052,835,000	18,930,925	1,351,775,000	68.3	53.2	70.8	55.2	5½
Dec. 31	288,025,000	758,690,000	788,313,000	1,102,588,000	26,247,380	1,450,336,000	68.8	52.3	71.5	54.4	5½
1893.											
Sept. 30	292,117,000	738,604,000	770,460,000	1,101,095,000	38,517,708	1,473,566,000	67.1	50.1	70.0	52.3	5
1895.											
Sept. 30	293,400,000	914,524,000	943,276,000	1,282,764,000	46,086,301	1,725,302,000	71.3	53.0	73.5	54.6	3
Oct. 7	293,400,000	900,310,000	930,824,000	1,244,933,000	20,709,895	1,657,039,000	72.3	54.3	74.8	56.2	3
Dec. 31	293,400,000	853,077,000	878,406,000	1,320,089,000	148,283,795	1,759,638,000	64.6	48.5	66.5	49.9	4
1896.											
Jan. 7	293,400,000	869,145,000	897,988,000	1,227,202,000	35,811,520	1,625,846,000	70.8	53.5	73.2	55.2	4
Mar. 31	293,400,000	879,661,000	911,099,000	1,248,508,000	44,008,225	1,667,398,000	70.5	52.8	72.9	54.6	3
June 30	293,400,000	871,733,000	902,267,000	1,229,996,000	34,328,672	1,720,646,000	70.9	50.6	73.3	52.4	3
Sept. 30	293,400,000	815,546,000	844,459,000	1,257,418,000	119,558,561	1,699,071,000	64.9	48.0	67.1	49.7	4
Oct. 7	293,400,000	804,190,000	835,344,000	1,207,093,000	78,352,771	1,630,443,000	66.6	49.3	69.2	51.2	4
Dec. 31	293,400,000	804,576,000	830,378,000	1,257,925,000	134,149,422	1,701,245,000	64.0	47.3	66.0	48.8	5
1897.											
Jan. 7	293,400,000	824,715,000	853,988,000	1,178,682,000	31,291,117	1,594,984,000	70.0	51.7	72.4	53.4	5
Mar. 31	293,400,000	860,965,000	895,693,000	1,201,283,000	12,189,540	1,612,332,000	71.7	53.4	74.6	55.5	3½
June 30	293,400,000	864,717,000	899,729,000	1,221,326,000	28,197,149	1,721,841,000	70.8	50.2	73.7	52.3	3
Sept. 30	293,400,000	755,946,000	787,689,000	1,286,923,000	205,829,552	1,691,923,000	58.7	44.7	61.2	46.6	4
Oct. 7	293,400,000	748,188,000	777,670,000	1,242,109,000	171,036,711	1,627,689,000	60.2	46.0	62.6	47.8	4
15	293,400,000	771,653,000	804,745,000	1,168,414,000	70,265,650	1,596,901,000	66.0	48.3	68.9	50.4	5
31	293,400,000	800,041,000	832,428,000	1,164,848,000	39,024,022	1,604,272,000	68.7	49.9	71.5	51.9	5
Nov. 7	293,400,000	811,954,000	840,361,000	1,140,842,000	7,083,688	1,557,301,000	71.2	52.1	73.6	53.9	5
Dec. 31	293,400,000	826,556,000	854,295,000	1,319,972,000	172,281,834	1,746,376,000	62.6	47.3	64.7	48.9	5
1898.											
Jan. 7	293,400,000	848,458,000	879,122,000	1,233,080,000	60,564,833	1,626,538,000	68.8	52.2	71.3	54.0	5
Mar. 31	293,400,000	882,833,000	917,336,000	1,281,217,000	70,478,234	1,734,175,000	68.9	50.9	71.6	52.9	3
Apr. 7	293,400,000	865,394,000	899,637,000	1,213,934,000	20,899,051	1,672,572,000	71.3	51.7	74.1	53.8	3
June 30	293,400,000	808,698,000	842,983,000	1,265,909,000	129,523,423	1,747,955,000	63.9	46.3	66.6	48.2	4
July 7	293,400,000	809,320,000	842,950,000	1,202,077,000	65,723,356	1,649,732,000	67.3	49.0	70.1	51.1	4
Sept. 30	293,400,000	738,098,000	769,695,000	1,339,589,000	276,496,927	1,771,321,000	55.1	41.7	57.5	43.4	4
Oct. 7	293,400,000	726,129,000	758,413,000	1,293,658,000	241,841,460	1,729,474,000	56.1	42.0	58.6	43.9	4
15	293,400,000	733,142,000	769,077,000	1,229,516,000	167,037,390	1,695,848,000	59.6	43.2	62.6	45.4	5
22	293,400,000	750,925,000	783,690,000	1,178,463,000	101,371,201	1,649,194,000	63.7	45.5	66.5	47.5	5
31	293,400,000	728,185,000	762,631,000	1,211,318,000	155,284,568	1,654,827,000	60.1	44.0	63.0	46.1	5
Nov. 7	293,400,000	729,312,000	762,204,000	1,185,969,000	130,369,434	1,607,786,000	61.5	45.4	64.3	47.4	5
15	293,400,000	750,235,000	787,350,000	1,155,215,000	74,459,906	1,622,143,000	64.9	46.2	68.1	48.5	5½
23	293,400,000	780,569,000	814,200,000	1,113,662,000	6,062,750	1,625,365,000	70.1	48.0	73.1	50.1	6
30	293,400,000	772,964,000	808,268,000	1,138,333,000	36,654,865	1,627,991,000	67.9	47.5	71.0	49.6	6
Dec. 23	293,400,000	814,398,000	843,689,000	1,167,674,000	30,582,426	1,645,010,000	69.7	49.5	72.3	51.3	6
31	293,400,000	752,293,000	781,037,000	1,337,391,000	282,955,278	1,788,315,000	55.4	42.1	57.5	43.7	6
1899.											
Jan. 7	293,400,000	779,846,000	810,321,000	1,250,815,000	147,096,243	1,642,772,000	62.3	47.5	64.8	49.3	6
15	293,400,000	810,299,000	844,233,000	1,171,718,000	34,083,149	1,576,508,000	69.1	51.4	72.1	53.6	6
Mar. 31	293,400,000	827,831,000	861,735,000	1,265,040,000	109,905,732	1,768,232,000	65.4	46.8	68.1	48.7	4½
Apr. 7	293,400,000	831,346,000	866,649,000	1,212,670,000	52,620,554	1,701,515,000	68.6	48.9	71.5	50.9	4½
June 30	293,400,000	833,986,000	868,135,000	1,300,241,000	138,704,569	1,870,906,000	64.1	44.6	66.8	46.4	4½
July 7	293,400,000	827,130,000	861,754,000	1,250,406,000	95,253,262	1,782,612,000	66.1	46.4	68.9	48.3	4½
Sept. 23	293,400,000	801,865,000	833,032,000	1,126,960,000	529,780	1,717,184,000	71.2	46.7	73.9	48.5	5
30	293,400,000	686,691,000	718,098,000	1,382,731,000	371,233,061	1,865,741,000	49.7	36.8	51.9	38.5	5
Oct. 7	293,400,000	695,076,000	726,043,000	1,303,052,000	283,610,564	1,794,634,000	53.3	38.7	55.7	40.4	6
15	293,400,000	704,078,000	736,493,000	1,234,150,000	204,255,633	1,733,535,000	57.0	40.6	59.7	42.5	6
23	293,400,000	729,904,000	761,829,000	1,180,341,000	125,111,446	1,691,607,000	61.8	43.2	64.5	45.0	6
31	293,400,000	707,618,000	740,069,000	1,221,153,000	187,683,462	1,709,166,000	57.9	41.4	60.6	43.3	6
Nov. 7	293,400,000	711,772,000	743,373,000	1,183,041,000	146,267,057	1,648,461,000	60.2	43.2	62.8	45.1	6
15	293,400,000	731,044,000	766,794,000	1,161,377,000	101,185,206	1,680,208,000	62.9	43.5	66.0	45.6	6
23	293,400,000	749,403,000	782,763,000	1,128,557,000	52,393,473	1,683,864,000	66.4	44.5	69.3	46.5	6
30	293,400,000	729,755,000	764,933,000	1,147,544,000	89,212,815	1,697,782,000	63.6	43.0	66.6	45.1	6
Dec. 7	293,400,000	741,276,000	773,829,000	1,137,420,000	70,191,970	1,676,381,000	65.2	44.2	68.0	46.2	6
15	293,400,000	762,147,000	800,342,000	1,144,113,000	50,372,058	1,733,496,000	66.6	44.0	69.9	46.2	6
23	293,400,000	743,263,000	772,639,000	1,202,115,000	136,076,334	1,764,869,000	61.8	42.1	64.3	43.8	7
30	293,400,000	700,896,000	727,917,000	1,358,933,000	337,615,993	1,834,554,000	51.6	38.2	53.5	39.7	7
1900.											
Jan. 7	293,400,000	730,761,000	763,019,000	1,265,455,000	209,036,165	1,753,355,000	57.7	41.7	60.3	43.5	7
15	293,400,000	775,845,000	813,108,000	1,154,208,000	47,700,377	1,657,322,000	67.2	46.8	70.5	49.1	6
Mar. 31	293,400,000	743,665,000	778,312,000	1,309,970,000	238,259,329,	1,797,767,000	56.8	41.4	59.4	43.3	5½
Apr. 7	293,400,000	754,485,000	789,821,000	1,217,642,000	134,419,833	1,732,127,000	62.0	43.6	64.9	45.6	5½
15	293,400,000	772,492,000	809,611,000	1,145,226,000	42,215,214	1,654,311,000	67.5	46.7	70.7	48.9	5½
30	293,400,000	800,737,000	838,036,000	1,164,622,000	33,184,581	1,663,310,000	68.7	48.1	72.0	50.4	5½
June 30	293,400,000	822,247,000	857,820,000	1,309,865,000	158,643,308	1,805,871,000	62.8	45.5	65.5	47.5	5½
July 7	293,400,000	841,043,000	877,650,000	1,212,104,000	41,048,095	1,711,624,000	69.4	49.1	72.4	51.3	5½
Sept. 30	293,400,000	725,427,000	758,035,000	1,343,962,000	292,531,250	1,800,379,000	54.0	40.3	56.4	42.1	5
Oct. 7	293,400,000	717,775,000	751,014,000	1,293,213,000	248,799,646	1,748,961,000	55.5	41.0	58.1	42.9	5
15	293,400,000	754,332,000	794,137,000	1,219,281,000	131,739,013	1,716,649,000	61.9	43.9	65.1	46.3	5
23	293,400,000	791,892,000	826,119,000	1,186,495,000	66,979,521	1,690,648,000	66.7	46.8	69.6	48.9	5

[a] The calculation has not been made on the basis of the round sums published weekly in the Reichsanzeiger, but on the basis of exact special information regarding cash reserve and note circulation, while metallic reserve, cash reserve, and note circulation in the above table are given according to those approximate weekly figures.

[b] Other demand liabilities are the public and private *giro* balances, the deposits of persons and firms who have no giro account, the amounts received for disbursement to persons who have no account which have not yet been paid, as well as giro transfers that are en route but will, on account of the time required for postal transmission, be credited the next day only.

[c] Prior to 1881 there was no excess circulation at any time.

83703—10. (To follow page 119.) No. 1.

APPENDIX III.—*Note circulation and metallic reserve on the days of an issue in excess of the contingent*—Continued.

Date of excess.	Amount of contingent.	Metallic reserve.	Cash reserve.	Note circulation.	Amount in excess of contingent.	Note circulation and other demand liabilities.	Metallic covering for—		Cash covering, in the meaning of paragraph 9 of the bank act, for—		Rate of bank discount on day of excess.
							Note circulation.	Total of demand liabilities.	Note circulation.	Total of demand liabilities.	
1	2	3	4	5	6	7	8	9	10	11	12
1900.	*Marks*	*Marks.*	*Marks.*	*Marks.*	*Marks.*	*Marks.*	*P. ct.*	*P. ct.*	*P. ct.*	*P. ct.*	*P. ct.*
Oct. 31	293,400,000	766,566,000	800,718,000	1,232,792,000	138,674,040	1,696,066,000	62.2	45.2	65.0	47.2	5
Nov. 7	293,400,000	768,664,000	802,424,000	1,211,965,000	116,142,019	1,642,760,000	63.4	46.8	66.2	48.8	5
15	293,400,000	789,879,000	829,365,000	1,177,685,000	54,922,497	1,663,026,000	67.1	47.5	70.5	49.9	5
30	293,400,000	814,165,000	849,674,000	1,166,141,000	23,072,976	1,662,357,000	69.8	49.0	72.9	51.1	5
Dec. 7	293,400,000	809,503,000	844,706,000	1,140,318,000	2,211,704	1,649,903,000	71.0	49.1	74.1	51.2	5
15	293,400,000	818,908,000	857,507,000	1,160,435,000	9,533,638	1,743,892,000	70.6	47.0	73.9	49.2	5
23	293,400,000	805,507,000	835,738,000	1,201,249,000	72,108,240	1,746,023,000	67.1	46.1	69.6	47.9	5
31	293,400,000	729,830,000	760,628,000	1,409,945,000	355,917,412	1,906,943,000	51.8	38.3	53.9	39.9	5
1901.											
Jan. 7	450,000,000	761,002,000	793,201,000	1,309,198,000	65,995,930	1,814,128,000	58.1	41.9	60.6	43.7	5
Mar. 31	450,000,000	811,663,000	845,076,000	1,321,420,000	16,347,335	1,826,520,000	61.4	44.4	63.9	46.3	4½
Sept. 30	460,000,000	830,442,000	861,819,000	1,430,427,000	108,601,148	1,953,568,000	58.1	42.5	60.3	44.1	4
Oct. 7	460,000,000	831,277,000	865,981,000	1,365,153,000	39,176,396	1,865,886,000	60.9	44.6	63.4	46.4	4
Dec. 31	460,000,000	868,501,000	897,320,000	1,465,787,000	108,466,421	2,028,975,000	59.3	42.8	61.2	44.2	4
1902.											
Sept. 30	470,000,000	839,804,000	874,354,000	1,495,370,000	151,015,199	2,034,572,000	56.2	41.3	58.5	43.0	3
Oct. 7	470,000,000	836,834,000	869,559,000	1,416,059,000	76,503,876	1,923,737,000	59.1	43.5	61.4	45.2	4
Dec. 31	470,000,000	786,123,000	814,830,000	1,516,469,000	231,638,836	2,060,433,000	51.8	38.2	53.7	39.5	4
1903.											
Jan. 7	470,000,000	823,318,000	854,481,000	1,397,190,000	72,628,154	1,913,106,000	58.9	43.0	61.2	44.7	4
Mar. 31	470,000,000	818,482,000	854,025,000	1,449,540,000	125,514,615	1,984,741,000	56.5	41.2	58.9	43.0	3½
Apr. 7	470,000,000	817,385,000	853,010,000	1,350,081,000	27,068,533	1,844,625,000	60.5	44.3	63.2	46.2	3½
June 30	470,000,000	884,259,000	919,973,000	1,434,565,000	44,587,518	2,000,675,000	61.6	44.2	64.1	46.0	4
Sept. 30	470,000,000	858,015,000	891,593,000	1,515,581,000	153,987,512	2,066,179,000	56.6	41.5	58.8	43.2	4
Oct. 7	470,000,000	851,100,000	885,019,000	1,429,343,000	74,321,008	1,905,894,000	59.5	44.7	61.9	46.4	4
Dec. 31	470,000,000	793,459,000	820,537,000	1,565,490,000	274,949,399	2,140,408,000	50.7	37.1	52.4	38.3	4
1904.											
Jan. 7	470,000,000	834,443,000	868,434,000	1,438,295,000	99,861,153	1,949,423,000	58.0	42.8	60.4	44.6	4
Mar. 31	470,000,000	828,079,000	860,804,000	1,496,935,000	166,126,902	2,036,574,000	55.3	40.7	57.5	42.3	4
Apr. 7	470,000,000	852,917,000	899,609,000	1,385,839,000	16,222,874	1,917,082,000	61.5	44.5	64.9	46.9	4
June 30	470,000,000	870,048,000	902,449,000	1,477,852,000	105,400,518	2,017,605,000	58.9	43.1	61.1	44.7	4
Sept. 30	470,000,000	793,143,000	824,023,000	1,599,067,000	305,038,527	2,131,775,000	49.6	37.2	51.5	38.6	4
Oct. 7	470,000,000	789,444,000	833,181,000	1,482,350,000	179,169,568	1,978,479,000	53.3	39.9	56.2	42.1	4
15	470,000,000	839,669,000	897,616,000	1,395,915,000	28,298,848	1,895,677,000	60.2	44.3	64.3	47.3	5
Dec. 31	470,000,000	927,060,000	956,261,000	1,599,784,000	173,519,879	2,180,081,000	57.9	42.5	59.8	43.9	5
1905.											
Mar. 31	470,000,000	1,015,884,000	1,052,488,000	1,543,505,000	21,016,649	2,134,506,000	65.8	47.6	68.1	49.7	3
June 30	470,000,000	950,791,000	985,875,000	1,554,802,000	98,927,495	2,133,903,000	61.2	44.6	63.4	46.2	3
Sept. 30	470,000,000	732,215,000	762,361,000	1,682,646,000	450,282,987	2,239,021,000	43.5	32.7	45.3	34.0	4
Oct. 7	470,000,000	755,175,000	797,785,000	1,536,363,000	268,574,916	2,060,636,000	49.2	36.7	55.5	38.7	5
14	470,000,000	787,357,000	837,735,000	1,450,251,000	142,517,347	1,967,907,000	54.3	40.0	57.8	42.6	5
23	470,000,000	834,409,000	892,607,000	1,388,204,000	25,593,861	1,918,945,000	60.1	43.5	64.3	46.5	5
31	470,000,000	794,174,000	825,527,000	1,442,072,000	146,547,804	1,929,565,000	55.1	41.2	57.2	42.8	5
Nov. 7	470,000,000	798,992,000	839,658,000	1,385,525,000	75,864,662	1,859,920,000	57.7	42.9	60.6	45.1	5½
Dec. 30	472,829,000	803,525,000	831,043,000	1,656,679,000	352,808,324	2,287,486,000	48.5	35.1	50.2	36.3	6
1906.											
Jan. 6	472,829,000	854,032,000	892,580,000	1,515,306,000	149,898,446	2,039,802,000	56.4	41.9	58.9	43.7	6
Mar. 31	472,829,000	888,980,000	922,921,000	1,629,098,000	233,348,738	2,218,094,000	54.6	40.1	56.6	41.6	5
Apr. 7	472,829,000	915,791,000	958,428,000	1,477,287,000	46,028,548	2,021,801,000	62.0	45.3	64.9	47.4	5
June 30	472,829,000	844,429,000	892,971,000	1,647,872,000	282,073,455	2,247,511,000	51.2	37.6	54.2	39.7	4½
July 7	472,829,000	879,012,000	939,041,000	1,501,112,000	89,242,180	2,062,812,000	58.6	42.6	62.5	45.5	4½
Sept. 29	472,829,000	675,301,000	725,961,000	1,704,131,000	505,339,503	2,293,846,000	39.6	29.4	42.6	31.6	5
Oct. 6	472,829,000	676,140,000	738,521,000	1,609,991,000	398,638,411	2,128,738,000	42.0	31.8	45.9	34.7	5
15	472,829,000	721,901,000	794,680,000	1,497,524,000	230,015,817	2,089,220,000	48.2	34.6	53.1	38.0	6
23	472,829,000	774,652,000	855,280,000	1,444,520,000	116,408,112	2,010,457,000	53.6	38.5	59.2	42.5	6
31	472,829,000	736,921,000	790,087,000	1,485,098,000	222,177,585	1,995,591,000	49.6	36.9	53.2	39.6	6
Nov. 7	472,829,000	742,860,000	804,209,000	1,430,501,000	153,461,465	1,915,838,000	51.9	38.7	56.2	42.0	6
15	472,829,000	777,926,000	849,775,000	1,389,803,000	67,199,067	1,940,165,000	56.0	40.1	61.1	43.8	6
30	472,829,000	766,316,000	824,124,000	1,395,530,000	98,574,212	1,986,730,000	54.9	39.6	59.1	41.5	6
Dec. 7	472,829,000	746,435,000	812,291,000	1,376,564,000	91,443,268	1,941,376,000	54.2	38.4	59.0	41.8	6
15	472,829,000	747,301,000	822,670,000	1,394,693,000	99,191,717	1,989,517,000	53.6	37.6	59.0	41.3	6
22	472,829,000	735,673,000	816,298,000	1,480,931,000	191,799,292	2,085,756,000	49.7	35.3	55.1	39.1	7
31	472,829,000	665,017,000	730,422,000	1,775,898,000	572,644,757	2,428,781,000	37.4	27.4	41.1	30.1	7
1907.											
Jan. 7	472,829,000	722,865,000	800,081,000	1,605,530,000	332,618,913	2,152,322,000	45.0	33.6	49.9	37.2	7
15	472,829,000	805,345,000	896,781,000	1,458,571,000	88,961,275	2,017,808,000	55.2	39.9	61.5	44.4	7
31	472,829,000	843,304,000	916,397,000	1,411,818,000	22,588,939	1,926,862,000	59.7	43.8	64.9	47.6	6
Mar. 30	472,829,000	775,972,000	858,428,000	1,731,486,000	400,227,260	2,327,444,000	44.8	33.3	49.6	36.9	6
Apr. 6	472,829,000	820,315,000	916,054,000	1,595,262,000	206,379,147	2,187,009,000	51.4	37.5	57.4	41.9	6
15	472,829,000	884,009,000	991,194,000	1,474,214,000	10,290,631	2,070,046,000	60.0	42.7	67.2	47.9	6
30	472,829,000	898,444,000	990,415,000	1,510,320,000	47,080,525	2,095,799,000	59.5	42.9	65.6	47.2	5½
June 29	472,829,000	830,710,000	925,908,000	1,728,764,000	330,023,078	2,355,385,000	48.1	35.3	53.6	39.3	5½
July 6	472,829,000	841,977,000	951,508,000	1,625,126,000	200,790,091	2,156,048,000	51.8	39.1	58.5	44.5	5½
15	472,829,000	877,441,000	998,341,000	1,505,791,000	34,621,418	2,079,604,000	58.3	42.2	66.3	48.0	5½
31	427,829,000	878,064,000	978,386,000	1,478,024,000	26,808,045	2,008,560,000	59.4	43.7	66.2	48.7	5½
Aug. 31	472,829,000	860,813,000	960,458,000	1,452,748,000	19,448,339	1,998,263,000	59.3	43.1	66.1	48.1	5½
Sept. 30	472,829,000	737,022,000	838,333,000	1,824,546,000	513,384,283	2,434,028,000	40.4	30.3	45.9	34.4	5½
Oct. 7	472,829,000	730,515,000	843,989,000	1,712,145,000	395,324,815	2,253,000,000	42.7	32.4	49.3	37.5	5½
15	472,829,000	768,496,000	889,239,000	1,596,557,000	234,489,657	2,175,620,000	48.1	35.3	55.7	40.9	5½
23	472,829,000	808,382,000	936,636,000	1,538,979,000	129,508,875	2,137,444,000	52.5	37.8	60.9	43.8	5½
31	472,829,000	750,264,000	852,377,000	1,617,034,000	291,825,808	2,167,991,000	46.4	34.6	52.7	39.3	6½
Nov. 7	472,829,000	730,437,000	842,570,000	1,562,345,000	246,944,920	2,101,804,000	46.8	34.8	53.9	40.1	6½
15	472,829,000	729,805,000	850,467,000	1,497,750,000	174,454,697	2,049,281,000	48.7	35.6	56.8	41.5	7½
23	472,829,000	734,080,000	858,373,000	1,440,538,000	109,333,199	1,983,370,000	51.0	37.0	59.6	43.3	7½
30	472,829,000	678,520,000	776,228,000	1,510,883,000	261,828,365	1,998,768,000	44.9	33.9	51.4	38.8	7½
Dec. 7	472,829,000	681,760,000	787,312,000	1,468,555,000	208,410,891	1,944,270,000	46.4	35.1	53.6	40.5	7½
14	472,829,000	700,565,000	808,589,000	1,476,827,000	195,404,216	2,020,184,000	47.4	34.7	54.8	40.0	7½
23	472,829,000	714,836,000	826,687,000	1,569,465,000	269,948,061	2,133,469,000	45.5	33.5	52.7	38.7	7½
31	472,829,000	704,179,000	787,117,000	1,885,922,000	625,974,363	2,544,424,000	37.3	27.7	41.7	30.9	7½
1908.											
Jan. 7	472,829,000	758,682,000	856,107,000	1,715,717,000	386,781,134	2,242,994,000	44.2	33.8	49.9	38.2	7½
15	472,829,000	838,690,000	949,652,000	1,540,151,000	117,666,475	2,113,625,000	54.5	39.7	61.7	44.9	6½
31	472,829,000	885,959,000	972,617,000	1,483,933,000	38,486,282	1,980,047,000	59.7	44.7	65.5	49.1	6
Mar. 31	472,829,000	870,947,000	947,295,000	1,781,782,000	361,657,668	2,402,658,000	48.9	36.2	53.2	39.4	5½
Apr. 7	472,829,000	880,117,000	970,748,000	1,643,372,000	199,794,255	2,178,537,000	53.5	40.4	59.1	44.6	5½
15	472,829,000	915,488,000	1,015,292,000	1,517,745,000	29,624,868	2,087,826,000	60.3	43.9	66.9	48.6	5½
30	472,829,000	946,549,000	1,025,347,000	1,541,578,000	43,401,069	2,157,811,000	61.4	43.9	66.5	47.5	5
June 30	472,829,000	1,031,799,000	1,103,994,000	1,792,623,000	215,800,330	2,407,760,000	57.6	42.9	61.6	45.9	4
July 7	472,829,000	1,059,505,000	1,144,580,000	1,666,886,000	49,477,014	2,310,913,000	63.6	45.8	68.7	49.5	4
Sept. 30	472,829,000	1,033,553,000	1,103,439,000	1,896,913,000	320,647,610	2,556,579,000	54.5	40.4	58.2	43.2	4
Oct. 7	472,829,000	1,039,157,000	1,119,620,000	1,759,575,000	167,126,786	2,421,459,000	59.1	42.9	63.6	46.2	4
15	472,829,000	1,069,377,000	1,159,294,000	1,640,787,000	8,663,955	2,341,080,000	65.2	45.7	70.7	49.5	4
31	472,829,000	1,064,491,000	1,133,630,000	1,674,400,000	67,939,516	2,285,123,000	63.6	46.6	67.7	49.6	4
Dec. 31	472,829,000	980,147,000	1,047,765,000	1,975,390,000	454,793,551	2,631,968,000	49.6	37.2	53.0	39.8	4

83703—10. (To follow page 119.) No. 2.

Appendix IV.—*Note reserve and excess of circulation over and above the contingent.*

[Amounts in thousands of marks.]

Year.	Tax-free contingent at the end of the year, and at the end of every five years.	Tax-free note reserve.[a]						Excess of circulation over and above the contingent.[b]				
		Average amount.	Percentage of the figure for the year 1876 and of the figure for the five years 1876–1880.	Maximum.		Minimum.		Number of times the bank statement showed an excess of circulation.	Sum total of excesses.	Maximum amount of excess.		Note tax paid.
				Date.	Amount.	Date.	Amount.			Date.	Amount.	
1	2	3	4	5	6	7	8	9	10	11	12	13
1876	272,720	152,704	100.0	Jan. 7	242,981	Jan. 7	30,519					
1877	273,875	155,088	101.5	Mar. 23	222,422	Sept. 30	56,997					
1878	273,875	185,222	121.3	June 7	241,643	Jan. 7	74,173					
1879	273,875	195,358	127.9	Mar. 23	299,225	Dec. 31	711,648					
1880	273,875	167,639	109.8	June 7	231,531	Dec. 31	48,975					
1876–80	273,875	171,202	100.0	Mar. 23, 1879.	299,225	Jan. 7, 1876.	30,519					
1881	2 3,075	148,443	97.2	Mar. 7	260,499			1	26,092	Dec. 31	26,092	27
1882	273,875	121,817	79.8	Mar. 23	221,532			2	31,409	Sept. 30	19,224	33
1883	273,875	176,123	115.3	Mar. 15	269,793	Dec. 31	36,180					
1884	273,875	168,786	110.5	Mar. 15	268,549			1	32,679	Dec. 31	32,679	34
1885	273,875	168,640	110.4	June 7	252,251			1	2,615	Jan. 7	2,615	3
1881–85	273,875	156,762	91.5	Mar. 15, 1883.	269,793			5	92,795	Dec. 31, 1884.	32,679	97
1886	274,834	196,583	128.7	Feb. 23	330,763			1	34,161	Dec. 31	34,161	36
1887	276,085	220,946	144.4	June 15	332,665	Jan. 7	11,526					
1888	276,085	277,110	181.4	June 7	446,715	Dec. 31	66,143					
1889	286,585	194,200	127.2	Mar. 15	367,662			3	226,528	Dec. 31	109,478	236
1890	288,025	135,431	88.7	June 7	276,468			6	325,082	Oct. 7	104,205	339
1886–90	288,025	204,795	119.6	June 7, 1888.	446,715			10	585,771	Dec. 31, 1889.	109,478	611
1891	292,117	246,010	161.1	Aug. 23	359,147	Jan. 7	32,328					
1892	292,117	283,444	185.6	Feb. 23	431,678	Dec. 31	16,764					
1893	292,117	183,302	120.0	Feb. 23	350,404			1	38,518	Sept. 30	38,518	40
1894	293,400	262,761	172.0	Nov. 23	366,795	Jan. 7	60,286					
1895	293,400	243,237	159.2	Feb. 23	471,164			3	215,080	Dec. 31	148,283	224
1891–95	293,400	243,751	142,4	Feb. 23, 1895.	471,164			4	253,598	Dec. 31, 1895.	148,283	264
1896	293,400	135,209	88.5	Feb. 23	317,083			6	446,209	Dec. 31	134,149	465
1897	293,400	113,026	74.0	Feb. 23	317,299			9	737,199	Sept. 30	205,830	768
1898	293,400	54,691	35.8	Feb. 23	321,503			16	1,850,325	Dec. 31	282,955	1,927
1899	293,400	12,271	8.0	Feb. 23	222,873			20	2,733,402	Sept. 30	371,233	2,847
1900	293,400	8,689	5.7	Feb. 23	181,810			20	2,417,139	Dec. 31	355,917	2,518
1896–1900	293,400	64,777	37.8	Feb. 23, 1898.	321,503			71	8,184,274	Sept. 30, 1899.	371,233	8,525
1901	460,000	214,635	140.5	June 15	416,426			5	338,577	Sept. 30	108,601	353
1902	470,000	254,390	166.5	Feb. 23	501,388			3	459,158	Dec. 31	231,639	478
1903	470,000	163,790	107.2	Feb. 23	367,994			7	773,057	Dec. 31	274,949	805
1904	470,000	153,514	100.5	Feb. 23	358,796			8	1,073,638	Sept. 30	305,039	1,118
1905	472,829	153,534	100.5	Feb. 23	508,971			9	1,584,963	Sept. 30	450,283	1,651
1901–5	472,829	187,973	109.8	Feb. 23, 1905	508,971			32	4,229,393	Sept. 30, 1905.	450,283	4,405
1906	472,829	34,368	22.5	Feb. 23	346,693			17	3,547,485	Dec. 31	572,645	3,692
1907	472,829	[c]—58,227		Feb. 23	224,587			25	5,376,670	Dec. 31	625,974	5,601
1908	472,829	57,510	37.7	Aug. 23	323,939			14	2,461,861	Dec. 31	454,794	2,564

[a] This is the amount by which the note circulation which, in the meaning of paragraph 9 of the Bank Act, is not secured by cash reserves falls below the tax-free contingent.

[b] An excess occurs if the note circulation which, in the meaning of paragraph 9 of the Bank Act, is not secured by cash exceeds the amount of the tax-free note contingent.

[c] During the year 1907 there was an average note circulation subject to tax of 58,227,000 marks.

APPENDIX V.—*Annual increase in the surplus of the Reichsbank calculated on the basis of the net profits realized in the twenty years, 1888–1907, assuming an annual quota of 10 per cent.*

Year.	Net profit.	3½ per cent dividend on the capital.	Of the balance 10 per cent to the surplus.
	Marks.	*Marks.*	*Marks.*
1888	8,104,669	4,200,000	390,467
1889	12,900,244	4,200,000	870,024
1890	20,740,773	4,200,000	1,654,077
1891	18,665,816	4,200,000	1,446,582
1892	11,989,872	4,200,000	778,987
1893	17,584,397	4,200,000	1,338,440
1894	11,404,427	4,200,000	720,443
1895	9,919,434	4,200,000	571,943
1896	17,409,232	4,200,000	1,320,923
1897	19,396,832	4,200,000	1,519,683
1898	22,277,946	4,200,000	1,807,795
1899	31,711,379	4,200,000	2,751,138
1900	33,965,457	4,200,000	2,976,546
1901	25,946,284	5,250,000	2,069,628
1902	19,991,300	5,250,000	1,474,130
1903	25,381,035	5,250,000	2,013,104
1904	26,459,555	5,250,000	2,120,956
1905	25,406,367	6,300,000	1,910,637
1906	40,262,908	6,300,000	3,396,291
1907	52,313,652	6,300,000	4,601,365
Average of the 20 years, 1888 to 1907	22,591,579	4,725,000	1,786,658

III

Excerpts from the Proceedings of the Third German Bankers' Convention, held in Hamburg in September, 1907

EXCERPTS FROM THE PROCEEDINGS OF THE THIRD GERMAN BANKERS' CONVENTION, HELD IN HAMBURG IN SEPTEMBER, 1907.

THE DISCUSSION OF DEPOSIT BANKING.

The PRESIDENT. Gentlemen, before I give the principal speaker the floor, I wish to inform the assembly of something which will perhaps interest them, namely, that the Reichsgenossenschaftsbank at Darmstadt has kindly notified me that the agricultural cooperative institutions have adopted resolutions concerning the question of check legislation which are similar in content and in tendency to our own, so that the Director of the Reichsgenossenschaftsbank felt justified in making the following addition to his communication: "In this important question of check business and check legislation, which will be next dealt with by the Reichstag, commerce, industry, and agriculture go hand in hand."

Privatdozent Doctor JAFFÉ. Gentlemen, I fear that many of you shook your heads disapprovingly when you learned from the programme of the Third German Bankers' Convention that a theorist was to be the first to address you concerning the legal regulation of deposits. Now, gentlemen, even I was not able to refrain from this same head shaking when the flattering request of your committee came to me to undertake this report, for I am of the opinion that in the things of economic life the theorist has far more to learn from the practical man than vice versa. I have complied with this request, and indeed gladly, for these two reasons, to which even you will perhaps allow some slight weight. In the first place, the question which we would deal with to-day has been opened for public discussion, not by practical men, but—at least for the greater part—by scholars, and therefore it is perhaps not inopportune if science takes a position with regard to it. In the second place, however, I can not regard myself, at least in this presence, as a pure theorist, for I have, during fifteen years of mercantile activity, acquired some sympathy with practical affairs.

This activity has brought me into especially close relations with English business life, and particularly with English banking, and since the latter is represented to us more and more as worthy of emulation and imitation, especially in the line of deposit business, I should now like to deal in somewhat more detail with the advantages and disadvantages of this system.

First of all, I should like to make a few brief introductory remarks concerning the general principles of deposit banking.

The task of modern banking is a threefold one.

First, the creation of a safe and convenient means of circulation and credit transfer as the necessary complement of the money and coinage system established by the State. This is effected through the issue of bank notes, through the check and deposit system, and through other means of facilitating payments.

With this part of banking activity the German Bankers' Convention has already concerned itself in its discussion of the "ways and means for economizing metallic currency" and the "renewal of the Reichsbank privilege." The other two functions of banking, which are much more important, and which together form the basis of the general system of credit organization, consist of what I might call credit concentration on the one side and credit distribution on the other. By credit concentration I mean the gathering of all the capital not in use at a given moment, from the greatest to the smallest portions, into a common reservoir; by credit distribution I mean the loaning out again of the capital thus collected to the men engaged in agriculture, commerce, and manufactures.

From this double function there results the enormous importance of banking for modern economic life. The German nation particularly is compelled, because of its growing population and the relatively unproductive soil of its country, to develop industry, trade, and commerce, as well as agriculture, in the most intensive manner, and it is therefore more vitally interested than almost any other nation in making the fullest use of all available capital. This can be done, however, only if the available capital is made accessible to the business man through concentration in the banks and if the banks meet with no difficulties in the collection and distribution of this capital.

The banks obtain the moneys necessary for their business in three different ways:

First, from their own capital; that is, in the case of the great joint-stock banks, which are to-day of chief importance, through the sale of their own shares and the accumulation of undivided profits in the form of surplus.

Second, through transacting the money affairs of business men and the bigger capitalists (deposits on current account).

Third, through the attraction of the cash and the savings of the great public which are seeking investment (deposit business in the narrower sense).

The first of these sources is limited in its extent by quite definite bounds, which are fixed by banking policy and which can not be overstepped (the level of the dividends and the fluctuations in surrounding conditions). With increasing demand for capital on the part of business men, the capital of the banks is capable of increasing only very slowly. The result is that, with the progressive development of banking, the ratio of the banks' own capital to the capital coming from the other two sources always falls. In England the paid-in capital of the banks amounts to-day, on an average, to about 10 per cent of outside money; with us, in Germany, the total of outside money was, even in the year 1892, not greater than that of the capital of the banks. To-day the ratio is about as two to one—that is, the outside money amounts to about double the bank capital itself, and, to be exact, perhaps a little bit more.

How to attract these outside moneys is, accordingly, a problem of continually increasing importance, for this is essential in order that the daily increasing needs of business may be satisfied. England affords us the picture of an almost perfect concentration of all available money in the vaults of the banks. In England the ideal is as good as attained, since not even the smallest particle of capital lies unused, but is drawn to the great reservoir of the London money market. It is one of the chief factors of the economic greatness of England that in London the necessary capital for every good business is always to be had cheap. This has been attained by the development of the check and clearing-house system on the one hand, and on the other, above all, by the assiduous nursing of the deposit business, by the extension of banking facilities over the whole country, and by the erection of branches, deposit offices, and agencies, which are spread over the whole land like a close-meshed net. Just as in the large and medium sized cities, so in the small towns and villages, everyone is afforded an opportunity to enjoy the advantages of a bank connection. The number of bank offices in Great Britain amounts to-day to far more than eleven thousand, and is increasing rapidly. A single bank controls more than five hundred such offices. The outside money (savings and current-account deposits) deposited with the banks amounts to between eighteen and nineteen billion marks. Every little property holder, every official, every shopkeeper and artisan—and, indeed, even a great number of the more well-to-do mechanics and farmers—are as much the customers of the bank as are the manufacturers and the capitalists. It is also the case that very many women have accounts with the banks, from which, among other things, the household expenses are settled. The public corporations, too, set a good example for others to follow. The State, the county, the big corporations—these all deposit their money with the Bank of England or with one of the big banks, and all of their payments are transacted through these accounts.

We in Germany are still very much behind this stage of development—partly as a result of the bureaucratic spirit of our public administrative bodies, partly as a result of the lack of acquaintance with business and the world on the part of the middle and lower strata in city and country, but in no small measure because our banks and bankers have not always given the proper attention to means of attracting the smaller deposits. The outside money of our banks amounted at the end of 1906 to 6,305,000,000 marks, of which 2,141,000,000 marks were deposits and 4,164,000,000 marks were other credits.

The great difficulty of the extension of the check and transfer system is due in no small measure to the inadequate development of our deposit system. To be sure, an ever-increasing number of deposit accounts have been opened in the great cities in the last decade, and in recent times the competition among the leading institutions has led to the opening of similar accounts in many of our secondary cities. But the small towns and the open country are, for the most part, still outside the circle of operations of the banks, and even in the cities the smaller business men and shopkeepers, the officials and people of private means, have not yet been attracted in large numbers.

If our banks desire to fulfill properly their great economic functions, then further development must begin here. The opportunities that offer themselves, if a shrewd and far-seeing policy is maintained, are indeed enormous. The field has, to be sure, already been occupied to some extent by institutions of other kinds—by the savings banks and by the Reichsgenossenschaftsbank—but it is large enough to afford room for all.

In what way this extension of deposit business should proceed, the practical man alone can decide. Either the net can be extended on the English plan so that in every important center a deposit bank is instituted, upon which a more or less large number of agencies, and of bank offices opened only on market days, are dependent; or else an effort can be made to enter into closer relations with the local institutions already existing.

A reorganization of deposit banking naturally can not proceed without great difficulties. These will lie chiefly in the increasing cost of the business and in the necessity for a central supervision of the branches and agencies.

I may, however, express the conviction that our banks, which have mastered quite different difficulties, would solve even this problem in at least as satisfactory a way as the English joint stock banks have done.

That the extension of the network of branches would finally pay appears to me to follow from this, that the English banks do not engage in a branch of business which would greatly add to the profits of the German deposit banks—the sale of investment paper to customers.

The forward movement of our economic life in recent decades has been twice interrupted by temporary regressions, once at the beginning of the nineties, and again at the beginning of the new century. These regressions have naturally caused the banking system to suffer sympathetically. Our German credit banking system as a whole, however, has stood the test both times excellently well; in each case better than the corresponding French and English institutions in similar situations. Nevertheless, on both occasions loud demands arose for legislative interference for the removal of real or apparent evils.

The agitation of the nineties gave us the deposit law and the bourse law; that of the recent period of depression seems now to be restricted to a demand for a deposit law.

In order to be able to judge rightly concerning the value or worthlessness of these efforts we shall endeavor to make clear what are the underlying motives of this demand. We can easily distinguish two tendencies, both of which make toward this goal, but from very different motives and causes.

I would designate the first as the political. It arises from the circles which have written on their banners the protection of the so-called "middle class in city and country." It proceeds from members of the parties forming the right and a considerable part of the center, and above all from the union of farmers and the other representatives of agricultural interests—from those, therefore, who look askance at the development of Germany into an industrial state.

Being declared opponents of mobile capital, they lack, for the most part, the understanding of the great economic significance of banks and bourses, which appear to them not as important factors of economic development, but as morbid and dangerous excrescences, whose efficiency must be restricted in every way.

In spite of the fact that the bourse law, which is now recognized even by its framers as a complete failure, has injured German economic life very deeply, not only are all conceivable hindrances placed in the way of improving it, but new means are sought of hindering the progress of our industrial life; and for this purpose the legal regulation of deposit banking is proposed.

It is very well known in those circles that the development of our industries is very closely connected with that of banking, that the enormous development of the former was possible only through the vigorous support of the banks, which drew the means for this, for the most part, from their deposit business. Under the pretense that the association of regular banking business with commercial activity, and the issue of notes which is characteristic of our German banking system, endangers the safety of deposits, it is proposed that the deposit business be subjected to legal limitations, which would correspond approximately to those applied to note issue. These proposals have recently been clothed in the formula "legal regulation of the covering of the deposits of the Reichsbank and of all other banks in accordance with the increased importance of the transfer and deposit business since 1875."

The intention is to prevent the banks which do a note issue business from accepting deposits, apparently in the secret hope of guiding these sums to their own mills, and of thus finally fulfilling to some extent the oft-repeated demand for cheaper money for agriculture and handicrafts.

The second tendency that makes for a legal regulation of deposit banking I would call the scientific. Its chief advocate is the well-known economist, Prof. Adolph Wagner, of Berlin, whom a number of other experts and also some practical men have joined. Their opinion is based upon the conviction that the system of joining regular banking business with the so-called irregular (promotion, flotation, and stock-brokering business) is full of the greatest dangers for the solidity of our banking system. They advocate, on the contrary, the English system of division of labor, under which the large joint stock deposit banks, it is alleged, carry on only the regular banking business, while the promotion and flotation business lies in the hands of private individuals and financial companies, which use no outside money in their business, and therefore are not included in England among the banks.

The followers of this line of thought aim at making the attraction of money from outside—at least of savings accounts—difficult or impossible for the joint-stock banks and banks of issue. On the other hand, they advocate the erection of pure deposit banks which would be limited to the regular banking business in the investment of their funds, and forced to maintain a legally fixed reserve against the deposits, and to publish regular statements concerning their investments and cash on hand.

In details the propositions are in marked disagreement; some advocate the erection of an imperial deposit bank as a sister institution to the Reichsbank; others demand the chartering of one or more joint-stock deposit banks established by private means, but subject to state supervision; others advocate deposit banks established by the separate states. Finally, there are some demands for a less radical change—namely, that the regular publication of accounts be required of the existing mixed banks, while at the same time certain advantages shall be given to the pure deposit banks.

The time at my disposal does not permit me to present to you the different proposals in detail. You will find everything more explicitly dealt with in the excellent book by the president of the Centralverband, Geh. Justizrat Dr. Riesser, "Zur Entwickelungsgeschichte der deutschen Grossbanken," in which the particular points are subjected to a keen criticism, which, in my judgment, is incontrovertible.

Quite recently it has been suggested that all banks be forced to keep against their deposits a cash reserve of about two per cent with the Reichsbank. The third speaker will deal with this proposition in detail.

I shall confine myself to a general criticism, more especially because, in my judgment, the entire proof of the advocates of these measures is built upon two wholly erroneous assumptions, which I shall now endeavor to correct.

In the first place it is no longer true that the English joint-stock banks are pure deposit banks, or that they carry on only so-called regular banking business. To be sure, the present joint-stock banks have no direct share in flotations, promotions, and similar business. But indirectly, through the mediation of the bourse, most of them place an increasing part of their available capital at the disposal of speculation, and thus of promotion and flotation business. The more strongly the movement toward concentration in English banking proceeds, and the more also the administration of the provincial banks is transferred to London, the closer will be the connection of the banks with the bourse and the greater will be the sums regularly loaned there. I have treated this more in detail in my book, "Das Englische Bankwesen," but even a very short consideration of the subject must make it clear to us that it can not be otherwise, according to the nature of things.

We know that the available resources of the English people are almost wholly concentrated in the banks. If there is only one such reservoir at hand, then the sums which are necessary for flotation and stock business flow from this reservoir. No one who knows the English stock exchange will dare to assert that the business of speculation is carried on solely through the help of the professional speculators, the comparatively few and not very powerful financial companies, and the great capitalists and private bankers, like Rothschild. These afford only a relatively small share of the necessary capital.

The absorbing capacity of the English stock exchange rests on the institution of *jobbers* or *dealers*—that is, the big stock dealers—who buy and sell on their own account any desired amount of the securities especially handled by them. They can only do this if behind them stand big money-lenders, who are ready at any time to take the securities in question as collateral, and these money-lenders are none other than the big English joint-stock banks, which daily put their surplus money at the disposal of the bill and stock brokers connected with them. The big items which appear in the balances of these bankers under "money at call and short notice" are just such sums.

The result of the division of labor is therefore simply that the English banks furnish the money for the flotation and stock business without thereby securing the slightest control for themselves over the business of speculation. Up to this time the English deposit banks have not suffered much from this, but it is well known that English speculation is in a very bad way because no influence is exerted upon it by the banks. Nowhere are so many extravagant speculations launched as on the London Stock Exchange; nowhere—not even in Germany—has the public lost such enormous sums, and nowhere does the constant enactment of more and more stringent bourse laws help so little.

That is the first fallacy. The second is that the union of speculative with regular banking business in Germany has led, or must lead, to a jeopardizing of the banking business. I am inclined to think that exactly the opposite is the case.

In the first place, an analysis of the balances of our leading institutions shows—and this is of chief importance—that the covering of outside money by immediately available assets is throughout satisfactory; as regards the amount of available cash reserve, we make a much better showing than most English deposit banks, especially since, as above mentioned, the reserves of these banks consist in part of advances to the bill brokers and stock jobbers, which, in case of a collapse of the stock exchange, are not realizable, while the other part is deposited with the Bank of England, which uses these sums again, however, in its own business. On the other hand, with us in Germany, especially in times like the present, the holdings of stocks of many of our large banks may be felt as a heavy weight; but, in my opinion, they signify no danger whatever for deposit creditors.

In the second place, scientific investigation of the development of our banking system in the last decades has shown that the greatest guaranty of a sound condition of our credit system lies precisely in the union of the flotation banking with the regular banking business.

Institutions which carry on promotive business solely—we have a few such in Germany—are interested solely in effecting the quickest possible sale of the securities they handle to the public. With the sale of the securities, all connection between the promoter and the concern promoted ceases.

In our large banks, on the contrary, the flotation business is only one link in the chain of various relations between the bank and the customers connected with it. The starting or enlargement of an undertaking stands always in the closest connection with relations that extend over years through the current-account business. The bank is, therefore, on the ground of longer connections, in the best position to judge whether an undertaking is ripe for promotion or not. Our great banks, too, as a result of their varied connections with all branches of industry, are much better informed concerning the factors involved than mere promotion companies can be. The banks can gauge the condition of the world market much more accurately than can any such institutions. They are, by their whole position, so closely bound up with the well-being of the people that their self-interest and even their instinct of self-preservation forces them to carry on this promotion and flotation business as carefully as possible. They have, therefore, the greatest interest not only in the success of the flotation, but also in the permanent prosperity of the undertaking, which remains its customer. Not only regard for their reputation as to flotations, but in a much higher degree their desire to enter into permanent connection with the enterprises they launch, affords a guaranty of the solidity of promotion business carried on by our banks.

Our banks have been the pioneers of industrial development—a development which in speed and magnitude has been equaled only in the United States. If this enormous expansion of our economic strength and of our wealth has occurred with much smaller disturbances than in any other country (England certainly not excepted), then for this our thanks are due chiefly to our system of mixed banks and to the proper use of this system.

The organization of our banking system arose historically from force of circumstances, as clearly as did the opposite system in England. Both have their national justification, and both, of course, involve certain dangers. But the German system is not only the proper one for our conditions, but it is also in itself the more successful and, so far as we can judge, the safer.

No great economic organization attains an absolute ideal through legal provisions. Abuses and disappointments are always possible. The safest system is, however, that in which the legitimate self-interest of the parties concerned coincides with the true interest of the community, and this is better attained by our system than by the English.

We ought, therefore, to refrain from depriving this system of its foundations by rendering it more difficult for bankers to attract deposits. We ought to guard ourselves especially against seeking to import into Germany through legal compulsion conditions that have arisen in England through natural development and without legislative interference. The only country which has attempted to subject its deposit banks to that kind of legislative prescription, namely the United States of America, has had very unsatisfactory experience as its result.

Obstacles placed in the way of the deposit business would check and restrict the development of our banking system without giving us anything better in its stead. We must, therefore, combat such interference most energetically.

But the more vehemently you object to attacks of this kind, the more necessary it is to examine, in the most critical manner, the proposals made by the other side, and, for your own part, to devise the requisite—the necessary—measures for the maintenance and development of deposit banking.

The chief question is whether a separation of deposit and current-account creditors on the books of the bank is desirable and possible, and whether the publishing of monthly statements demanded by so many—as is done in England by the joint stock banks, and also by the great private bankers, without legal compulsion—is to be recommended for us also. Further, whether the funds of the deposit department are to be managed separately; whether those obligations are to be covered and guaranteed in other ways than are the other obligations of the bank; and, finally, what course is to be advocated in the interest of a further development of deposit banking.

These points and their bearings can be estimated rightly in detail only by practical men, and I will therefore leave them to be handled by the other gentlemen to whom the subject has been referred and in the general discussion.

For my part, however, I will permit myself to warn you against the repetition of a cardinal mistake which has been made by those who were interested in the framing of the bourse law—namely, that of underestimating the strength of the opponent. You were reminded again yesterday how comparatively easy it is to bring about legislative interference of the most peremptory kind, and how difficult it is later to secure even a moderation of measures of that nature.

Therefore the saying "principiis obsta" applies here—resist the first attempt.

How this may best be done is no question for science, but for politics. It is not my place to give you advice here, but if you will permit me to express my private opinion, then I should like to point out that the German merchant class has itself to blame if it does not occupy the position in the political and economic life of the nation to which its achievements and its importance entitle it.

The German merchant has allowed his business to make such heavy demands upon him that he has almost renounced all share in the political life of the country. So long as no change occurs in this state of affairs, he need not be surprised if he does not receive the necessary consideration on the part of the Government and the political parties. From the parties there is not much to be hoped for in the present political situation. This is far from being the case, however, with the factor which is, after all, the determining one in matters of legislation—that is, the Government.

The Government is supposed, of course, to look impartially upon conflicting interests, and it makes the effort to be just to all parties. But it would be only human for it to let itself be driven by the skillful and effective agitation of the agricultural classes and the middle class to actions which run contrary to the interests of other classes—at least if the latter allow this to happen without a remonstrance.

What is necessary is, that these interests, above all the merchant class, should strengthen the backbone of the administration against the oft-repeated demand to bind our economic life in restricting chains. The administration will be grateful for such support, and the fruits will not be long in coming. Should this assumption, however, be an erroneous one, which I do not believe, then there is always time yet to resort to those means which are used by the opposition party on all occasions, and to which Goethe's line applies—"Und bist du nicht willig, so brauch' Ich Gewalt." For instance, in case of the introduction of a deposit law, the idea could be hit upon of recommending a bankers' strike when a new loan to Prussia or to the Empire is being arranged. I believe that, especially in the present state of our loan market, the chance of attracting "volunteer laborers" would not be a very large one. But apart from weapons of this sort—which I have of course mentioned only in jest—there are plenty of other means by which further legislation injurious to the community may be prevented, if only it were decided to make use of them. I should be the last to recommend the attainment of special privileges through the use of pressure. But it is not a question of special privileges, either for the German merchant class in general or for the banking and exchange business in particular, but simply a question of seeing them guaranteed the right to keep, without disobedience to law, their rightful "share of the sunlight."

Trade and manufactures, as well as agriculture, have the right to demand that they be estimated and treated in accordance with their significance and their capacity for rendering service, even that of bearing taxation.

The German merchant wishes to be treated in accordance with the motto of the Prussian royal house—*Suum cuique;* to each his own, not more and not less! [Loud applause.]

The PRESIDENT. I also thank the speaker for his especially clear and instructive remarks. As the masterly book on English banking which he has written can not be overlooked if this matter is to be studied, so no one can pass over his present remarks. At only one point do I disagree. If he intimated—only incidentally, indeed, and without himself countenancing the plan—that there may be even a possibility of bankers refusing their help in certain national contingencies, especially in the flotation of consols, in order to repay "force with force," after the model of labor strikes, then I say that this is a way which the German banking class never could and never will follow. If he has further intimated that we should busy ourselves with making an outcry, I reply that we are convinced that very many others are and always will be superior to us in the art of bawling, and that we have therefore decided to work through nothing but the inherent strength of our own arguments. This course, however, will and must lead us to victory, even if only in the future, and after many vain struggles. Of this I am convinced.

Doctor DAMME. Gentlemen, the credit system of a country is an organic whole, closely associated with the economic needs and the customs of the people. One part fits into the other, like the wheels of a machine, and the task of maintaining the machine in the best possible working order falls to the bankers. In the banks money redundancy and money need balance each other. Over against the money-gathering activity, the so-called liability business, stands the money-distributing activity, the asset business proceeds in parallel lines, and it is a fundamental law of science that the nature of the liability business must determine the undertakings involved in the asset business. If the management of but one of the customary branches of the liability business receives a check—whether on its own initiative or through legal enforcement—then the results make themselves felt unavoidably on the asset businesses. If the State interferes, for instance, in the legal regulation of banking deposits, then that signifies nothing less than a revolution of the whole credit system under which Germany has advanced in recent decades to its present economic position—to the position which has given the established masters of the seas, the English, serious apprehensions. These apprehensions, as we all know, are not well founded, for the world's trade opens up every year new and unsuspected routes, on which the flags of all nations may meet each other peaceably, and the commercial peoples of the world may enter into competition for the best satisfaction of old and new needs. The fact that Germany has become so considerable a factor in this rivalry is to be attributed, not only to the political strength of the Empire, but also to the enterprise of our merchant class, which has been able to rely upon the elasticity of our credit system. Now, among the lessons which are always impressed afresh upon every generation of business men is the fact that credit is a tender plant, that it can indeed be planted and nurtured in favorable soils, but that for its development to a strong-rooted tree the lapse of time is necessary. "Credit can not be built according to plan, like a house," says Bagehot in his well-known book, "Lombard Street,"

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and the warning which he, a severe critic of the English single reserve system, gives is pertinent also for us. "Whoever lives under a great and well-grounded credit system must consider that if he destroys it he will not immediately have another fully developed one. For it requires years before the new system can attain the strength of the old." These words may be taken to heart by those who regard the banking business as a proper object for their legislative ambition—and, also another saying of Bagehot's, a man who won distinction both as a theorist and as a practical man of affairs: "The best thing a government can do with the money market is to leave it to itself."

If England is pronounced on many sides to be the land of the ideally organized banking system, then, on the one hand, this praise must be considered as very extravagant in view of the criticisms made by the English themselves; and, on the other hand, we should not forget that the system existing in England to-day has behind it a century of development and of the most far-reaching division of labor in banking. It has all developed as an organic whole, and legislation has been intelligently adjusted to fit existing conditions. If we should seek to-day to appropriate for ourselves the final result of such development in a foreign country, we might destroy our own vital germs of strength without providing an equivalent substitute. Obviously Germany is not yet sufficiently supplied with capital to refer all those who desire to trust their money to the banks to the small interest payments of a pure deposit bank; and to enable commercial banks, which understand how to use great capital permanently, to attract the easily obtainable medium from depositors. All parties would be injured by restrictions. The depositor cannot live on low interest; the banker and the shareholder in the joint-stock bank see the income of their undertakings growing less and much highly promising work remaining undone.

Economically, however, it is in any case right that unemployed capital be brought, so far as possible, to the places where it will perform the greatest services. Where, however, could it work in any greater degree directly for the good of the whole than in the credit banks, which are constantly redistributing it to money consumers in commerce, agriculture, and industry? Disregarding, perhaps, the smallest amounts, which merely contribute to the formation of capital in the form of savings, the available money, otherwise condemned to unfruitful idleness, becomes part of the great stream of money which is conducted over the whole sphere of business activity, vivifying and fructifying it. Now, it will be said that the great money stream is the very danger we must guard against; that it is never known when and how it will overflow, and that therefore it is better to guide it into different channels, even from the source; or, in other words, to differentiate more strongly the business of the banks. This argument has something plausible about it, and is quite unanswerable for a country which is thoroughly saturated with capital. Our natural development will lead us gradually to follow the road indicated without external compulsion. There is already a tendency in that direction. Even now, according to the mortgage bank law of 1899, no more new banks can arise which carry on credit business of all kinds and at the same time issue mortgage debentures. The mortgage business has become a legally regulated specialty. Thus banks have already arisen which according to the English usage would not be designated at all by this name, but would belong in the class of the various "companies," as the Bank for Mining and Industry, the Bank for German Railroad Securities, the Central Bank for Railroad Securities, the German Bank for Colonization, the Land Bank, and many others. They all follow specialties. The process of differentiation is thus already in existence, and is undoubtedly progressing. When the creation of capital in Germany shall have reached a higher stage, the justified desire, which is still predominant, to increase capital rapidly by means of high interest rates will gradually be replaced by the anxiety to obtain the greatest possible security for what has already been accumulated, even if at a sacrifice as regards the rate of interest. Then the first-class investments with a fixed rate of interest will rise permanently in general favor, and it may be expected with confidence that then, out of the growing need, groping cautiously at first, a pure deposit bank will here and there detach itself from the general business of a credit bank or of a large private bank, with a prospect of success.

Science is pretty well agreed as to the character that the business of such a pure deposit bank should have; in practice there are still many hard nuts to crack. In any scientific work on deposit banks we can read that good bills are among the best investments which a deposit bank can make; value is attached in particular to the certainty with which payment of the liabilities can be counted on at fixed dates. In practice it is known, however, that in most places one of the most difficult tasks is to bring together in a big portfolio nothing but first-class bills. The city of Hamburg, to be sure, has no difficulty in this respect, as we heard yesterday from authoritative sources. In practice it is also known that many bills that are of perfectly legitimate origin and are indorsed with good signatures must be renewed when they fall due, because the business back of them can not be wound up in three months, and that these bills must encroach anew upon the money market, even if not on the accounts of the temporary bill holders. Who would not, a short time before the collapse of the Leipziger Bank, have considered bills which bore its indorsement among the best investment paper? The heavy loss, however, that arises from the discounting of all bills which were thought to be good but which are afterwards dishonored can more easily be borne by a bank which has many different irons in the fire than by an institution, which has no possibility of substantial compensation through other profitable business. The business of loans on collateral is therefore recommended to the deposit banks, subject to the proviso that a very low limit for loans be maintained. Prof. Otto Warschauer would establish for the Imperial Deposit Bank proposed by him the maximum limit for loans on first-class stocks at 30 per cent of their market value. This proposition will be approved by the other banks, because in that way the Imperial Deposit Bank would not enter into serious competition with them in collateral-loan business. With a loan to 30 per cent of the value of the security, very few customers could be served, for even the Reichsbank itself would go far above that limit for first-class securities. A business of that kind, however, leaves nothing to be desired as to the safety for the deposit banks, if only some one could be found to go into it.

Among the absolutely safe businesses which deposit banks are recommended to undertake, scientific authorities almost unanimously include the purchase of state securities and others designated as available for trust funds; further, commission business, and even flotation and syndicate business in public funds. Since these proposals were made new experiences have been gone through, which ought to lead to other results. Commission business may pass in any case, although it is well known that resourceful people have used this form of the exchange law for speculation, and have later tried to claim the protection of section 764 of the Civil Code, the patron saint for dishonest commission givers. The purchase of state paper has been unfortunately for years a losing business—interrupted only by the brief sunshine caused by the 4 per cent bills—and in this hall hundreds are present who, as participators in the last 3½ per cent imperial loan and Prussian consols, lost at least 7 per cent in the final settlement of the loan. Such losses would have struck a pure deposit bank especially heavily, not only through the reduction of the yearly income, but also because the trust in the absolute security of the deposit bank must be necessarily lessened. The history of English banking teaches also that pure deposit banks are not immune from collapse. To older business men the fall of the City of Glasgow Bank is still an unpleasant memory. It is therefore evident how thoroughly the theoretically incontrovertible propositions must be tested by practice; and, with all deference to abstract science, the fear can not be suppressed that if such an exclusively practical question as this about the character of the credit system is not settled chiefly according to the dictates of practical experience, the nation will have to lament the results very bitterly.

The greatest importance is attached by all theorists to the most complete publicity of banks doing a deposit business. The demand that he to whom the greatest trust is given must prove on his part how he makes himself worthy of this trust seems entirely natural. Now joint-stock banks and the companies carrying on a banking business with limited liability are compelled to publish their balance-sheet every year; and if the law should compel them to publish monthly instead of yearly balance-sheets, that would mean an expensive inconvenience, but no change of principle for those banks. The value of publicity in this connection is enormously overstated. Thus, for instance, Neumann-Hoffer, in his book, "Depositengeschäfte und Depositenbanken," says (p. 214): "It would be an excellent means of securing a rational conduct of business" (he is speaking of "the full and unqualified publicity of all bank operations"). Against this we can cite the fact, corroborated by much experience, that there is only one really effective means of attaining the rational administration of business—namely, the direction of business by sane, wise, and upright men. The author cited says further (p. 216), that the bank creditors would, with a similar form of statement for all banks, compare the balance-sheets with each other, and therefore draw conclusions regarding the solidity of their banks. That is more than we have a right to hope. The mercantile insight of our public is still far behind this point in its development. Not only the ordinary little man, not only the intelligent men and women of the higher social circles of the official and professional classes, but also the greater part of our business men lack the information necessary for an understanding of the banking business and of bankers' balance-sheets.

This lack of understanding accounts for many a passionate invective against our banks, and many a radical proposal based on generalizations from quite isolated instances of abuses. Theory and practice, written exposition, and teaching by word of mouth must work together for a long time before the general public is educated up to an intelligent cooperation in economic life, in so far as it is concentrated in the banks.

With the growing knowledge of the essential character of our banks and of their great national functions would come a better understanding of how closely our bank organization is adapted to the needs of our population and its economic condition. Finally, we ought also to ask ourselves whether the results attained in commerce, industry, and agriculture in the last half century do not present significant proofs of the fitness of our institutions? I think I am not making too bold an assertion when I say that a revolution of our banking system, especially deposit banking, would be felt at present as disadvantageous by all productive classes, and not least by those who for weighty reasons have sometimes not been found among the friends of the banking business—that is, by agriculture and industry.

The customer can approach his bank in a twofold rôle—as creditor, in current account or deposit account, or as debtor in one of the many customary forms. In his rôle as creditor the farmer and business man is now accustomed to enjoy the high interest which the banks can afford to pay their customers as the result of the favorable use of the money managed by them in all sorts of economic undertakings. It is not a matter of indifference whether the capital temporarily disposable brings an interest of from one-half per cent to about 2 per cent, as in England, or whether it participates, to a certain degree, in the favorable opportunities of the money market. Industry and agriculture are even more interested, however, in finding in the banks ever-obliging money lenders, who are always on hand for undertakings which are economically desirable and which promise to be successful.

A change in deposit banking would naturally considerably decrease the stock of foreign capital in the credit banks, and the necessary consequence would be that their investment business would also be reduced and burdened with heavy conditions. The cheap credit which is customary among us in normal times would at first not be maintained, though in time this condition might be restored, and no one, I imagine, will have the courage to predict when economic life, disturbed by such measures, would begin to return to a condition of equilibrium. The injury inflicted in the meantime would be most heavily felt perhaps by those who are most inclined to rebel against present conditions.

I sum up what I have said as follows:

First. The German banking system is essentially suited to the present needs of our economic life as it has been to those of the past. Naturally, it falls short of perfection, just as do all other human institutions. But that is no excuse for legislative interference in the German bank organization.

Second. The banker class labors continually for the perfecting of its organization, and does not fail to discuss questions affecting this organization, as indeed the present day teaches anew. The objection can not be made that external pressure was needed before there was any public discussion of the deposit system; for only since the foundation of the "Central Union" ("Centralverband") have we been in a position to discuss freely questions of banking before an expert audience. But it is to be hoped that the whole nation will labor for the perfection of its economic insight, just as the banking class itself has done. We have the same ideal for the banking class and for the community—not tutelage, but independent judgment and initiative. [Applause.]

Doctor Jaffé. Gentlemen, I should like to speak briefly in reply to the remarks which Herr Geheimrat

Riesser has made concerning my address, in order that no misunderstanding may arise. Of course I did not think of recommending a strike, but, as I indeed expressly stated, I spoke of it only in a joke. If I remarked that the banker class, according to my private judgment, would do well to put its influence more heavily in the scale, I did not thereby mean that it should make an outcry—in that I agree with the honorable chairman; I meant simply this: Let them make up their minds as to what they want, and let them give expression to their wishes and say that they are backed by the whole banking class—in fact, the whole mercantile class. If they do this quietly but energetically, it will perhaps be even more effective than a great deal of noise from other quarters.

Geheimer Oberfinanzrat MUELLER, director of the Dresden Bank. Gentlemen, the committee was in doubt whether it was fitting, while we are in the present stage of foggy suggestions of legislative action with regard to deposits, to burden the Bankers' Convention with this question. We decided to do so because we wished not to expose the banking profession a second time to the reproach that was made against it after the promulgation of the unsuccessful bourse law—that it had been deficient in prompt and energetic opposition.

The result of the bourse law may be designated as an effective paralysis of an arm of our economic body. Whether the course recognized by our legislators as necessary will be followed—that of repairing the injury and of giving back to a paralyzed arm the necessary mobility and elasticity—the future will show. The experiment which is recommended for the banking system by surgeons unskilled in this sphere is an operation on the bowels of the body politic; if thereby the inner organs are injured the injury will be incurable. The contemplated step should at least proceed on the basis of a clear conception of the position and function of these inner organs. Instead of this, I see even in the preliminary list the question, "What is the economic nature of the deposits managed by banks and bankers? From what sources do they flow?"—a question involving a fundamental error on the part of the politicians and scholars who feel called upon to solve the problem they have themselves constructed. They desire to protect the savings of the smaller depositors and those unfamiliar with business against irrational use and resultant danger, and assume that the deposits figuring in the balance sheets of the banks and bankers are, for the most part, composed of savings.

In opposition to this, I assert, on the ground of my practical and pretty comprehensive experience—and I believe that all the practical men in this assembly will bear me out—that the sums listed in the balance sheets as deposits are only in a very small part really savings. These deposits are collected chiefly from the business reserves of business men, who allow their other banking transactions also to be handled by their banks, and from the temporarily disposable capital of the larger capitalists, which is soon to be invested in securities, mortgages, etc. For the proof of this statement I must go somewhat further into the development of German savings banks.

The deposits of the Prussian savings banks alone, which amounted in 1870 to only 495,000,000 marks, have increased, until by the end of 1905 they were not less than 8,293,000,000 marks; during the years 1901 to 1905 the increase averaged 500,000,000 marks a year. The savings banks of the Kingdom of Saxony had in the year 1905 deposits amounting to 1,331,000,000 marks; these were distributed among 2,753,000 depositors, so that there was a savings bank book to every 1.62 inhabitants. The deposits of all the German savings banks amounted to 13,000,000,000 or 14,000,000,000 marks at the end of 1905.

The savings banks invest their money chiefly in mortgages. According to the statistics of the Prussian savings banks, which are available in complete form only for 1904, there were invested at the end of that year 7,761,000,000 marks, as follows:

	Marks.	*Per cent.*
In mortgages	4,703,000,000	61
Securities (for most part not state, but communal paper)	2,188,000,000	28
In other ways (bills, bonds, deposits with the communes, etc.)	833,000,000	11

As a result of the high interest on mortgages the savings banks afford their depositors relatively high interest, which varies between 3 per cent and 4 per cent, rates with which the credit banks, at least the larger ones, cannot compete in times of normal money conditions.

In addition to the savings banks the producing middle classes—especially the artisans, and more recently, the farmers—use the coöperative institutions (Genossenschaften), for interest-bearing investment of savings and of disposable working capital. According to the statistics of the union of the Schultze-Delitzsch Genossenschaften, 1,020 Genossenschaften belonging to this union had at the end of 1905, besides their own property (including surplus) of 256,000,000 marks, outside moneys coming from private individuals to the amount of 893,000,000 marks, or three and a half times their own capital, which was generally used for credits to the members. The outside moneys have doubled in these institutions since 1895.

The statistics compiled by the Prussian Centralgenossenschaftskasse comprised the returns from 13,912 associations which were attached to it; at the end of 1905, 5,685 of these associations, with a capital of only 54,000,000 marks, had not less than 758,000,000 marks of deposits—that is, almost fourteen times their own capital. The assets of 811,000,000 marks balanced against the obligations of these societies included 16,800,000 marks of securities and 29,600,000 marks of mortgages, and the remainder, 765,000,000 marks, was evidently invested in credits to the members, mostly loans on security.

The total yearly increase of property in Germany is estimated, on the basis of the returns of the Prussian supplementary tax, to have averaged for the last few years about three and three-fourths billions of marks. But with reference to this increase we must not forget that a considerable part of it results from the increase in value of land holdings and industrial investments, especially the real estate of the big cities, and that industry, including agriculture, has plainly not, as is well known, divided all of its surplus profits, but has used them for the extension and improvement of its plants.

It is to be observed, further, that the flotations of securities in Germany in the last decade require on the average about two or three billions of money yearly, and that of this there are about one and a half billions yearly of domestic securities paying a fixed interest—state and communal loans, mortgages, and bonds—which are reckoned in the investment of savings.

From these figures it appears that there is such an exhaustive absorption of yearly savings (though we set the highest possible figure for these savings) as to leave small chance for the credit banks to compete for savings deposits with the savings banks and coöperative associations. For the greater part of the population in the small cities and in the open country there exist no institutions at all for this purpose; the credit banks have until now not thought about it at all, and can not for a considerable time think about extending their network of branches so far, since the results would be entirely disproportionate to the expense of establishing and maintaining them. I shall discuss later the peculiar conditions in Mecklenburg and Oldenburg, where pure deposit banks find a field of activity. In general the deposit business of the banks is limited to a few large cities, and so far Berlin is really the only place in which a system of deposit banking has developed on a large scale. The deposit banks and the deposit departments of the branch banks undertake the management of the financial affairs of the business men and capitalists who turn over to them their available stock of securities and cash, and leave to them the care of all their banking transactions. The business men have a credit or a debit excess according as the receipts from the sale of their products and goods or the payments due by them in their business are the greater. Since they generally need temporary credits, discount their customer's bills, pay foreign bills, etc., a connection with a pure deposit bank with a limited range of business could be of no use to them. The real estate owner who turns over his rents to the bank, and makes his payments of mortgage interest and other expenses through it, is in the same position. The interest has frequently to be paid before the rents are collected. The capitalist who invests in stocks changes his investments, accumulates money gradually for new investments, waits after the sale of securities or after the payment of mortagages and other outstanding dues for a favorable opportunity for investments, and until that time lets his money stand at interest. On the other hand, he uses an opportunity which seems favorable to him for purchases before the necessary cash is in his hands, and applies for a loan on collateral. For this capitalist also the connection with a pure deposit bank, standing aloof from the stock and flotation business, would not serve.

Since with the great number of accounts, and the diversity of the periods of money-need and money-surplus in the various branches of business a regular balance of deposits remains, the bank can pay an acceptable rate of interest for the latter, and out of the difference in rates, interest, and other profitable relations with its customers it can draw a profit exceeding the expenses of the business. The expenses of deposit banking are, however, so heavy that the mere interest-difference without the other transactions would suffice for covering them only with those banks that have a great many customers and very large deposit balances. The business margin of a pure deposit bank would be unprofitable for many deposit banks, even in Berlin. The representation of business here given is not affected by the fact that the opening of an account is not made dependent on the proof of the prospect of profitable transactions—that, on the contrary, every respectable private citizen is provided with an account on making a deposit. The depositors of small savings, who in many places like Hamburg are not insignificant in number, and who, in Berlin, for example, find the deposit banks more convenient because the receiving offices of the city savings banks are so far away, are of no importance in relation to the total amount of deposits. Only in the last few quarters, during which money has been high, and deposit banks were able to pay higher interest than savings banks, were a few accounts drawn from the savings banks and taken to deposit banks. As soon as money conditions become normal again, this money will probably flow back into the savings banks.

I now proceed to the various assertions which are circulating abroad concerning the use of deposits and the cover provided for them by German banks. The first error, which might almost be called malicious, because it is contrary to the clear facts of the case, is the objection that the banks use their deposits for syndicate business and speculations in stocks. This is disproved by the published accounts furnished by the banks. The *Frankfurter Zeitung* has compiled very accurate statistics from the accounts rendered by the 45 joint-stock banks existing in

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Germany that have a share capital of 10,000,000 marks or more. According to these statistics, the 45 banks had at the end of 1906, with a paid-up capital of 2,198,000,000 marks, and a surplus of 542,000,000 marks—that is, with property to the amount of 2,740,000,000 marks—a total of 949,000,000 marks invested in syndicated shares and stocks owned by themselves; that is, only 34.6 per cent, or a little more than one-third of their capital and surplus. For none of the listed banks did the investment amount to more than 51 per cent of its capital and surplus.

I will assume, for the sake of argument—though the generalization is far from being universally valid—that syndicated shares are to be characterized as nonliquid or risky investments; and I will further accept the theories of the expert critics according to which only bills, *reports*, loans on collateral, and half of stocks owned by the bank itself are to be considered as liquid capital; while the other half of the latter and all deposits on current account may be considered as less liquid, although with the foresight practiced especially by the banks that work with a great deal of outside money, the percentage of short-time loans is to be rated very high. It goes without saying that the most liquid investments correspond to liabilities demanding the quickest satisfaction, the next most liquid to the other liabilities, and the least liquid to the capital permanently belonging to the bank. It is incontrovertibly proved by the above statistics that none of the banks in question have placed more than about one-half of their own property, and not a penny of deposits, in syndicated business and holdings of stocks.

The statistics that follow afford a view of the cover existing for the banks' liabilities. Before proceeding to them, however, I wish to point out that in the normal course of business the duty of keeping a reserve against the circulating bank acceptances rests not upon the accepting banks, but upon the customers enjoying this form of credit. The major part of the bank acceptances arises from domestic and foreign trade. The purchaser of the goods desires to pay for them only on receipt, or a certain time after receipt, but the seller is empowered to draw on his bank at the time of sending the goods and to pay himself by discounting the draft. The purchaser of the goods is required to furnish to the accepting bank the cover for the draft before it falls due. Only in the abnormal case of the unfulfillment of this duty, therefore, need the bank provide for the cover out of its own capital, and it ought to be sufficient if the banks were required to keep a certain percentage of their acceptance liabilities as security for this case. As the critics have been accustomed, however, to take all the acceptances into consideration, I will place opposite each other the statements with and without acceptances.

The 45 banks given in the statistics of the Frankfurter Zeitung (second page of the morning edition of April 4, 1907) had, at the end of 1906:

	Marks.
Liquid resources:	
Cash and bank credits	694, 450, 000
Bills	2, 087, 340, 000
Reports and loans on collateral	1, 227, 370, 000
One-half of the stocks and other securities	303, 660, 000
Total	4, 312, 820, 000

Liabilities:	
Deposits	1,810,920,000
Balances due on current accounts	3,453,820,000
Total	5,264,740,000
Acceptances	1,606,670,000
Total	6,871,410,000

The total of outside moneys was covered to the extent of 81.92 per cent, and the total liabilities, including acceptances, to the extent of 62.76 per cent. The table shows further that the amount of bills alone was considerably greater than the amount of deposits.

If we take the four banks with the greatest deposit business (the Deutsche, Dresdener, Diskonto, and Darmstädter), the following figures result:

	Marks.
Liquid resources:	
Cash and bank credits	358,070,000
Bills	1,066,960,000
Reports and loans on collateral	578,060,000
One-half of the stocks and other securities	133,810,000
Total	2,136,900,000
Obligations:	
Deposits	900,570,000
Balances due on current accounts	1,663,810,000
Total	2,564,380,000
Acceptances	706,490,000
Total	3,270,870,000

The total of outside moneys was covered to the extent of 83.33 per cent; the total liabilities, including the acceptances, to the extent of 65.33 per cent.

When one considers that it was not thought necessary in the Reichsbank act to provide for the theoretically possible case of a presentation of more than one-third of the bank notes, since it requires a minimum cash reserve of only 33⅓ per cent, the credit banks can not fairly be required to arrange their business so as always to be ready to pay 100 per cent of their liabilities. The covering of outside moneys by liquid resources, which, as is proved by the statistics, amounts to over 80 per cent of the total liabilities, or over 60 per cent if we include acceptances—and this in a year of such great tension on the money market as 1906—this cover is so entirely sufficient that it is in no way inferior to that of the famous English deposit banks, quite apart from the fact that with the German credit banks the ratio of capital to outside moneys is much more favorable than with the English banks. The classification of liquidity is with us clearly the same as in England, for, as the preceding speaker has already aptly shown, the items figuring in the English balance sheets as money at call and short notice are practically no other than what we call *reports* and loans on collateral. With full assurance, therefore, we can assert that the solvency of our credit banks carrying on deposit business fulfills throughout the strictest requirements dictated by the experiences of critical times, and that our credit banks are prepared to cope, if necessary, with a run on the banks.

Whether the same thing can also be said of the communal savings banks is a question more difficult to decide, and one that is not to be answered directly from the experience of the last decade, in which the great increase of their deposits occurred, since we have not had during this time a general collapse of confidence. The solvency of the savings banks, which have invested 61 per cent of their deposits in mortgages and 28 per cent in securities, and have been compelled even in these quiet times to write off half their surplus as a result of the fall in the market price of stocks, is certainly far inferior to the solvency of the credit banks. We are concerned here not merely with the certainty, guaranteed by the communes, that the deposits will be paid back at some time or other, but also with the question whether prompt payment in time of need is assured to the depositor, and whether the taxpayers of the communes are not made to suffer in consequence of their responsibility.

Even less assured is the solvency of the Genossenschaften, working with the "Centralgenossenschaftskasse." I have already stated, on the basis of official statistics, that the balance sheets of 5,685 associations show liabilities to the extent of 758,000,000 marks, or fourteen times the amount of their own means, and that their 811,000,000 marks of assets comprise 16,800,000 marks in securities and 29,600,000 in mortgages, the remainder being in the form of secured loans. Even if (though it is not apparent from the statistics) a part of the assets is deposited with the Verbandskassen, and the "interest in the deposits with the Verbandskassen of the union banks," given at 92,000,000 marks, is included in this, that makes the case no better, because the Verbandskassen, according to official statistics, work with outside moneys to the amount of nine times their own means, and have invested their capital in the same nonliquid fashion as the individual associations. The outstanding claims of these many associations with weak capital are obviously, both in quiet and in critical times, collected much more slowly and with greater difficulty than those of the credit banks. The Schultze-Delitzsch Genossenschaften, which have already withstood several crises and have learned by experience, keep within much narrower limits. If the Centralgenossenschaftskasse desires to maintain the extremely artificial structure of its credit organization in times of crisis, it faces an extremely difficult task, since the capital of 50,000,000 marks assigned to it by the Prussian State is insufficient, even in ordinary times, for its business. The Centralgenossenschaftskasse had, according to its statement of March 31, 1907, besides 32,000,000 marks of deposits, 57,000,000 marks of loans from banks and bankers, and it is known that it has frequently borrowed on security, not only on the Berlin Bourse, but also from foreign banks, at higher interest than it obtains from its own debtors, a course of action which I will not criticise in view of the usefulness of the institution to the community.

It is a remarkable fact that the same political agencies which further with all their might the colossal credit tension of the associations at the cost of liquidity, and which neglect the reform of the communal savings banks (an urgent matter, and one with which they are more closely concerned) because they are loath to interfere in the interests of the classes that claim credit from the savings banks—it is indeed a strange phenomenon that these same agencies should go out of their way to attack the deposit business of the banks. While we admit that there are objectionable features in the use made of deposits by the banks, the excitement over the matter is an illustration of the saying about the beam in one's own eye and the mote in the eye of another.

Cui bono? The depositors are perfectly satisfied with present conditions. They have the choice between the savings banks, and in the larger cities a number of competing banks. They receive regular interest and have faith in the bank which they have chosen for themselves, and can change if they so desire. I am not aware that the depositors have demanded a change of existing conditions. In truth, our politicians and writers are *rerum novarum cupidi;* they are especially infected with the modern animus against great capital and great banks, and they believe that they have found the most sensitive point in the heaping up of outside moneys. Their attacks would receive less attention if they did not hold forth the prospect that certain minor popular aims would be attained as a result of their reforms—first, a better market for German state paper, and the maintenance of a higher level for the quotations of such paper; and second, a lowering of interest rates, and a moderation of the discount rate of the Reichsbank.

The most radical reform proposed—and the one which its advocates pretend would be most effective in furthering these two secondary ends—would put up with the deposit business of the credit banks as an unavoidable evil, but would regulate their business through compulsory provisions, and prescribe for them the obligation of keeping a certain fixed part of their deposits permanently invested in state paper. This is contrary to the A B C of the banking business, which consists in selling acquired securities in the quickest possible way, and having the utmost freedom in the prompt purchase of new securities. A finance minister who possessed some understanding and experience in the matter of flotations would never desire to have the syndicate, whose cooperation he wishes in a new state loan, already crammed with old stocks of state paper. The more this is the case the more anxious must the syndicate be, both with regard to the magnitude of the undertaking and its conditions. Vice versa, the freer it has hitherto been the quicker and the more cheaply will it be able to accept the risk of floating the new loan. The greatest danger of new flotations, however, is that the banks, already weighted down with earlier compulsory investments, would throw on the market from their older stocks as much as they undertook of the new loan. That would be sure death for the market price of the new loan. Furthermore, the compulsory acquisition of state paper appears to me justified at most in so far as it applies to purchasers for whom permanent investments as such are economically rational, and who, therefore, in the choice between state paper and lower class securities or mortgages merely are directed toward the former. In this sense compulsory acquisition for savings banks and insurance companies is debatable, and in other countries is brought about legally or administratively. In Prussia, however, as I have already remarked, we have not even decided on any such measure with regard to the savings banks. The introduction of a compulsory obligation for purchasers with whom, as with the credit banks, the fixing of capital in permanent or even long-time investments is contrary to the nature of their business, would be about the greatest injury that could be inflicted on state credit at home and abroad. We should be reminded of the procedure of some eighteenth century princes who, being unable to sell the porcelain of their manufacturers, imposed on the Jews the obligation of buying a set when they married. The single practical method which can lead to a better rating of state paper, and to the elevation of the exchange level, is the progressive rise of the national prosperity and an intelligent observation of the actual condition of the money market with regard to the production of state and communal loans, the excessive quantity of which—particularly of the latter—is responsible for the present bad conditions. Everything else is quackery.

Just as illusory is the hope of effecting a decrease in the rate of interest by such or similar means. The high price of money is indubitably the result of the fact that the capital devoted to the supplying of credit, in spite of the accumulation of all available capital, does not suffice for the satisfaction of the need for credit. In so far, therefore, as the need can not in the judgment of the borrower be postponed, high interest must be paid; or if this can not be borne, the loan must be rejected. How, then, can one expect that a lowering of the interest rates will result if we withdraw from the reservoir of ready capital a part of the supply which affords credit, and use it for other purposes? The opposite would certainly occur. And not only that, but such a measure would certainly cause an earlier rise of the money rate. For this it is not necessary that the means of granting credit be wholly withdrawn from the reservoir. Any limitation of free movement, any removal of credit from the place at which it was formerly sought to another place, with which the customer does not stand in the same relation, must operate toward a higher rate. Under this head falls the proposal, hardly meriting serious criticism, forcibly to transfer a part of the capital from the banks which had been managing it to the Reichsbank, and to give the latter the task of using it. There is one view, to be sure, according to which this effect of premature dearness of money is expressly regarded as desirable. This recently revived idea was upheld as early as 1892 by the late banker, Cæsar Strauss, who maintained that the scarcity of money which generally occurs at the climax of a period of prosperity, and which ushers in the reaction, should be shoved forward to the *beginning* of the period of prosperity in order to guard against overspeculation and crises. Herr Strauss proposed to withdraw a great part of the interest-bearing deposits from the credit banks by means of an imperial deposit bank, whose direction he was ready to assume, under the protection of the Empire and of the Reichsbank. He proposed to check each developing period of prosperity with forethought, even if without due consideration. Had this theory been put in practice since 1870, perhaps one crisis would have been avoided, but the preceding and following impetus to development would still more certainly have been avoided, and patient Germany would have remained a poor country to this day. It is true that the economic progress of Germany since 1870 has not been regular, but has been interrupted every few years by retrogressions which partook more or less of the character of crises, and which involved considerable losses. But these were only temporary interruptions, and each retrogression was followed by a new extension of industrial activity which surpassed the earlier one and further increased the national wealth and the ability of the country to bear taxes. If we now stand on an equal footing with the other old civilized nations in commerce and shipping, agriculture and industry, if our ability to bear taxes has so greatly increased that there is hardly any complaint about the great expenses for army and navy, which seemed to many, even long after 1870, more than we could permanently bear, our credit banks may claim with pride that they, through their initiative, their participation in industrial undertakings, and above all, through their courageous and at the same time careful supplying of credit, have contributed not a little to this happy development. This granting of credit has been profitable for creditor, debtor, and the whole country.

The reformers assume the increase of national property at the rate of 3,000,000,000 to 4,000,000,000 marks yearly to be a statistically established fact; they assume further that this increase is bound to continue automatically, as though it were entirely independent of the present system of labor—that is, of the close connection subsisting between industrial enterprise and free mercantile movement—and as though this system could be replaced by a new one without danger. They seem to conceive of the accruing billions as like the cream on a jar of milk, which can be skimmed off and divided at will into regular portions between deposit banks, savings banks, cooperative associations, trade, agriculture, and manufactures, without letting the big capitalists get so much as a taste of it. I only fear that the recipe of these alchemists might cause a watery decomposition of the milk.

One of the most amusing schemes with regard to the money system is the programme now submitted to our consideration. It consists of two parts: First, we are bidden to economize metallic currency by means of an extension of the check system, and thus to strengthen the Reichsbank's stock of gold and facilitate a moderation of the discount rate; and, in the second place, at the very same time we are told to render it difficult for the credit banks to attract and utilize deposits. Banks and bankers have not the smallest personal interest in accepting for others the care of their business without charging a commission. Check business imposes upon them only sacrifices, great labor, increase of personal and business expenses, responsibility, and the unavoidable danger of loss in case of the smallest oversight of a subordinate. The sole and absolutely necessary compensation for these sacrifices is the attraction of low-interest deposits on check or deposit accounts, and the possibility of an extensive and profitable use of this money. If this chance is taken from them or made more difficult, the instinct of self-preservation will force the banks to oppose vigorously their utilization for check business, and thus the whole movement for an improvement of the means of payment and an easing of the money market collapses utterly. Thus, as frequently happens, one horse is hitched before and the other behind the wagon.

The other propositions for legislative regulation are as yet so obscurely formulated that it would not, I think, be worth while for us to concern ourselves further with them in the Bankers' Convention.

No one has yet succeeded in finding a definition for deposit credits, or in setting forth serviceable distinctions between current account credits, *report* moneys and deposits, or between deposits in the broader sense and savings. And we may, for the present, well leave to scientific inquiry the question whether it would be possible to establish a right to the preferential payment of savings deposits.

I should like to add a few further remarks concerning the proposed pure deposit banks. The above-mentioned Herr Cæsar Strauss had shown the results of his labors to the Reichsbank and to Doctor Miquel, at that time Minister of Finance, in 1892; and he afterwards published them in a brochure. According to his plan, an imperial deposit bank, with private capital but under the protection and supervision of the Empire and the Reichsbank, was to be organized. The capital was fixed at 60,000,000 marks, with 25 per cent paid in. The institution was to have branches in the larger cities, while in all other banking cities the Reichsbank establishments would have to undertake gratis the acceptance of deposits and their repayment. Although the idea of responsibility on the part of the Empire—which has not even undertaken the guaranty of the obligations of the Reichsbank—or on the part of the Reichsbank was not included in the scheme, the project broke down under the objection that the name "Imperial Deposit Bank," and the cooperation required of the Reichsbank in the acceptance and repayment of deposits would be likely to awaken in the public the false notion that the Empire and the Reichsbank would have to bear the responsibility for the conduct of business. This reason will also prevent the execution of such a project in the future, and I believe, therefore, that the brief article recently published in the *Tag* by one of the provincial directors of the Reichsbank, in which the proposal of Strauss is again taken up, was written without consultation of the views of the Reichsbank management.

In the year 1894, Herr Professor Doctor Warschauer proposed an imperial deposit bank with the same title, but with the modification that there should be supervision by the Empire but no cooperation with the Reichsbank; that it should have its own organization and numerous branches. He urged the scheme with fantastic representations of the extent of business soon to be expected—a billion marks of deposits—and the profit to be expected—21 per cent to 22 per cent dividends. The professor was so confident of these high profits that he contemplated the immediate placing of shares of stock to the face value of 50,000,000 marks, with 50 per cent paid in, at an average price of 150; that is, at a premium of 100 per cent on the amount paid in, directly after the promotion. If high finance should take up with such a plan, the reproach of wanton stockjobbing would not be inapplicable.

There is naturally no objection from any standpoint to the establishment of a pure deposit bank if it is established with private capital and without the false colors of an apparent imperial guaranty. The credit banks need not fear the competition of such new institutions. It would not, in any case, be worse than the competition which they have among themselves. But the ability of a new deposit bank set up in the grand style to earn profits, must, under the conditions that prevail in Germany, be regarded as highly doubtful. The business of such a bank does not generally become great at one stride, like a newly created central note bank, provided with the monopoly of issue. A deposit bank, if it does not take over a business already created, must begin small, and gradually move forward. The conclusion based on the ability of the English joint-stock banks to earn profits is incorrect for several reasons. The joint-stock banks do not have to compete for their deposits with a highly developed savings-bank system, nor for their stock business with joint-stock credit banks carrying on general business. They are, besides, not pure deposit banks, but at the same time the check and clearing banks of the country, and they demand from their current-account customers large balances, for which they pay either no interest whatever or only a very low rate. A fundamental difference arises, further, from the greater wealth and more conservative customs of English depositors, in contrast to our own, who demand higher interest, and, as shown above, are mostly business men with temporary need for credit. This being the case, the need for deposit banks has arisen only in a few places, as, for example, in Mecklenburg and Oldenburg, where, on the one hand, the moneyed public prefer the permanent possession of interest-paying bank deposits to the acquisition of securities or mortgages, and where, on the other hand, the communal savings banks are less extensively developed. Here there are several banks, with branches in cities and villages, with relatively small capital and large deposits, whose business, with some variations, corresponds approximately to the plan for deposit banks. In Frankfort-on-the-Main the Frankfurter Bank was transformed a few years ago into a deposit bank on surrender of the note-issue privilege. Its deposit business has not so far amounted to very much, since, with 18,000,000 marks of share capital, it has a yearly average of only 20,000,000 marks of deposits. It is important chiefly as the deposit and transfer bank for the rich Frankfort families and as the administrator to whose management they intrust large quantities of stocks. Its income arises less from the difference in interest on deposits than from the large commissions derived from its other business.

If, in consequence of a failure to recognize these facts, a deposit bank were to be instituted on a great scale in accordance with the suggestions of Strauss and Warschauer, with an extensive network of branches, it would be sure to end in grievous disappointment, since it would

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be loaded down in the first few years by the expenses of the business. A change may occur in the future if, with the further increase of national prosperity, the surplus profits of producers are no longer, as at present, used for increasing and consolidating their business, and the number of capitalists becomes greater who, having no need to obtain credit, wish to have on hand in a bank large sums in the form of interest-bearing deposits. When we shall have arrived at this stage, pure deposit banks will arise of their own accord without legislative stimulus—partly through the transformation of existing institutions, partly through the establishment of new ones; and competition will bring it about that they voluntarily submit themselves in their own interest to the limitations of business customary in other countries.

I sum up my remarks by saying that the existing condition of the German banking system is throughout a satisfactory one, that the interests of the creditors of banks, as well as of the business requiring credit and the economic interests of the country, have obtained their full rights, and that legal or administrative interference, which might result in dangerous disturbances of our economic life, should be resolutely opposed.

I have taken the liberty, as a supplement to the foregoing and to the remarks of the other speakers, to draw up a number of formal declarations. I am sure no one will object if I do not read them again; if necessary, they can be read out just before the vote is taken. I merely wish to remark that if No. 3 should not be regarded as correct by individuals present—that is, if it is thought that the banks of Mecklenburg and Oldenburg do not justify characterization as pure deposit banks to the extent which I have indicated—I should have no objection to the striking out of the middle passage or to a change in its wording. Personally, I hold the wording to be satisfactory and not open to misconstruction, and I shall wait to see whether a motion for a change comes from the assembly.

Doctor SALOMONSOHN. Gentlemen, I wish to declare, at the beginning of my remarks, that I am in perfect agreement with the last speaker in all points. I am, with Herr Doctor Jaffé, of the opinion that English conditions are entirely different from our own, and that a transference of English institutions to Germany should not be attempted without careful consideration. I am also, on the basis of my studies and the experience of many years, of the opinion that our German banking system, as it has developed, is much better than the English. I have taken the floor in order to discuss a few points which have not been raised in the main speeches.

I turn, first of all, to the suggestions which Herr Doctor Jaffé gave at the close of his presentation. He asked us to consider whether it would not be advisable, in view of the further extension of deposit banking in Germany, to separate the deposits from the current-account credits on the books of the banks; secondly, to publish the balance-sheets of the banks monthly; thirdly, to separate the management of deposits from other moneys; and, fourthly, to introduce special securities for deposits. I should like to take up these questions from the standpoint of the banker. Herr Geheimrat Mueller has already reminded us that the attempt to find a comprehensive definition for deposits has not yet been successful. Therefore, the question answers itself—a separation of deposit accounts from the other accounts is not possible. We can not determine whether the money paid in is from surplus working capital or savings. Nor do I believe that the attempt to make such a distinction will succeed in the future.

As for the question of the publication of monthly statements, Herr Doctor Damme has already shown that it would be an expensive and inconvenient affair. I am, however, of the opinion that in addition to this another disadvantage would be connected with it. In the first place, gentlemen, I take it for granted that those who make this proposal do not have in mind the publication of a complete and correct balance-sheet at the end of each month. That would be impossible at the end of the month. You yourselves know that the preparation of a bank statement requires at least two months. If we close on the 31st of December it is not possible, in spite of all our efforts, to present the completed balance-sheet earlier than about the beginning of March. It can, therefore, be only a rough balance. Such a rough balance gives no proper idea of the facts, and the greater the business is the less clear would it be. If the true condition of the bank is to be worked out from such a rough balance, then, as you all know, very large transfers must be made among the individual accounts. I will only remind you that the credits and debits must be equalized, whenever anyone has both a credit and a debit, so that these accounts will compensate each other. Credits and debits will always give, therefore, a false picture in the crude balance. The stock account will also give a false notion, because large amounts entered first on the securities account must be transferred to the interest and commission account, just as, on the other hand, the interest must be charged to the securities account. The publication of the crude statement at monthly intervals is in itself practicable, as is shown by the example of the Hamburg deposit and transfer banks, which publish their statements regularly every month. This plan has its objectionable side, however, especially in the case of banks that engage in the note-issue business on a large scale. Great business secrets might be betrayed through the publication of figures and the changes which occur from one month to another. Suppose, for example, that state loans have been undertaken, and that it is to the interest of the State that these operations remain secret for a time. The operation would forthwith become known if the securities account of the bank or banks connected with the State should rise suddenly to a great height. Let me further recall to your minds the Hibernian incident. People had become excited on the bourse over the continued purchase of Irish stocks, and they suspected that something was brewing. Suppose, now, that the Dresdener Bank and the Schaffhausen Bankverein had had to publish their balance sheets and reveal the increase of their securities accounts by these enormous sums. I believe that the interest of the State, as well as of the banks, would be injured through such publications.

With regard to the separation of deposit business from the other branches of business, I believe that every bank that carries on deposit business has really worked out this separation already. I believe that in every bank that devotes itself to deposit business on a large scale each deposit branch is treated as a separate business concern, which has its own bookkeeping, draws up its own balance sheet, and with regard to the main business stands in the position of an outside customer.

The aggregate of the deposit branches is also placed, as a rule, under a distinct management. This demand is thus fulfilled; it is fulfilled, as a matter of course, from considerations of convenience and orderly management. In the same way the fourth question—that concerning security for deposits—is easily answered. It is a matter of course for a bank director to make sure every morning of what there is in the vaults and of what obligations he has incurred. These obligations include the liabilities that fall due each day, and, of course, also the deposits. These are demands which are fulfilled spontaneously.

Now, I should like to discuss still another point which, strange to say, has not yet been mentioned at all. We are always talking as if deposit business lay only in the hands of the banks. But do not the private bankers also carry on a deposit business? Is the demand to be made in all seriousness that the private banker publish his accounts monthly, or would you forbid the private bankers to carry on deposit business? Certainly not the latter, I believe, and the former would be the death of the private banker's business. The confidence which the private banker inspires in his section of the public would very often be destroyed if he were compelled to set forth his sometimes limited property qualifications. His business does not rest so much on the strength of his capital as on his personal abilities, on his knowledge of banking and the bourse, on his character, and on the confidence which he has won for himself in the city and the province. This confidence, however, arises also largely from the belief of the public that the discretion with which it wishes its business transacted is better afforded by the private banker than by the joint-stock banks, supposedly more subject to public control and more exposed to state interference. This belief would be destroyed if the private banker were compelled to expose his business affairs.

I should like now to add a little to what was said by Herr Geheimrat Mueller. Herr Geheimrat Mueller has pointed out that the Genossenschaft banks maintain a relation between their deposits and their own resources that is very different from that maintained by the big banks. In the case of 1,020 Schultze-Delitzsch associations the deposits amount to three and a half times their own property, and in the case of 5,685 associations connected with the Prussian Centralgenossenschaftskasse about fourteen times their own property. I should like to compare in like manner the great, the medium, and the small joint-stock banks. The *Frankfurter Zeitung* has recently earned our gratitude by investigating the smaller joint-stock banks, and has shown that there is one joint-stock bank which has 250,000 marks of paid-up capital and at the same time deposits to the amount of 1,800,000 marks. I believe that the *Frankfurter Zeitung* deserves great credit for calling attention to these conditions. For this reason I have made a compilation of figures which is in many respects instructive. I have grouped together all joint-stock banks with a capital of less than 300,000 marks. In this class we find 52 banks with a total capital of 5,000,000 marks, a surplus of 3,485,000 marks, and deposits of 69,000,000 marks. The same banks show 2,150,000 marks of cash and bank credits. Hence it appears that these banks have deposits to the extent of eight times their capital and surplus, and that their cash resources amount to 3¼ per cent of their deposits. A similar collection of statistics for banks with a share capital of from 300,000 marks to 1,000,000 marks shows that we have 62 banks with a total share capital of 52,099,000 marks, a surplus of 10,427,000 marks, and deposits of 174,800,000 marks; these banks held 16,395,000 marks in cash and bank credits. The situation here is, then, that the deposits are three and a half times the capital and surplus, and that the cash resources amount to about 9½ per cent of the deposits. If we compare with these the 45 banks of the Frankfurter Zeitung, referred to by Herr Geheimrat Mueller, we find that the latter, with a responsible capital of 2,740,000,000 marks, held 1,810,000,000 marks of deposits, and 694,000,000 marks of cash and bank credits. The relation here is a very different one. The cash resources amount to 30 per cent of the deposits, and the latter do not form a multiple of the capital, but only 66 per cent of the responsible capital.

Gentlemen, it must be said at once that these conditions existing among the smaller banks are worthy of consideration, of observation, and of study; and indeed they furnish some ground for those who say that legal regulation is necessary. But in this matter, too, I urge you to be cautious. There is, for example, among these banks one which has 30,000,000 marks deposits, with a share capital of 1,200,000 marks. By chance I was asked once, years ago, whether it was advisable for a lady who had inherited some shares in this bank to keep them. I examined the statement of the bank in question and found that at that time it held about 25,000,000 marks of deposits, while its share capital amounted to only 1,200,000 marks, and of these deposits 22,000,000 marks were invested in mortgages. I was shocked, and said that it was no investment. I collected information, however, and investigated this bank somewhat more carefully. I then saw that it was a bank which ten or fifteen years before had risen out of a Genossenschaft, and that it had paid high dividends for years; and the information which I received from expert authority was to the effect that in spite of this immobile investment the bank was entirely sound, and that it was not likely that its deposits would be withdrawn in such a manner as to put it in danger. This latter assertion was based on the fact that the bank had its customers in local business, that very close relations existed between the directors and the customers, that the depositors were also for the greater part shareholders, and that, as experience had shown, there was such a relation of mutual trust that apparently no sound objection could be raised against this bank. I received these facts from expert authority. We are thus warned that these questions must be handled with great caution.

The statistics presented by me show, further, that these banks, in spite of the fact that they are joint-stock banks, have really preserved the character of the cooperative institutions out of which they sprang, and that people should beware of drawing general conclusions from these small joint-stock banks, and of considering principles and policies which may properly be applied to Genossenschaft banks as generally applicable to all joint-stock banks.

I wish to say, in conclusion, that all the discussions, including my own, suffer from one great mistake. Not a single speaker has raised the question, "Where are the abuses?" Is there any practical reason for resorting to the bridle of legislation? If this question is raised, it is sure to be met with cries of "Leipziger Bank!" I have made a compilation for the last thirteen years, in order to establish what losses have really occurred to deposit creditors from 1894 until 1907. The Marienburg Private Bank is the last one in this list. If the joint-stock banks which have gone into bankruptcy during this period are selected, and if the quotas are considered which the depositors received, or will receive, in the liquidation, then there have been lost 24,000,000 marks in these thirteen years, including losses through the Leipziger

Bank, the Marienburg Privatbank, and the Spar- und Vorschussbank in Dresden. This figure is large. If you consider, however, that, as the other speakers have convincingly set forth, these deposits are in reality not savings, but in greater part working reserves of business men; if you further consider that the period under consideration includes not only a period of business prosperity, but also one of depression, and, above all, a period of great bank failures, then you will agree that, though this figure in itself is large, the amount is hardly worth considering when compared with the enormous advantages for the national prosperity that have grown up through free movement in banking activity; and you will conclude that there is no necessity for legislative interference.

I wish to express my full and entire approval of the declarations that have been proposed by Herr Geheimrat Mueller.

Mr. BUECK, general secretary of the Centralverband Deutscher Industrieller. Gentlemen, do not fear that I, a mere layman, will attempt in this presence to add anything to the accurate, clear, and exhaustive contributions of the previous speakers, particularly the main speakers, or to supplement their remarks. I am not qualified for that, but I have had the honor of representing for thirty-four years not the economic interests of a single district or State, but those of the greatest and most important part of all German industry. I have, in this long period, passed through many changes from deep depression to high prosperity and back again, and have had an opportunity of observing the extraordinary importance which

German banking has for industry. And so I thought that it might perhaps be to the point if, from the standpoint of a representative of the industrial interests, I were to confirm, only in bare outline to be sure, what has been said here so explicitly and so convincingly.

Since the extraordinary scarcity and dearness of money coincided with a period of the greatest industrial development, I could not join in the laments over the situation. All industries were piled up to the utmost with orders which they could hardly fulfill. Many have, on that account, been strongly blamed, particularly the industries that supply raw material and half-finished products. They all naturally made the effort to expand themselves by enlarging their plants and by making new investments, so that these demands could be satisfied. This effort was somewhat checked by the increasing dearness of money. Though I do not by any means adopt the position of Caesar Strauss, yet I believe that this check has really operated favorably on our economic development. If a period of regression should again occur in our industries, then, as a result of these checks which have been in operation, the disadvantages and injuries for our whole economic life will not be nearly as noticeably destructive as if the justified efforts for extension had been given full play. But, gentlemen, a continuation of this condition would operate injuriously on our economic life; and hence the efforts, which were discussed in the main yesterday as well as to-day, to improve the money situation and to encourage it as far as possible, are explained. The chief means to this end lies in getting command of the newly created capital which has arisen in so many places, and in such different amounts—a process which, I believe, has been somewhat overestimated in recent years in point of the rapidity of its accomplishment and the permanence of its effect. I believe that the first task is to bring together this newly created capital and to convey it again to the productive activities of the people. This is the task of our banking system. The first main speaker has characterized it as credit-concentrating activity. I should call it capital-concentrating and capital-distributing activity, and, gentlemen, it is of the greatest importance to our industries that banks and banking in Germany be not disturbed in this prosperous and fruitful activity. A disturbance would occur, however, if the goal sought by malicious persons and by theorists—that is, the separation of banking into the two categories above mentioned—should be attained.

The rapid development of our economic life has astonished the world. But we still stand far behind another modern state, which has not, as has our poor Fatherland in its time, been thrown centuries behind in the march of civilization. If we do not wish to stand still, if we wish, as we all do, to hasten and overtake the nations which have gone on ahead of us, then we must constantly convey the new capital which we create to the productive activities of the people. In other words, I point out only what has already been said, that we are not yet rich enough for this separation in our banking system. We have not as yet a million people, as in England, who pay their tailor bills and household expenses by check, and who have, according to our standards, great amounts lying in the bank, and are satisfied with a minimum rate of interest, or even no interest at all. Therefore it is clear that one of our most important duties is not to let the sources from which capital flows to our banks be disturbed or drained off. As has been repeatedly said with perfect truth by different speakers, these sources consist chiefly of working capital that is lying idle. It is necessary that this capital be conveyed to business through the banks without hindrance. And in this delicate matter it is proposed that legislation should interfere, though it would certainly cause a most lamentable disturbance.

Gentlemen, with my scant stock of expert knowledge, I can form no conception of how it is possible for a manufacturer, when he has surplus money, to give it to a deposit bank, and when he needs money, to go to a so-called credit bank. I do not know whether such a banking system could maintain itself. Judging from the remarks of the third main speaker, I take it that it would be impossible. It is also a question with me whether, even if such a law is passed, a sharp separation is at all possible with us—that is, whether the so-called credit banks will not enter as current accounts the sums brought to them as deposits. In all these matters our present tendency to interfere by means of legal regulation with the natural course of development is sure to work more harm than good. It has been said many times, by others as well as by the advocates of this complete separation, that abuses and injuries to the public are liable to occur. As the previous speaker has already explained to you, in this respect the case is really not so bad. In this connection I should like to call attention to a certain tendency to look in all directions for the economically weak, who must be protected against the supposedly strong. In this instance, the public, as the weaker part, is to be protected against the stronger banking world. This is the social tendency, and everything that is touched by it is rendered holy and inviolable. But, gentlemen, even the last secretary of the interior, Count von Posadowsky, frequently declared in the Reichstag that we must be careful not to weaken the self-reliance of the people by too much supervision and too much protection. If I am not mistaken, he used the expression once that we should be careful not to place a guardian at the side of each man, and that every one should be brought up to self-reliance and to a recognition of his own responsibility for the actions of his economic life. If a banker offers a customer 6 or 8 per cent, while the large banks will give only 3 per cent, he is a very foolish man and lacking in good judgment who trusts his money to the former in order to reach the golden mountain. No law can protect the stupid; to limit banks in their important operations for their sake would be a foolish proceeding. This would be especially regretted by industry, which recognizes the importance of a fully developed banking system. I would not go as far as the first main speaker, who says that the banks have been the pioneers of industry. I would reckon among these pioneers the enterprise of the manufacturers themselves and the great technical skill of those associated with them. But there is no doubt that industry is thoroughly convinced of the importance to be attached to the banks in connection with all their undertakings. My esteemed friend and colleague, Doctor Beumer, intimated in the introduction to his remarks of yesterday that there has not always been harmony between banking and industry. It is the well-known case where the one must ask and the other should give. Gentlemen, there is perpetual ebb and flow in the business between the banks and industry, and it goes without saying that harmony can not always prevail. But, gentlemen, I can establish the truth of what I have already said, that industry fully recognizes the importance of banking, both in good and in bad times. Whoever recalls the times of the seventies and the terrible crisis—I see here some gentlemen whose hair has become gray as my own, and who know what times those were—will remember how the banks, themselves in great trouble, pulled a great many of our industries through, when for years prices stood below actual cost. It was the German banking system, not nearly as developed at that time as it is to-day, that stood faithfully by the side of industry. Industry will not forget that. It will also stand by you to-day when legislative measures are proposed which would be injurious to you. I believe I can vouch for your finding in industry—at least in the most important industries, those from which support would count for most—a faithful confederate

Mr. Max Schinckel. Gentlemen, I promise not to make large demands upon your patience. I can declare myself in harmony throughout with the remarks of the main speakers, especially with Herr Doctor Jaffé's reminder that if we wish to object, we should do so in time—that is, before the bills are introduced in the Reichstag. I can further declare myself also all the more in agreement with the address of Herr Geheimrat Mueller, since he took upon himself the unpleasant task of speaking the truth very plainly. That is good, even if not always welcome. But my very agreement with all this makes me the less able to subscribe to the third section of the resolution. To this I ask your attention for a few moments.

It is the purpose of the resolution, no doubt, and, as I take it, of the whole Bankers' Assembly, to declare openly and absolutely that there is no occasion for legislation. I see in section 3, however, a weakening which seems to me out of place. The last sentence of this section indulges in prophecies as to what may happen in the future. I am a decided enemy of prophecies when there is any question of their being put on record by publication. Whenever I have had a hand in them, they have always gone wrong. And it would be very gratifying to me if the author of the resolution would decide to strike out this part of section 3. The words are printed spaced. They read: "Spontaneously without legislative instigation." Gentlemen, if it is expressly stated in the first sentence that there are already parts of the country where pure deposit banks are necessary, those who are bent on blessing us with a deposit bank law might hit upon the idea that before permitting pure deposit banks to be established, we should make legal regulations governing such permission. I am afraid this is not as it should be. I hope the author of the resolution will pardon me for saying so. I am not so well acquainted with Oldenburg, but I know that the Oldenburg banks can not by any means claim to be called pure deposit banks in the usual sense of the term. They are interested in syndicate business, and also give blank credits. That should not be permitted to the pure deposit bank, according to the view of the legislators. In the case of the Mecklenburg banks—for I am not only a citizen of Hamburg, but also of Mecklenburg—I assert emphatically that they are very slightly differentiated from most other banks by their business. They have the single peculiarity that they have an amount of deposits seldom attained by the commercial banks. The cause of this is natural, and does not lie in the fact that the Mecklenburg citizen refrains from investing his money in mortgages. On the contrary, he makes such investments with an astonishing confidence. I know properties—the alphabet has not as many letters as these properties have mortgages in amounts of from 2,000 to 3,000 marks for widows and orphans. However, there is in Mecklenburg a great need for investments, in spite of the fact that the people earn but little money, as they are mostly only small agriculturists. But if they only deposit as savings the amount by which Mecklenburg taxes fall below those paid in other parts of Germany, there must be a very considerable total. Furthermore, Mecklenburg—I am proud of being able to defend Mecklenburg—is ahead of all our other states in that it has issued no state loans since time immemorial. As a result, the public has no opportunity to invest money in Mecklenburg consols. Finally, the people in Mecklenburg have had very bad experience with the Sterlitz Bank. What is more natural than that they should go to the two well-established banks which offer them comfortable interest, and which are enabled to do this not because they are pure deposit banks, but because they are in the fortunate position of standing in most highly favorable relations with some great banks in Berlin. The banks have half their money deposited with the Berlin banks. How are they different from any other bank if they deposit their money in other banks? They can not, therefore, call themselves deposit banks, and they would labor under the same disadvantage as the pure deposit banks if they did not find favorable use for their money among their business friends in Berlin. I believe that we ought to put it to the main speakers—Herr Geheimrat Mueller has already half-way assented—whether it would not be well to drop this allusion to Oldenburg and Mecklenburg, partly because it can not be said that they are pure deposit banks, and partly on tactical grounds. I should not like to see the need of pure deposit banks recognized as yet. I do not care to make a motion, however, and I merely leave it to the main speakers whether and how far they will propose amending section 3.

Geheimer Oberfinanzrat MUELLER: I have already indicated that I will gladly strike out the parenthetical passage in two places in so far as it relates to Mecklenburg and Oldenburg. As Herr President Schinkel has come forward as a Mecklenburger, I must defer to his greater local knowledge. I have, however, already explained that these banks are not at all to be considered as pure deposit banks, and I must still maintain that of the existing banks in Germany they bear the closest resemblance to one's idea of pure deposit banks.

On the other hand, I am not in favor of any further elisions. To my mind what we are here giving expression to is not prophecies, for which I also have no inclination, but the desire to meet a present need on the basis of present conditions, the consequent decision to wait for the future to show whether a greater need will arise, and finally the assertion that even if a greater need should arise, legal interference would not be necessary. It is therefore, I believe, quite proper to reply to those who now demand action from the legislator that at this time there is no economic need, and if later such a need should occur, legislative interference will not be necessary even then.

The PRESIDENT. Gentlemen, I regret that a motion has been put to close the debate, which is signed by not less than seven gentlemen, while seven still remain on the list of speakers. Is a motion to close supported? (Cries of "Yes.") Will the gentlemen rise who are for closing the debate? There seems, unfortunately, to be a very great majority for closing it. Therefore, I close the debate.

Justizrat CRÜGER. I can, unfortunately, only express my regret at being unable, because of the close of the debate, to correct some misconceptions in the address of Herr Geheimrat Mueller, concerning the financial condition of the credit associations.

The PRESIDENT. I suppose, gentlemen, that you forego the second reading of the resolution. (Agreement.)

Number 3 is changed so that the first sentence now reads: "A need * * * has not yet arisen in Germany." All the rest remains, except that in the last sentence the reference to Oldenburg and Mecklenburg is struck out. Will the assembly accept the resolution as a whole with these changes? (Agreement.) Will those who are opposed raise their hands? (None vote.) I declare, therefore, that this resolution of the German Bankers' Convention has been unanimously accepted.

The resolution above referred to is as follows:

ON THE QUESTION, IS THERE NEED OF LEGAL REGULATION OF DEPOSIT BANKING IN GERMANY?

1. The organization of banking and of credit existing in Germany, the peculiarity of which consists, on the one hand, in the union of general banking business with the management of outside moneys, and, on the other hand, in the intimate relation of banking to commerce and industry, has grown out of the economic development of Germany and has greatly contributed to the extraordinary growth of industry and the resultant increase of national prosperity.

2. Since the communal savings banks, developed in Germany more than in other countries, attract the savings of the laboring classes and the middle classes and afford to these a regular interest, the deposits flowing to the banks and banking houses are only in the smallest degree savings deposits properly so called; they are generally working reserves of business men, who also have their other financial affairs transacted by their banks; or temporarily available capital of capitalists, destined to later invest-

ment in securities, mortgages, etc. These two categories of depositors attach great importance to the fact that the same bank to which they give their money for interest serves them for all kinds of banking transactions, especially the granting of temporary credits.

3. A need for the establishment of pure deposit banks has not yet arisen in Germany. Such a need may arise in the future if, with further increase of national prosperity, the surplus profits of business men are no longer used, as they have been hitherto, for the enlargement and consolidation of plants, and if, as is even now the case in France and England, the number of those becomes very great who have considerable capital to put out at interest. In this stage pure deposit banks will arise spontaneously without legislative instigation, partly through the transformation of existing institutions and partly through the establishment of new ones; and competition will of itself result in their voluntary submission to the limitations of business customary in other countries, because it is to their own interest to do so.

4. According to the experience of other countries, a pure deposit bank can yield a profit and pay its depositors an acceptable rate of interest, only if the amount of deposits is many times greater than that of the paid-in capital. The conditions for this do not yet exist in Germany, apart from the exceptions mentioned in 3.[a] The overwhelming majority of depositors who now hold deposits with the credit banks could not be afforded the service by

[a] As appears from the discussion, the mention of these exceptions was stricken out from section 3 before the resolution was adopted; the fact that they were referred to in section 4 was evidently overlooked.—Translator.

a pure deposit bank which they expect from their banking connection. A pure deposit bank, which must maintain a network of deposit offices in great cities and with branches in the provinces, would, in view of the narrow bounds within which its profit-bearing use of its funds is confined, be overwhelmed by the expenses of the business.

5. The fact that the business of credit banks that manage deposits is not subject to control must be taken into connection with the fact that the ratio of their own capital to the amount of deposits, and to the total of outside moneys, is decidedly higher than in the pure deposit banks of other countries. The statistics of the balance-sheets of all joint-stock banks of any importance that take part in deposit business show that the resources held as cover have satisfied the heaviest demands made upon them by critical times, both in point of their ratio to obligations incurred and in point of fluidity (bills, *reports*, loans on collateral and their own stocks, the latter calculated at one-half). The fact that the cover consists chiefly of bills and *reports* enables these institutions to be much more prompt in repayment of outside moneys than are the communal savings banks, which invest more than three-fifths of their deposits in mortgages.

6. Legislative experiments which proceed, out of theoretical considerations, to transplant forcibly from a wholly different historical background the best institutions of other countries to our banking system—which has had a very healthy development of its own—might easily cause dangerous disturbances of our economic life, and should therefore be resolutely opposed.

IV
Credit at the Reichsbank

By DR. R. KOCH
Former President of the Reichsbank

(Article from the *Zeitschrift für Handelswissenschaft und Handelspraxis*, July, 1908)

IV. CREDIT AT THE REICHSBANK.

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In the general discussion anent the impending extension of the note privilege of the Reichsbank but little is heard now of the demand, made occasionally in former times, that the State take over the Bank and operate it as a state institution. It has become an almost undisputed axiom that special bank credit—distinct from the credit dependent on the Imperial or State Government—is useful and indispensable, particularly during a crisis. Elasticity of circulation would soon cease, the note would soon degenerate and assume the character of common paper money, were the issues regulated by considerations other than those of business requirements.

This idea was expressed with great precision in the reports of the committees both of the French Chamber of Deputies and of the Senate on the occasion of the latest renewal of the charter of the Bank of France.

"A state bank," said the report of the chamber committee, "means the power granted to the Government of issuing unsecured paper currency and induces the temptation of creating notes secured not by known resources (mainly short-term securities) in liquid shape, but by the general resources of the State; in a word, of issuing fiat money, which at the slightest crisis would meet with the same fate as the assignats of the Revolution."

The senate committee report contains the following statement:

"In the first place, the danger to any bank of this type (i. e., a state bank) lies in this, that it is subject to the State and exposes the latter, as proved by experience, to the constant temptation to use the Bank to settle its own financial difficulties at the risk of the credit of the Bank, and thereby causing harm to the credit of commerce and industry."

But equally imminent would be another danger. The note banks, as is well known, grant as well as receive credit. They discount short-time bills and grant loans upon the pledge of certain classes of securities (Banking Act, par. 13); the bills, together with national currency, gold bullion, or foreign gold coin, and Imperial Treasury notes, serve as reserve for the bank notes (Banking Act, par. 17). In the case of a pure state bank there would be the particular danger that the granting of bank credit would be determined not by pure business principles, but by considerations of a more or less political nature.

"The state bank," says the report of the French chamber committee, "means business mixed with politics." And the senate committee points out further consequences. "Then there would be the danger of mixing questions of finance with political discussion, of considering, for example, discount rates in the same spirit as matters of taxation and of injecting political passion into the solution of these most delicate, complex, and oftentimes almost imponderable questions."

The debates in the Reichstag have demonstrated that this danger exists even with our present "mixed" banking organization, notwithstanding the compliments and praises bestowed on it by the leaders of French bimetallism, such as Meline. Complaints were heard about an excessively high discount rate even in years in which for months the rate was low (as for instance in 1905, when the average rate was as low as 3.82 per cent), although this rate depends essentially upon supply and demand in the money market. It was charged that artisans without property and small tradesmen are given no credit or but little credit, and that other industrial groups which are compelled to tie up for a long term their otherwise ample capital are but little able to avail themselves of the advantages of dealings with the bank.[a]

The expert perceives at once the utter groundlessness of such complaints. The Reichsbank has never been operated otherwise than upon pure business principles. It gives bill credit as a rule only against merchandise bills whose value must be extant either in goods sold or in the proceeds of such sales, or against bankable credit bills—i. e., bills presented by bankers who make a business of furnishing credit on commission.

It does not give credit against finance bills. In other words, the bill presented for discount must represent a real transaction, terminating at the maturity of the bill,

[a] The French report containing the argument of the government bill expresses similar apprehensions, though only with reference to a pure state bank:

"It is not merely that a state administration would not possess the necessary suppleness required to estimate commercial solvency and to adopt the terms of credit to market conditions, but above all because it would be assailed by all sorts of demands and propositions, all tending to make it depart from the rules of prudence which a bank of issue ought to observe."

as was insisted on in the instructions to the branches of the Bank as late as 1906. For agriculturists, indeed, the Bank has always made considerable concessions at certain times. Thus, for example, the Bank allows them a single extension in view of the slow turnover of their circulating capital.[a] In general, however, the extension of the bill credit granted, especially in case of a previous promise to that effect, has always been prohibited. It is possible that younger managers of the numerous subbranches may have erred at times in this respect, being misled either by an excess of business zeal or by a misconception of the true state of things. They surely have not done so with the view of increasing their commissions, for such commissions, in the shape of small shares in the profits, are allowed only to the managers of the so-called independent branches (about 80 in number), but not to the managers of the subbranches. Moreover, these allowances are merely credited and not paid in cash, and against them are charged, without recourse to legal action, all losses which may result during the tenure of the respective officials from obligations assumed by the branch. This practice has stood the test of time as a sufficient means of security and a satisfactory though not excessive stimulus of business activity. To abolish this practice would be not only unwise but even risky. Since the earliest period means of control have been used to prevent as much as possible extensions of loans of the above kind. It is true that the monthly reports of commercial credit granted do not always reveal loan exten-

[a] Regulation of the year 1856; see *Jubiläumsdenkschrift*, p. 79.

sions as such. A change in the amount and parties may easily cover up the transaction. On the other hand, however, a discounting of a bill oftentimes assumes the aspect of a mere loan extension, when as a matter of fact it is a bona fide short-term commercial credit transaction, in case, for instance, the seller of goods continuously draws in round sums on account of the buyer upon the latter's bank. This practice is quite frequent in case of bank acceptances. There may also be a gradual withdrawal of a deposit, representing the original proceeds of goods sold. Abuses arising from these incidents of business life are counteracted by the fairly frequent inspection tours of members of the central administration. But inasmuch as abuses have been discovered on such occasions, it would be well to insist that in case of larger bills all parties to the bill as well as its origin should be specified and clearly indicated.

To demand more would be impracticable. Any headlong move in doing away with the objectionable credit bills would merely tend to increase similar engagements on the part of the large private banks.

The rule that the Reichsbank shall not grant credit for a period longer than three months must be adhered to strictly. For only such short-time notes are sufficient legal security for the notes and guarantee their continuous redemption as well as the repayment of the giro-deposits.

With the view of facilitating the business opportunities of the less-favored classes the Reichsbank as early as 1878 reduced considerably the minimum amount of capital required for direct discount operations with the Bank. In spite of this the business with the smaller tradesmen's class continued to be limited. In view of the obligation of the Bank to redeem daily many millions of bank notes presented to it, besides disbursing many millions on giro-accounts, no further favor could be shown to this class, all the more because the small trader as a rule is unable to present the requisite discount material. In most cases the bills originating from small dealings lack the proper second signature (Bank Act, par. 13; No. 2, par. 17), and are therefore unfit for discount. This industrial class must therefore make use of other banking agencies.

Foremost among the latter are the cooperative societies. In view of the joint liability of their members a much larger share of the societies' property could be used all along as a basis for credit transactions. However, the law of May 1, 1889, having permitted also the operation of societies with limited liability, and the experience with these societies having been favorable, the limited liability principle has since 1896 been extended to all larger cooperative societies.

Through these societies the small tradesmen in an indirect way may also obtain credit from the Reichsbank. Further facilities for the discount business are afforded by the continuous extension of the network of branches, especially that of suboffices,[a] and by the enlargement of the collection districts of the various Reichsbank offices.

[a] In 1907 the number of branches, subbranches, etc., was 478. Of this total 4 suboffices were in that year changed into Reichsbank offices, while 9 suboffices were opened. In 1906 the number of newly opened suboffices was 26.

In this manner the Reichsbank continuously becomes possessed of large amounts of bills, in which the fluctuations of business conditions find their clear expression. The amounts of bills purchased show an almost uninterrupted increase. For the last two years the amounts represented by discounted bills were as follows:

[In millions of marks.]

	1906.	1907.
Local bills	4,360	4,997
Drafts on outside places	5,853	6,885
Total bills within Germany	10,213	11,882

The Reichsbank gathers among its holdings a very considerable portion of all the bills drawn and put in circulation in Germany. In the memorial volume describing its experience during the first twenty-five years of its existence, the Reichsbank was able to point out that the proportion which its average yearly domestic bill holdings bore to its total capital investments varied between 79.5 per cent for the year 1881 and 88.3 per cent in 1876.[a] Accordingly, the Bank purchased almost two-fifths of all German bills (in 1899, 39 per cent). The ratio of its average bill holdings to the total bill circulation is smaller because of the shorter time its bills run (between 11.3 per cent and 15.8 per cent).[b] Generally speaking, the Bank attracts a larger share of the bill circulation in times of business expansion than in times of business stagnation or depression. The fact that since its foundation its share of the entire bill circulation of the country has in-

[a] *Jubiläumsdenkschrift*, p. 88.

[b] *Jubiläumsdenkschrift*, ibid.

creased rather than diminished is explained by the growing demand for credit and for instruments of payment due to the growing business activity of the country. The Bank was able to satisfy this demand by means of the giro (transfer) deposits, which have been flowing to it in large amounts, though not to the extent that might have been expected in view of the increase in the facilities and of the advantages of the giro business.

The bill business is by far the leading asset business of the central bank of issue. The economic strength of the Bank rests primarily upon this class of business, especially upon the great liquidity of its bill holdings. The Bank is thus enabled to withstand successfully even severe crises. It can enlarge the circulation of its notes without hesitation, since it knows that the ensuing return current will bring back to it the means required for their redemption.[a]

The other class of the Bank's business—loans on collateral—are of much smaller relative importance, though far from insignificant when taken by themselves. Loans on merchandise have indeed gradually become less important as compared with loans on securities. Thus at the end of 1907, outstanding loans on hypothecated merchandise amounted to only 5,486,400 marks, while

[a] During recent years there has been an increase in the amounts of foreign bills purchased by the Bank with the view of strengthening the gold reserves and preventing an outflow of gold from the country which might necessitate an increase in the discount rate. These purchases, it is needless to state, are much below the purchases of domestic bills. They averaged 44,461,000 marks in 1907, as against 43,244,000 in 1906, and amounted to 71 million marks under date of May 7, 1908. These totals do not include the deposits with foreign correspondents.

the total loans on securities were 358,802,350 marks. In the western part of Germany this form of loans is not customary, nay, almost of ill repute, while in the eastern and northeastern provinces of Prussia, with their relatively sparse and mainly agricultural population, there is still a certain demand for loans on merchandise.[a]

The total of loans on collateral has increased almost uninterruptedly, notwithstanding the limitations to be presently mentioned.

Loans on collateral during the last four years were as follows:

Year.	Total amount.	Average amount outstanding during the year.
	Marks.	*Marks.*
1904	1,957,411,820	74,180,000
1905	2,093,427,625	72,033,000
1906	2,773,191,475	83,631,000
1907	3,293,301,200	98,140,000

The law (Bank Act, par. 17) prohibits the use of collateral as security for note issues, and this fact of itself prevents the undue increase of the collateral loan business. There is good reason for the discrimination. "In point of quick and safe realization," the jubilee memorial of the Reichsbank rightly remarks (p. 105), "the investments in loans on collateral are in no way to be compared

[a] Certain facilities in the collateral loan business are accorded mainly for the benefit of agriculture. Thus, since 1887 the Bank has loaned on spirit in bond stored in private warehouses without specification, appraisement, taking possession, or revision; since 1895 on bonded sugar on similar terms; and since 1896 on grain stored on the estates without regard to the legal difficulties involved in this particular class of transactions.

with bill holdings, carefully selected in accord with banking principles." For a loan on collateral is always far less transparent than a bill. As a rule, it affords no criterion to judge of the kind of credit sought. In many cases the loan is intended to supply the need of working capital, a fact which is more easily recognized in the case of bills offered. Granting even that a painstaking selection of the pledges may render the security beyond doubt, yet the quickness and even the possibility of realization remains dependent upon the absorbing power of the market. Experience has proved that in times of severe crises even the most solid securities can not be disposed of at all or only at great loss. The provision of a maximum limit of loans on collateral, to be determined after consultation with the central executive board (Banking Act, par. 32*d*), had proved altogether ineffective long ago for technical reasons.

The best means of keeping these loans within the necessary limits is the interest rate. Instead of other restrictions which might injuriously affect the borrower, the Reichsbank has for a long time kept the interest rate of loans on collateral uniformly higher than the discount rate, the difference for the recent period amounting, as is well known, to 1 per cent.[a] But for this policy, the temporary increases of this class of loans—especially at the end of the quarter—due to the ease with which money can be borrowed from the Bank for a few days—would

[a] The administration of the Bank upon mature deliberation refused to follow the Reichsbank resolution of 1899, which recommended the lowering of the rate by one-half per cent (Report of committee, p. 31 and following, 56 and following; stenographic report, p. 1892).

have become even more noticeable than they now are.[a] In 1884, when money was relatively abundant, a preferential interest rate, exceeding the discount rate only by one-half per cent, was accorded exclusively on loans secured by Imperial and State bonds. The purpose of this measure was to raise these bonds to the position of standard securities for the well-to-do classes. This purpose was fully attained, though as a result the loans on collateral grew out of all proportions and far more rapidly than the bill holdings.[b] The lower rate could not be maintained indefinitely and was abolished July 1, 1897. The liquid character of the Bank's assets, and hence its power of resistance, had been notably diminished. When next all classes of collateral securities were placed on the same level with regard to the interest rate, the situation was reversed immediately. The average amount of loans on collateral declined considerably, due mainly to the decline of loans on the favored bonds named, while the bill holdings showed an increase.[c] Whether the change

[a] Compare weekly review, for example, page 67 of the report of 1907.

	Marks.
September 7	69, 800, 000
September 30	204, 100, 000
December 7	78, 500, 000
December 21	364, 300, 000

[b] The average for 1896 was 131.28 per cent higher than the average for 1883, constituting 14 per cent of the total investments of the Reichsbank, as against 11 per cent in the earlier year.

[c] The annual averages were as follows:

Year.	Loans on collateral.	Bills held.
	Marks.	*Marks.*
1896	106,000,000	646,000,000
1905	72,000,000	908,000,000
1906	83,000,000	989,000,000
1907	98,000,000	1,060,000,000

affected the quotations of these bonds is very doubtful. As a matter of fact, immediately after the abolition of the preferential interest rate quotations rose slightly. In the course of time (though for different reasons) there was a decline in all security values. It was seen, however, that the old differences between the formerly preferred securities and other investment securities, as for instance, mortgage bonds—because of the wider market of the former—remained unchanged.

The privileged treatment as collateral by the Bank did not prove sufficient to raise the quotation of the favored securities. An argument against the often suggested reintroduction of this preference is also derived from the fact that, so long as the preference lasted, demands were constantly made for its extension to other classes of securities, and that these demands ceased with the abolition of the preference.[a] The Bank can not afford to grant these demands, since a reversal of its policy would result in an increase of loans on collateral even beyond the figures reached in 1906, with all the disadvantages attaching to excessive investments in this class of loans from the point of view of sound banking principles. Moreover, there would be a renewal of the old struggle on the one hand between the Bank administration and the advocates of a preferential rate of interest, and on the other between the Bank and the various interests which formerly clamored for the extension of the preferential rate, such as the cooperative land credit associations (Landschaften), mortgage banks, provinces, communes, dis-

[a] Even the Reichstag passed without debate a resolution to this effect.

tricts, etc., as well as a renewal of the struggle among these various interests.[a] While these struggles were not the motive that led to the abolition of the preference, yet their cessation is an undoubted advantage, which may be lost with the renewal of the privilege.

So much for the loans on collateral, which for that matter are limited by law to certain well-defined and specially secure objects of hypothecation.

The purchase of domestic bonds—acceptable as collateral—constitutes another kind of credit (granted to the debtors on said bonds). Since this form of credit implies to a certain extent the tying up of operating capital, the Bank is permitted to grant it only under certain precautionary restrictions. (Bank Act, par. 13, No. 4; par. 32, sec. 2*d*.)

The Bank is not permitted to grant credit in other forms, particularly blank credit. No credit can be granted for outside account without previous security. (Bank Act, par. 13, Nos. 5, 6; par. 40, No. 11; Reichsbank charter, par. 10.)

[a] In 1906 an extension of the privilege to mortgage bonds issued by the Landschaften was demanded by a deputy, who happens to be also an officer of a Landschaft.

V

Concerning the Collateral Loan Business of the Reichsbank, Especially the Loaning on Imperial and State Securities

By DR. R. KOCH
Former President of the Reichsbank

(From the *Deutsche Revue*, July, 1908)

V—CONCERNING THE COLLATERAL LOAN BUSINESS OF THE REICHSBANK, ESPECIALLY THE LOANING ON IMPERIAL AND STATE SECURITIES.

Dr. R. KOCH, former president of the Reichsbank.

[From the *Deutsche Revue*, July, 1908.]

The credit of the Reichsbank is, as is known, frequently demanded not in the form of the discounting of bills, but in that of loans on collateral—that is, interest-bearing loans on negotiable securities of definite kinds. (Bank act, sec. 13, No. 3.) The rate of interest is to be publicly announced in the same way as the discount rate. (Sec. 15, ibid.) This rate, as well as changes in the principles on which and in the period for which credit is granted, is passed upon by the central committee, as is the case in the discount business. (Sec. 32*e*, ibid.) There is, however, a comprehensive and important difference. Loans on securities are not adapted as reserve against notes. (Sec. 17, ibid.) This provision, which is incomparably more important than the more or less insignificant one which prescribes that the central committee is to decide concerning the maximum amount to which the funds of the bank may be invested in loans on securities (sec. 32*d*, ibid.), is very expressive of the fact that credit granted on collateral is not of the same value for the central bank of issue as credit allowed on the security of bills of exchange, but is subject to certain objections inherent to it in its relation to the general policy of the bank. Now, it may appear strange on a superficial examination that the bank law should express such a lack of faith in resources represented by loans on collateral, which are (theoretically at least) of undoubted security. In this respect they are at times superior to bills, which rest purely on personal credit; and, as experience has shown, they have resulted in extremely small losses to the Reichsbank.[a] Yet there is a good reason for the restriction of their volume. For a bank of issue the aggregate of whose investments must always be on a level with that of its obligations, it is not merely a question of safety, but fundamentally of the liquidity of the investments. No person who has any acquaintance with such matters will believe that loans on securities can be compared with discounts represented by bills carefully chosen according to sound principles of banking—with respect to the possibility of quick realization. Loans on security are always lacking in the quality of transparency, it being often not easy to see what is behind them. They do not rest in all cases on a basis of substantial business dealings like commercial bills, and in particular bills drawn against the delivery of merchandise, which always presuppose the existence of the equivalent in commodities, or as the net proceeds of a sale. Often they serve rather for the creation of operating capital that has been lacking, without one's being able to judge clearly, as with many classes of bills, how far this is the case. In general, there are no indications as to how the credit sought is going to be used, while the probability of punctual repayment depends upon

[a] *Jubiläumdenkschrift*, p. 122.

just this factor. It is thus possible that the bank may be compelled in time of crisis, when its own customers are falling into arrears, to proceed to realize on securities in great quantities, in order to protect its 2,000,000,000 marks and more of demand liabilities. Experience has taught that there is not at all times a ready market for pledged securities. There are times when it is impossible to realize on them, or at least not practicable without great losses. That such losses have not hitherto occurred is only explicable by the careful and conservative policy that has been pursued in the business of loaning on collateral. The lending of money on securities is only an incidental part of the business of a bank of issue. Since there is less of a periodical return current than in the discount business, this department of the bank's activity has not so much to do with the regulation of the monetary circulation. For this very reason it is much easier to limit operations in this sphere. On the other hand, the danger of immobilizing the capital invested in loans on securities exists even with the safest securities. Therefore the demand to enlarge the capital of the Reichsbank in order to provide for the extension of its loan business should be opposed.[a]

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[a] Adolph Wagner (*Zettelbankpolitik*): "It is easy to perceive that this branch of the business (loans on securities) is rather to be entirely avoided." In another place: "Special care should therefore be exercised in granting loans on securities, and only a moderate extension should be given to this branch of the business in general."

Michaelis (*Volkswirtschaftliche Schriften*): "Loans on securities are an unhealthy source and basis of note issues. They create new means of payment, while the function of notes, properly considered, is to take the place of instruments of payment previously created (commercial bills)."

Naturally the business could only be extended by lowering the rate of interest on such loans, since the bank does not now reject any legally permissible application for a loan, and an increase of such applications could only be called forth by cheaper rates. This rate of interest is always kept at 1 per cent higher than the rate of discount on bills as a matter of principle. Efforts have been repeatedly made to lower the rate of interest on loans and to bring it closer to the bill rate. The practice of some of the German private banks of issue seems to speak for this plan. They have made it their custom to evade the limitations in the matter of the discount rate imposed by the supplementary bank act of the 7th of June, 1899, by loaning liberally on promissory notes. The practice of individual foreign banks which have made much of the loan business by reason of the small volume of bills brought to them for discount points in the same direction. But the Reichsbank, in its capacity as the regulator of the monetary conditions in the country, could not, in view of its own experiences, after repeated consideration of the course pursued by other institutions, be induced to yield in the face even of

In the French bank investigation of 1865, which, as is known, was practically fruitless, only a few bankers (including Pereire) declared themselves in favor of a large extension of the loan business. The majority of the chambers of commerce desired that the bank limit these loans still further, if it did not altogether suppress them, since they favored speculation more than substantial business.

In the German bank investigation of 1908, the subject of lending on securities is taken up only with respect to a secondary point in the question sheet: "Is an advance in the price of loans on securities at the Reichsbank at the quarter days through the increase of the number of days for which interest is reckoned to be recommended?"

the desire of the Reichstag.[a] Other restrictions, such as were formerly practiced at times by the Prussian Bank, are more or less arbitrary and in any case deal harshly with the borrower. The efforts made in years of quiet banking to put life into the loan business by means of fixed loans for six weeks and three months at a moderate rate of interest were fruitless. An unfavorable aspect of this kind of business, which the bank could not help realizing is the circumstance that the volume of loans on collateral is subject to great fluctuations. It is sometimes quite large, notwithstanding the high rate of interest.[b] A variation from the discount rate of less than 1 per cent would undoubtedly increase it further and add to the disadvantages which a large investment in loans on securities brings with it.[c]

The unfavorable experiences which the Reichsbank has had with the establishment of a reduced (preferential) rate of interest for certain securities are also to be cited. Not that this arrangement in itself was opposed in many circles—a lower rate is always welcome to those seeking

[a] Report of the Reichstag Commission of 1899, pp. 31 ff., and 56 ff.; Stenographic Report, p. 1992.

[b] In the year 1906 the maximum investment in such loans was 284,520,000 marks (31st of December); the minimum, 50,899,000 marks (22d of September); average, 83,631,000 marks. In the year 1907 the maximum was 364,297,000 marks (31st of December); the minimum, 54,090,000 marks (23d of January); average, 98,140,000 marks.

[c] Adolph Wagner (*Zettelbankpolitik*): "The higher rate of interest for loans on collateral is wholly justified in banking. It maintains in the first place a higher insurance premium as compared with the discount rate, since the security is often inferior to that of bills; furthermore, as everyone knows, the ability to realize on the investment is better assured in the case of discounts by the strictness of the legal provisions regarding bills of exchange.

credit. It was the compass of the plan, the steadfast refusal of the Reichsbank management to extend it to other securities, which many desired, that brought violent attacks upon it; and even if these attacks were in no way decisive, they contributed to a removal of the differential. In 1884, when money was very cheap, the Reichsbank decided to lower the rate of interest by one-half of one per cent on loans secured exclusively by bonds of the Empire or of the German states, particularly in order to favor investment in these securities (as so-called standard securities). This purpose was indeed attained, and the loan business showed immediately increased activity. The average volume of loans on securities increased from 45,800,000 marks in 1883 to 49,200,000 marks in 1884, in spite of an easier money market.[a] But at the same time there was a serious displacement or shifting of the component of the bank's investments. While the bill portfolio increased by 76.4 per cent from 1883 to 1896, the volume of loans on securities increased by 131.3 per cent, rising to an annual average of 106,000,000 marks, of which 71,800,000 marks was at the preferential rate. The loans on securities, which in 1883 had amounted to only 11 per cent of the average total investments, reached 14 per cent in 1896. The situation changed unfavorably relatively to the really normal investments, namely bills, which through their greater liquidity assure the stability of the bank in times of crisis. Such a development could not be permitted to go on.

[a] *Jubiläumsdenkschrift*, p. 117.

The preferential rate was suspended, therefore, after the 1st of July, 1897, with the consent of the Imperial Chancellor. All securities on which loans could be made were thereby placed on a level as far as the rate of interest was concerned. The selection of securities on which a favorable rate might be allowed—a very dubious operation—was done away with. The desired effect was not lacking. The average investment in bills, which in 1896 had amounted to only 646,300,000 marks, rose in the year 1906 to 989,400,000 marks, and in 1907 to 1,104,500,000 marks. The average aggregate of loans on securities fell from 106,000,000 marks in 1896 to 83,600,000 marks in 1906. By the year 1900 it had gradually fallen to 80,000,000 marks—that is, in a time in which the economic development of the country occasioned large drafts on bank credit. A feature of this retrogression was that it involved mainly the imperial and state securities, and was scarcely felt at all in the case of the other securities. In 1896 there was an average of 71,800,000 marks invested in loans on the former, or 67.7 per cent of the total loans on securities, while the loans on other securities aggregated 27,900,000 marks, or 26 per cent of the total. By the 15th of August, 1907, the amount of loans made on the favored securities had fallen to 39,200,000 marks, which was only 49.3 per cent of the total loans on securities.

The amount of loans on the securities not included among the favored obligations has not greatly changed.[a]

[a] The *Jubiläumsdenkschrift*, p. 119, indicates the shifting of the risk in loans on securities which has thus been effected. All central note banks make it a point to adhere closely to a proper apportionment.

It was 22,800,000 marks on the 7th of September, 1900, or 32.7 per cent of the aggregate amount of loans on securities, and 25,800,000 marks on the 15th of August, 1907, or 32.5 per cent of the total.

In view of these striking results, the reintroduction of the favorable rate for imperial and state paper, which is desired by some business men, especially bankers, can not be considered. The liquidity of the total investments would thereby be seriously influenced, and the ability of the Reichsbank to withstand all dangers would be materially weakened.

The difference in the quality of securities is expressed in another manner by the practice of some banks of issue of making the percentage of the market value up to which they are willing to lend money smaller in the case of some kinds of securities than in the case of others.[a] This would hardly be in accord with the bank act, which permits loaning on domestic securities in general only up to three-fourths, and on foreign securities only up to one-half of the price quoted at the exchange. (Sec. 13, No. 3 b, c.) The former practice of the Reichsbank of placing the various kinds of securities in different classes—at times a very perplexing operation—did not work well and had to be given up many years ago. Only a uniform treatment of all securities capable of serving as collateral, enabling the bank to dispense with the necessity of

[a] For example, the Bank of France makes loans on French rentes and treasury bills up to 80 per cent; on other securities up to 75 per cent. The Russian Bank loans on imperial securities and those guaranteed by the Government up to 90 per cent; on other securities up to 75 per cent or 80 per cent.

selection, is in accord with that broad and sound policy of maintaining a moderately large volume of loans on collateral and assuring the utmost liquidity of the securities pledged.

The maximum limit set by the bank act, which has gradually been extended from 90,000,000 marks to 120,000,000, 150,000,000, and in the year 1890, to 180,000,000 marks, has long since proved impracticable. The volume of loans on securities is very fluctuating. The demand for credit at the end of the month is usually very large, as is indicated by the interrogatory relative to the quarter days in the question sheet submitted to the Bank Inquiry Commission of 1908. The banker obtains the means of supplying further credit at such times by getting loans on securities at the Reichsbank as the last source of credit in the country. The ability of the banker to help himself for a few days with the advances received is for the good of business in general, and is of special significance at the quarter days because of the strain in the money market. A few days before their advent the aggregate of loans on securities increases very rapidly, only to decrease as rapidly again in the ensuing period.[a] This difference is revealed as well in the individual branch institutions. Some have lesser, others larger, temporary demands upon them. There is no telling in advance, especially in the case of loans on securities. The needs of individual industries and other branches of business change very rapidly. Just on this account such loans can not be limited for the individual

[a] *Jnbiläumdenkschrift*, p. 117.

branches of the Reichsbank (numbering 486 in June, 1908). The technical difficulties which such a course would encounter are insurmountable. The restriction has therefore been more and more in abeyance. There would have been no sense in trying to exact a penalty for each of the numerous transgressions. The rate of interest remains the only efficient instrument for keeping this business within limits consistent with liquidity.

The constant decline in the prices of our government bonds, which are so splendidly secured, is certainly a lamentable phenomenon. Whether, however, the reintroduction of a preferential rate of interest would afford a means of effecting a change is very questionable. The previous experiences of the Reichsbank do not warrant it.

In the year 1884 a gradual improvement in the quotations manifested itself, the indications of which had already been visible some time before. But in 1897, after the suppression of the preferential rate, no tendency toward a decline in the quotations showed itself. Throughout July there was rather a slight advance. From 1896 to 1900 there was indeed a great decline in these securities, traceable to general economic conditions, and in recent years the downward tendency has been even more marked.[a]

[a] The following are the quotations for the first of February in the years 1906, 1907, and 1908:

	1906.	1907.	1908.
3 per cent imperial loan	89.20	87.30	82.90
3½ per cent imperial loan	101.10	98.20	94.00
3 per cent Prussian consolidated loan	89.20	87.30	82.80
3½ per cent Prussian consolidated loan	101.20	98.25	94.50

The reasons for this hardly admit of dispute. Chief among them are the great and almost regular increase in the volume of imperial and Prussian loans and the opportunities afforded the public of obtaining larger returns from industrial investments. There has been a similar decline in the case of other German investment securities paying a fixed rate of interest. No tendency on the part of the favored securities to come down to the level of the unfavored has ever been noticeable. Where such a distinction exists and has always existed, the greater market for the former class of securities is to be regarded as the cause, and not the exceptional position accorded them in the matter of collateral. This plays hardly any rôle whatever for the simple reason that those who benefit by the preference get the profit—and that only a moderate one—for a short time only. It can no longer offer a special inducement for the continued creation of this class of securities. A better rating of these securities is to be expected from them as a permanent investment in which only the rate of interest is considered than from the former policy of increasing their availability as collateral.

In view of all this, the expected advantage of the reintroduction of the practice of giving preference to certain securities for borrowing purposes is so questionable that it does not justify us in endangering an important principle of bank policy or of abandoning it altogether. To this is to be added, finally, the certainty that the old demands would immediately arise again to extend this advantage to other securities. Not only would it have to be given to the bonds of all the federal states,[a] but likewise to the debentures of the Prussian agricultural credit associations [a] and those of the mortgage banks (which help to support municipal credit), to provincial and municipal bonds, fresh issues of which are continually burdening the market, as well as to other obligations. The struggle began immediately on the part of the agricultural interests when the Reichstag incidentally recommended the reintroduction of the preferential rate.[b] This apprehension is therefore surely not unfounded. If the Reichsbank should resist any such demands, as it can not help doing, the old attacks upon it would be renewed in a way that would seriously and unjustly injure its credit.

[a] See Debates of the Reichstag, 2d of March, 24th of March, and 18th of June, 1896.

[b] See Debates of the Reichstag, 28th of May, 1906.

VI

Concerning the Renewal of the Reichsbank Privilege

By PROF. W. LEXIS
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(Article from the *Bank-Archiv*, 1907, page 309)

VI—CONCERNING THE RENEWAL OF THE REICHSBANK PRIVILEGE.

PROF. W. LEXIS, OF THE UNIVERSITY OF GÖTTINGEN.

[Article from the *Bank-Archiv*, 1907, page 309.]

The renewal of the Reichsbank privilege signifies, in the first place, that the Imperial Government thereby renounces the right reserved by it in section 41 of the law of the 14th of March, 1875. The suppression of the Reichsbank, permissible according to point (A)[a] of this paragraph, is practically considered; it is only a question of point (B), according to which the Imperial Government is authorized to acquire the total stock of the bank. In either case one-half of the available surplus would go to the shareholders. The question that has to be decided is as to whether the Reichsbank shall have its privilege renewed or become wholly a state institution. State ownership, as is well known, finds numerous advocates, whose contention is based on an argument which is undoubtedly very weighty. The shareholders received in the year 1906 a dividend of 8.22 per cent, or a total amount of 14,790,724 marks. A significantly higher share went to the Empire, namely, 25,472,181 marks, but this share would have been increased by about 8,000,000 marks if the Empire itself had owned the bank capital of 180,000,000 marks. This capital could have been acquired without difficulty by the issue of 3½ per cent bonds, even at the unfavorable rate of 93. The objection is frequently made against state ownership of the Reichsbank that in the very improbable

[a] Cf.—German Imperial Banking Laws, p. 52.

event of a foreign invasion the metallic cash and other property of the bank—if these belonged to the State—would fall into the hands of the enemy. But undoubtedly an enemy invading Germany would not proceed otherwise than did the Germans in the invasion of France in 1870. The Bank of France does not stand in nearly so close a relation to the State as does the Reichsbank, for it is not wholly managed by state officials; only its governor and two subgovernors are appointed by the Government. Nevertheless, the cash in the branch offices which could not be removed to a place of safety in time—for example, several million francs in Strassburg—was seized by the advancing German troops, and the legal questions involved remained undecided until the end of the war. At that time consideration was undoubtedly taken of the fact that the notes of the bank had possessed forced circulation (*Zwangkurs*) since the 11th of August; but we should not delude ourselves into thinking that the Reichsbank notes would not also be invested with the quality of a forced currency in the unfortunate event of war.

Other arguments, however, really speak in favor of the system of a central bank of issue, run by private capital, and in more or less close relations to the State. It is interesting to note that this system occurs in almost all of the large states of Europe—in England (the Government has no direct share in the management of the Bank of England, but its notes have legal tender power), in France, in Austria-Hungary, and in Italy. Russia alone has a pure state bank, with state-owned capital, but it can not be said that this example is especially worthy of imitation.

It is not well for a great bank of issue to be actually merged in the state financial system, even if it appears externally independent. It is likewise undesirable that it be subjected, as a pure state institution, to political and party influences. In Germany attempts to impose demands on the Reichsbank contrary to its purpose and its real duty have not been wanting. Its duty is, according to the law, "to regulate the monetary circulation of the whole Empire; to facilitate payments; and to promote the utilization of available capital;" but not to create cheap credit which is not warranted by the conditions of the money market. It may not grant long-time credit, such as the agriculturists, who have to reckon upon an annual period of settlement, demand. This agricultural need for credit must be relieved in other ways. For reserves against bank-note circulation only short-time bills—or loans on collateral—can be used. These involve a quick, automatic return of the notes, which makes it possible for the bank to regulate their emission at any time in accordance with the needs of business and the requirements of public welfare. Therefore, when the bank discounts mercantile bills by preference, it does not do so because it desires especially to favor commerce and industry, but because it can not do otherwise, according to the nature of its task, inasmuch as it is only in these bills that it finds the proper covering for its notes. It is very important for the general interest that the bank does not exceed the limits to which it may grant credit, as the Russian Imperial Bank has done. These limits are conditioned by its nature as a bank of issue. The officials of a pure state bank have merely to adapt themselves to the regulations coming to them from above; but a bank of issue with private capital, even when entirely managed by the State, has a sort of independence as regards the State—an independence which protects it against interference with the vital conditions of its existence. For the former, the interference of legislation is always needed; but the latter must always keep in mind the fact that a great private capital is in its charge. The central committee of the Reichsbank has undoubtedly only a very moderate authority, but its influence, nevertheless, is far greater than that of the advisory board of a state railroad company, because it represents the owners of the bank capital.

If the Imperial Government should take over the bank, the shareholders would receive the capital and half of the surplus, a total of 212,400,000 marks; that is, their shares would be redeemed at the rate of 118, while they now stand at 154, and have generally fluctuated between 150 and 160. The shareholders could not complain of this, as the law provides for the possibility of the state ownership of the bank under these conditions, and this fact has exerted a certain constantly depressive influence upon the rate. Since the shareholders are generally bankers or other moneyed people, the opinion will prevail in many circles that they deserve no consideration whatever. Nevertheless, it should be recalled that they did not acquire the shares originally at par. At the foundation of the Reichsbank half the capital was created by taking shares of the Prussian Bank, which at that time stood at 155, in exchange for shares of the new bank. The other half was obtained by subscription at the rate of 130. When the capital was increased on the basis of the law of the 7th of June, 1899, 30,000,000 marks were issued in 1900 at 135 and 30,000,000 marks in 1904 at 144. The latter emission would hardly have succeeded if the subscribers had considered it a serious possibility that they would be repaid at the end of 1910 at 118. They would then have lost 18 per cent in six years, or an average of 3 per cent of their capital yearly; and even if they had drawn during all this time an 8 per cent dividend on their nominal capital the real interest on their investment would have been only 2.6 per cent. The Imperial Government thus, by the high rate of the new shares, encouraged the subscribers in the idea that it did not contemplate state ownership of the Reichsbank; otherwise, the proper course would have been to issue the new shares at 118 and reserved them for the shareholders. Should state ownership take place, there would be no legal objection, but it would be a hardship which would not strike millionaires exclusively. Furthermore, a dividend of more than 8 per cent has been paid only once since the readjustment of the division of the profits of the Reichsbank, namely, in the year 1906, at the time when the overstrain of credit reached such a high point. On the average, during the years 1901–1906 the dividends amounted to only 6.55 per cent, and in 1902 to only 5.47 per cent. Since no shares were issued below 130, the average dividend amounts, even for the original subscribers, to only 5 per cent on their invested capital. Of the premium on the shares first issued, Prussia received

15,000,000 marks in 1875 as compensation for the transfer of the Prussian Bank, and the remainder was turned into the reserve fund; half of this, however, is to be considered as belonging to the Imperial Government.

But if, as is to be expected, the privilege of the Reichsbank is actually renewed, then the further question arises whether on this occasion material change should be made in the legal provisions concerning the bank. Of first importance is the question whether the amount of notes not covered by coin or bullion shall be restricted in the hitherto-existing manner. In the last nine months, with the continually high discount rates, this arrangement has been frequently attacked and held responsible for these high rates. The bank, in endeavoring to fulfill properly the task of regulating the money circulation, would have found difficulty in maintaining a lower interest rate, even without the limitation of note issue and the note tax. The nature of its task is that it shall maintain the value of the monetary unit as stable as possible, in whatever form this is expressed. In times of economic prosperity the prices of goods rise, primarily as the result of the actual extension of national production, which brings an increase of the national income with it. At the same time, however, comes the tendency for prices to rise still further through the extended application of the purchasing power, resting on credit, but expressed in terms of monetary units. This kind of rise in prices, however, signifies nothing else than a corresponding depreciation of the monetary unit. If it is not checked, the whole system of prices rises higher and higher, until it finally collapses in a crisis, perhaps at the slightest shock. The Reichsbank can, in any case, exert a very limited restraining influence upon this movement, for it surpasses the other great banks only in the volume of its discount business, the volume of its loan transactions being comparatively unimportant, whereas the five large Berlin private banks, at the end of 1906, reported an aggregate of 2,650,000,000 marks in loans on collateral and current credit advances. All the same, the advances of the discount rate of the Reichsbank act like brakes upon the wheels of business, preventing them from traveling too rapidly. It would not be arguing soundly to say that because the bank would not act otherwise even without the limitation of the note issue this limitation is therefore unnecessary. Rather assert that it is expedient that such a fixed norm should exist for the regulation of further note issues, according to which the bank is not only to guide itself, but the operation of which contributes to enlighten and warn the public concerning the situation.

The arrangement by which the Reichsbank is permitted to issue notes up to a certain amount and can go beyond that amount only by the payment of a tax on excess circulation is a means of keeping the issue of notes within bounds. And even on this ground the limitation must be retained, for bank notes are still too significant in German monetary circulation in comparison with the conditions attained by more progressive countries. In England there have been no uncovered notes in circulation for more than ten years; the bullion stock of the Bank of England is, as a rule, several million pounds greater than the sum of the circulating notes of the bank. On the 17th of July, 1907, for example, the bullion stock amounted to £35,900,000 and the volume of the outstanding notes to only £29,300,000, while there were £25,100,000 in the reserve of the banking department. At the same time the total stock of gold coin and bullion of the United Kingdom was estimated at only £120,000,000, while the gold stock of Germany is at least 3,700,000,000 marks. The average stock of gold (not the stock of cash) of the Reichsbank, however, amounted in the year 1906 to only 675,000,000 marks, with an average note circulation of 1,387,000,000 marks. From these figures a backwardness of the German payment and credit organization is evident, which would only be greatly increased by making the issue of uncovered notes easier. In Germany, too, the opinion is bound to gain ground that a lower interest rate is not conditioned upon a great quantity of effective circulating medium, whether gold or bank notes. In England the bank rate recently stood at 2 per cent and the private discount rate at seven-eighths of 1 per cent, but the stock of effective circulating medium was not greater than in the year in which the discount rate rose to 6 per cent. In the most highly developed modern states money plays only the rôle of a measure of value. It is of relatively small significance as regards the actual circulation of goods. The interest rate, however, depends upon the amount of free capital available for new investments at any time, which is measured in terms of money, but is invested in cash only for the smallest part. In the United Kingdom at present the sum of the deposits of the customers of all banks and banking houses amounts to about £900,000,000, and this gigantic sum includes the greater part of the circulating capital of the nation. Transfers are continually made from one account to another without the aggregate being noticeably changed. With this amount remaining the same, however, the quantity of free capital contained in it and exerting an influence on the interest rate, can vary greatly. If an account holder must transfer that sum which is credited to him to-day for the fulfillment of obligations falling due on the morrow, then he possesses no free capital, and the greater the number of bank customers who find themselves in such a position the smaller is the total sum of free capital. Free capital arises, in general, only from profits and surplus of incomes and from finally repaid investments of capital—for example, government bonds which have been repaid. No real free capital can be created by an increase of note issue having no substantial foundation. Such issues as those against loans on securities, or in connection with the discounting of finance bills, etc., only raise the nominal price of goods or securities, prolong an unsound condition, and make its evil consequences worse.

We come, therefore, again to the fundamental principle that the issue of notes is not to be made easier, since thereby the attainment of a rational system of circulation is made more difficult. This rational system, as it exists in England, not only serves the purpose with the smallest possible gold stock, but it permits the most complete and rapid utilization of the free capital available at any time. It is therefore very desirable that the agitation recently inaugurated for the extension of the check system should be completely successful. It is a matter of course that indorsement and clearing must accompany this business, for a check which is paid in cash fails of its proper purpose. Whether this development could be greatly furthered by the acceptance of interest-paying deposits by the Reichsbank appears doubtful; for the first result would probably be that the volume of deposits of this kind flowing to the other banks would be correspondingly reduced. If, however, the general public were to get more into the habit of having an account at a bank, then the Reichsbank might receive its share of the increased business without lessening the deposit business of the private banks. The limitation of the acceptance of interest-paying deposits by section 13, No. 7, of the bank law, appears in any case practically superfluous. The Reichsbank ought to see its chief duty, however, in the development of the system of payments by transfers to, and deductions from, accounts current (*Giroverkehr*) and in the extension of the clearing system. If the limitation of the issue of uncovered notes is retained according to the present regulations, then there is no reason for changing the basis upon which the profits of the Reichsbank are divided, as regulated by the law of the 7th of June, 1899. In general, the present condition of the Reichsbank should be maintained. The notes of 50 and 20 marks should be retired, for, as was to be expected, they have exerted no influence on the gold stock of the Bank, and have had a tendency to retard the extension of the method of payment by check and to counteract the efforts for the limitation of note circulation.

VII

Concerning the Renewal of the Privilege of the Reichsbank, and of the Private Note Banks

By DR. MORIZ STROELL
Director of the Bayerische Notenbank

(Article from the *Bank-Archiv*, 1907, page 311)

VII.—CONCERNING THE RENEWAL OF THE PRIVILEGE OF THE REICHSBANK AND OF THE PRIVATE NOTE BANKS.

Dr. Moriz Stroell,

Director of the Bayerische Notenbank.

[Article from the *Bank-Archiv*, 1907, page 311.]

The question of the renewal of the privilege of the German banks of issue has recently again come to the fore. I will endeavor, at the request of the editors of the "Bank-Archiv," to present briefly my views with regard to this matter.

So far as the corner stone of the whole fabric of German banks of issue, the Reichsbank, is concerned, its continuance is understood as a matter of course. Without a central bank, regulating, by means of the issue of notes, the changing needs for means of payment, modern economic life is inconceivable. The organism and extraordinary expansion of the industrial life of Germany have for a generation been bound up with the Reichsbank. On this point there can be no difference of opinion. And even the differences of opinion concerning the form in which the privilege should be renewed are really fewer than is frequently believed. Into the discussion concerning this question, matters are frequently introduced which stand in little or no direct connection with the Reichsbank and its institutions.

But to proceed at once to the main point. The institutions of the Reichsbank have stood the test in every way for decades; and the wise do not willingly disturb tried and proven institutions. The Reichsbank has fulfilled its duty, from without and from within, and this both in normal and in critical times. From without, it has protected the German gold standard; within, it has drawn over the Empire a splendid network of institutions dispensing credit and performing monetary transfers. On the basis of a flexible note issue these institutions satisfy the need for credit at a rate of interest which is now higher, now lower, but which is always determined by the existing economic conditions, and is never fixed by considerations other than those pertaining to the public welfare. In the course of a generation a great nation experiences many critical and stormy days. The Reichsbank has always been the last resort and a thoroughly reliable support. I recollect the hard times of the summer of 1901, which were characterized by a crisis in which financial confidence was shaken in an exceptional manner; I recall the period of great world-wide strain and stress of capital and production which has just passed, with all the worrying concomitant phenomena in the sphere of credit. The Reichsbank and its far-seeing management were always at hand, now supporting and furthering, now wisely restraining, now helping and aiding, judging the whole German economic situation from the higher point of view, and always putting the common good before their own interests. We have had collapses of confidence and scarcity of money, but, thanks to the Reichsbank, we have not had a real money crisis for a generation; that is, a time in which circulating medium was not to be had by pledging good bankable securities. Sad times were they, all the same, alike significant for the great list of failures, and the terrible economic suffering. More than once, I repeat, the Reichsbank has saved a precarious situation by its elastic and properly handled issue of notes. The Reichsbank with its present constitution is recognized and esteemed everywhere throughout the whole Empire as the leading credit institution. It has become the bank of banks; the central crowning stone of the whole economic structure.

And does such an institution, which supplies so many needs and guards against so many failures, need special reform? Such a proposition is not altogether obvious.

What do the reformers desire? Are the old, threshed-out questions regarding the amount of capital, the division of profits, the private nature of the share holdings, and similar questions to be brought up once more for discussion? We have come to realize that the amount of the capital of the great banks of issue, which in their case is far more of a guarantee fund than active capital, plays no really important rôle. We likewise realize more and more that a state-owned Reichsbank, quite aside from important military and political considerations, would be drawn year by year into the struggle of the parliamentary and political parties. Finally, we know that a great share of the earnings of the Reichsbank already flow into the Imperial Treasury in various forms, and that this share has almost reached the maximum. Or is the Reichsbank to be compelled to accept interest-paying deposits in the future, which are only a burden in normal times, and a governmental activities designed to restrain corporations. It followed hard upon the $29,000,000 fine imposed upon the Standard Oil Company, which, coming at a time when the market was not strong, may be properly regarded as occasioning the sharp decline which followed its announcement. Had the crisis come at that time it might have been argued with some plausibility that if not caused it was at least precipitated by this rather spectacular exercise of judicial power. But the crisis came more than two months later, and therefore it can have been at most a contributing and not an immediate cause. There is, however, reason to hold that this and all other governmental activities which had the control of corporations as their object did quite as much good as harm from a purely financial point of view.

Government interference in the affairs of corporations may have caused some depreciation in their securities and might also have caused plans for the investment of capital and earnings in the improvement of corporate properties to be deferred. But there was no diminution in the demand of corporations for additional capital so that it becomes necessary to show that there were savings seeking investment which would have been available but for alarm as to the future returns from investments in corporations. There is, however, no evidence whatever that there was available idle capital either in this country or elsewhere in 1907. On account of the increased cost of living and the growth of extravagant expenditure it is probable that there had been a relative decline in new savings, and as borrowers of all kinds had difficulty in securing capital the contention that governmental activities were the controlling factor in the situation falls to the ground.

On the other hand, in so far as government policies tended to check speculation and suggested the need of caution they served a most useful purpose. Had stocks advanced rather than declined in August it is quite certain that the banks and the business community would have been far less able to withstand the approaching shock than they actually were in October. The situation was in many respects similar to that just before the panic in May, 1884, although in the earlier year in addition to successive declines on the stock exchange there had been considerable trade reaction. In 1907 the outlook for the future was not promising in many basic industries, but there had been no positive reaction except in the case of copper.

Stock exchange liquidation in March and August had vastly improved the credit situation as contrasted with the previous year. There was no serious monetary strain in New York during August and September, although the amount of money in circulation increased far less than in previous years. We have already seen that the New York banks on August 22 were in slightly better shape than at about the same time in 1906. As the next report to the Comptroller of the Currency was not made until December, the condition of the banks in general just before and during the greater part of the crisis can not be analyzed. In the case of the New York banks resort may be made to the weekly bank statement. The following table shows the condition of the banks on August

24 and just before the outbreak of the crisis on October 19; figures for corresponding dates for the previous year are also included:

New York bank statement.

[Expressed in millions.]

	1907.		1906.	
	Aug. 24.	Oct. 19.	Aug. 23.	Oct. 20.
Loans	$1,088.0	$1,076.0	$1,071.0	$1,082.0
Deposits	1,048.0	1,025.0	1,053.0	1,062.0
Reserve	272.0	267.0	267.0	271.0
Surplus reserve	9.9	11.2	4.2	6.2

In 1906, notwithstanding large gold imports and aid from the Government, the banks with difficulty were able to maintain a surplus reserve. In 1907 there had been no gold imports, and the release of money by the Treasury had been no greater in amount and a relatively small part of it had been secured by the New York banks. The surplus reserve was larger in August of the crisis year, and notwithstanding a slight loss in cash, was increased somewhat during the two months preceding the beginning of the panic.

But it was the foreign exchange situation in which there was by far the greatest improvement in October, 1907, contrasted with the same month of 1906. It is true that exchange rates during the first three weeks of October were in the neighborhood of the export point. This was due to European sales of American securities, which were largely sold as a result of a severe crisis in Amsterdam and Hamburg. On October 19 $1,500,000 was engaged for shipment to Germany. There were, however, no finance bills approaching maturity, and an unusually small amount of anticipatory bills had been drawn, so that as soon as grain and cotton should begin to move in quantity it was certain that exchange would rule strongly in favor of this country.

After the August decline on the stock exchange a number of unfavorable events served to weaken confidence. The most important of these were the disclosures regarding the affairs of the New York street railway companies, which culminated in the appointment of receivers toward the end of September. There is, however, no evidence that distrust of the solvency of the banks either in New York or elsewhere had been excited. During the crisis distrust rapidly developed, but this was owing to causes similar to those which had produced the same effect in other crises and can be naturally accounted for by the events which marked its beginning.

THE BEGINNING OF THE CRISIS.

The initial episode of the crisis was, as has often happened in previous instances, insignificant enough. Copper was, as we have seen, the one branch of industry in which a positive decline had taken place. No time could possibly have been chosen so unfavorable for venturesome attempts at manipulation either of copper itself or of the shares of copper companies. It happened that the particular disaster which precipitated the crisis was a copper gamble, the outcome of which would ordinarily have had no public importance.

An unsuccessful attempt to corner the stock of a copper company of secondary importance involved certain brokerage firms, including that of the brothers of Mr. F. A. Heinze, who at the beginning of the year had become president of the Mercantile National Bank by securing a majority of its stock. Mr. Heinze had acquired a large fortune from highly spectacular operations in Montana copper properties, and distrust of his methods led many depositors to withdraw their accounts after the change of management. The diminishing resources of the bank seem to have been used to an increasing extent in the furtherance of copper enterprises and speculation, and the failure of the copper corner brought matters to a head. The bank was unable to meet unfavorable balances at the clearing house, which assumed large proportions because alarmed depositors were shifting their accounts to other banks. A request for assistance from the clearing house was granted after an examination to determine the solvency of the bank and upon condition that the president and entire board of directors should resign. On October 21 the bank began business under a new management and thereafter ceased to be a disturbing factor in the situation, though, it may be added, in January it was deemed advisable to close the bank for liquidation.

While the reorganization of the Mercantile Bank was being carried out the clearing house was given an opportunity to intervene in the affairs of certain other banks whose management had long been regarded with distrust. One of the directors of the Mercantile Bank was

C. F. Morse, whose activities in the industrial and banking world had been of an extreme character, even when judged by American speculative standards. He first became prominent as a promoter of the American Ice Company, an enterprise disastrous to its shareholders, and in recent years had been actively engaged in the formation of a combination of shipping companies engaged in the Atlantic coasting trade. For a number of years he had been one of the largest owners of shares in New York banks, but, it is important to observe, only in banks of moderate size. He was a director in seven banks, over three of which he seems to have exercised complete control. In securing this chain of banks the shares of one bank, along with other collateral, were used as a security for loans with which to purchase shares in another bank, and so on in succession, while the various banks were efficient instruments in the furtherance of other enterprises. Morse had long been regarded with distrust in banking circles, and a clearing-house investigation of his methods had been made as early as 1902, but it led to no definite action. His connection with the Mercantile Bank seems to have frightened depositors in his other banks, the most important of which was the National Bank of North America, and two of them were obliged to appeal to the clearing house for aid on October 19. Assistance was granted upon condition that Morse should retire altogether from banking in New York. Much the same course was taken with Messrs. E. R. and O. F. Thomas, who were associated with the Heinzes, and were the chief owners of the Mechanics and Traders

Bank, a state institution in the clearing house, and the Consolidated Bank, which was not a member of the association. Taken together, five banks, members of the clearing house, were concerned, three of which were national and two state banks, and also three banking institutions outside the association, a national, a state bank, and a trust company. The total deposits of the five banks on October 12 were only $56,000,000, and those of the entire number only $71,000,000. It was not, therefore, a very difficult matter to afford them the assistance they required. Various clearing-house banks subscribed to a fund of $10,000,000 to be used if necessary, and on Monday, October 21, it may be said that the clearing house had completed the work of putting its affairs in order. It is to be noted that there had been nothing in the nature of a crisis up to this time, although the difficulties of these banks doubtless gave rise to a vague feeling of distrust, which speedily assumed dangerous proportions when it became known that certain far more important banking institutions were also in need of assistance.

The narrative of the crisis may with advantage be interrupted at this point to call attention to the significance of this Heinze-Morse episode as an example of a deep-seated cause of weakness in the financial system of the country. National banks are not allowed to open branch offices, and most of the states have enacted similar legislation. Consequently, banks are numerous, nearly 16,000, not including savings banks, and are generally of small size. While this system of independent local banks has very great advantages, it has also certain serious, though not incurable, disadvantages. Few banks are large enough to be the principal interest of those who own and control them. Upon the whole the system has not worked badly, since the directorate has commonly included capable men from various occupations, but danger arises when an individual or group of closely associated individuals gains control of a bank for the purpose of furthering private undertakings. This danger is of course vastly more serious when a bank is situated in New York or some other money center in which even the failure of a bank engaged in purely local business has more than a local effect upon public confidence. Unfortunately there seems to have been a distinct tendency in this direction in recent years, and there is an almost entire lack of definite public opinion opposed to the practice. The good nature and optimism characteristic of the country extends even to financial matters, regarding which there is a painful absence of thorough unflinching criticism in any financial journal. The attitude of publicists is commonly weak and ineffective, and is well illustrated by the following comment upon the particular case of the Morse banks taken from an influential New York journal:

> A few capitalists of no great standing, actively engaged in speculative industrial schemes of their own, were gaining control of a group of banks through mere stock ownership on a margin. * * * The possibility of danger had been known for six years past. If it be asked why no one interfered, the answer is that no one outside of the banking department had a right to examine the soundness of these banks and challenge the manner of control; second, that the very hazards involved in existing conditions rendered open accusation extremely perilous.[a]

Surely a money market in which urgently needed remedies are thus treated can hardly escape an occasional up-

[a] The Nation, October 24, 1907, p. 384.

heaval. A healthy tradition should be cultivated which would lead depositors to desert a bank known to be controlled by one man, or closely identified with a single enterprise. Even when honestly managed there is the obvious danger which arises from lack of a wide distribution of risks. The evidence in the Morse trial certainly suggested an absence of rigor on the part of the Comptroller of the Currency in suppressing abuses. An even more effective remedy might have been applied through clearing-house action, a promising means of improvement which is now being adopted in many cities.

TRUST COMPANY DIFFICULTIES.

Returning to the narrative of events in New York, it may be noted once more that there had been nothing in the nature of a crisis during the week the clearing house was putting its affairs in order. Crisis conditions developed the following week and were occasioned by the difficulties of a certain trust company. The Knickerbocker Trust Company was the third largest trust company in New York, having deposits of $62,000,000. The connection of its president with some of the Morse enterprises engendered distrust, which made itself felt in a succession of unfavorable clearing balances. On Monday, October 21, the National Bank of Commerce announced that it would discontinue clearing for the Knickerbocker on the following day. An unofficial committee representing a few trust companies and banks was not given an opportunity to examine its affairs until the last moment, so that it would have been difficult if not impossible to

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take definite action. Nothing was done aside from the issue of a reassuring statement by the directors in which the resignation of its president was announced. On Tuesday, after a run of three hours, during which $8,000,000 were paid out, the company was forced to suspend. Whether the company could not have been assisted is not clear, but that, if possible, it would have been of advantage both to the banks and the other trust companies is certain. The size of the company alone rendered assistance an undertaking of no little difficulty, but the condition of its assets at the time could not have been hopelessly unsatisfactory, as the company was able to resume business in the following March under a plan of reorganization agreed upon by its depositors and shareholders. The plan of reorganization adopted, however, showed that the assets of the company were even then far from being in liquid condition, and in the absence of any association among the trust companies or of any feeling of responsibility on the part of the clearing-house banks, the suspension of the company was unavoidable.

Had the Knickerbocker Trust Company been a bank and a member of the clearing house, it is highly probable that it would have been assisted, following the precedent of 1884. Relative to the increasing magnitude of banking operations in New York, the Knickerbocker was not so large as the Metropolitan Bank in 1884. Apparently no proposal to assist the company was considered, and this is readily explicable. Relations between the banks and the trust companies had been somewhat strained for a number of years. The banks complained of the unfairness of competition with institutions which were not required to hold a large cash reserve. In 1903 the clearing house had adopted a rule which required all trust companies clearing through members of the association to accumulate a reserve which, though smaller than that of the banks, was considerably larger than was held by most of the trust companies. Rather than submit to this requirement, nearly all of these gave up clearing-house privileges, the most important exception, curiously enough, being the Knickerbocker Trust Company.[a] It would therefore seem to have deserved peculiar consideration on the part of the clearing-house authorities. It may also be suggested that assistance might well have been granted from purely selfish motives. A group of banking institutions is very similar to a row of bricks, the fall of one endangering the stability of the rest. When all the circumstances are considered, however, the failure of the clearing-house authorities to take any action was doubtless the most natural course, and though unfortunate in its consequences, can hardly be regarded as blameworthy.

Equally mild judgment can not be passed upon the means which were adopted at the next stage of the crisis. On Wednesday, October 23, a run began on the Trust Company of America, the second of the trust companies in size, having deposits of $64,000,000. The president of the Knickerbocker was one of its directors, but the unfortunate disclosure that its affairs had been the

[a] The reserve of the Knickerbocker Trust Company on August 22, the date of the last return to the state superintendent of banks, was $4,745,000, a little more than that of any other trust company in the city and very much more than that of most of them.

subject of a conference on Tuesday was the chief influence in precipitating a panic among its depositors. The company withstood a run which continued for two weeks, during which it paid out some $34,000,000; on Wednesday and Thursday paying $12,000,000 and $9,000,000. The Trust Company of America and also the Lincoln Trust Company upon which a run began on Thursday were assisted, since their assets were apparently in a more satisfactory condition than those of the Knickerbocker, but still more because it was clear that the foundation of the entire credit structure was endangered. The steps taken, however, were slow and the means adopted were not sufficiently clear in import to renew general confidence. On Wednesday, October 23, a committee of five trust company presidents was formed to receive applications for assistance, make examinations, and report to meetings of all trust company presidents. Through this committee money was provided from day to day in large amounts, bonds contributed by various trust companies being turned over to national banks, which used them as security for additional government deposits. Confidence was not restored until, on November 6, announcement was made that a majority of the shares of the Trust Company of America and of the Lincoln Trust Company had been placed under the control of a committee of trust company presidents and that the "necessary financial arrangements had been made to enable both companies to proceed with their business." The inference can not be escaped that the New York money market was not adequately organized to cope quickly and effectively with an emergency of this kind.

With the rapid growth of trust companies, an increasingly large part of the banking business of the city was entirely without organization. The trust companies should either become members of the clearing-house association or at least form some organization of their own. They would then have the machinery ready for prompt action and some sense of common responsibility would be developed. It is indeed true that on account of their past the three companies were not deserving subjects for assistance. Their methods of attracting business, absurdly high interest on deposits, and the collection of out-of-town checks without charges, were generally regarded as unsafe and even piratical. But the unwillingness of some of the trust companies to join in measures of relief at all, or at least in proportion to their resources, can not be attributed to this cause alone. But for the powerful influence of Mr. J. P. Morgan it is probable that no united action whatever would have been taken. It is certainly an element of weakness in our central money market that influential credit institutions should have to be dragooned into doing what is after all in their own interest as well as to the general advantage.

This trust company episode suggests one conclusion of general application. Unless it is possible at the outset to take measures which are almost certain to restore confidence in threatened banking institutions, it is far better to leave them to their own devices, either liquidation or reorganization. The money furnished the two trust companies saved them from failure, but served no purpose of general importance. If it had been used to meet the demands of banks throughout the country, alarm might possibly have been delayed and general suspension avoided.

UNFORTUNATE DELAY OF THE CLEARING HOUSE.

During the three days of heavy runs upon the trust companies New York was threatened with a general panic, and a number of other trust companies experienced runs of varying degrees of severity. A few small mismanaged banking institutions in the outskirts of the city were forced to suspend. Depositors began to withdraw money from savings banks and they were obliged to exercise their right to require sixty days' notice. Loans could only be secured with extreme difficulty and the fall in stock exchange prices, while not so extreme as in March, was alarmingly violent and affected securities more generally. The strenuous efforts that were made to relieve the situation were but partially successful, because they lacked the authority and backing of the Clearing House Association. As in the case of the Trust Company of America, the relief afforded was of a piecemeal character without any certainty of its continuance. On Thursday, in order to prevent complete collapse on the stock exchange, Mr. J. P. Morgan formed a money pool of $25,000,000, to which some of the leading banks and financiers subscribed. On Friday, also, a similar pool was formed, though $10,000,000 proved adequate for the purpose. In no crisis since the civil war have matters been allowed to drift along during so many days of acute panic.

Even though it would have been impossible to secure agreement among members of the clearing house to provide the trust companies with the assistance they required, the immediate issue of loan certificates should have been authorized to meet the general situation. The failure to issue certificates on Tuesday or Wednesday would be difficult to explain, if the reasons for delay had not been set forth by no less an authority than the president of the clearing house, who observed subsequently:

> Well, the panic occurred. The institutions that had been weakened by unwise investments went down. New York was the storm center. The paramount question was, Could the storm be stayed before its work of devastation and ruin should spread over the entire country? This was the problem confronting the clearing-house committee. The committee knew that the issuance of clearing-house certificates would immediately bring about a restriction of cash payments throughout the country, causing widespread business inconvenience and embarrassment. Hoping that the panicky condition might subside, the committee postponed from day to day the issuance of clearing-house certificates, honoring the drafts that were being made against our rapidly falling reserve until it showed a deficit of $53,000,000[a] [sic], and then concluded it would be folly to hesitate longer, and clearing-house certificates were issued.

The failure to issue clearing-house loan certificates at least as early as Tuesday was the most serious error made during this crisis. All experience in former crises went to show that the early issue of certificates had a calming effect upon the community, because they made it possible for the banks to extend relief more freely by granting accommodation to borrowers, and because they prevented in part the weakening of particular institutions through unfavorable clearing-house balances. Had clearing-house loan certificates been issued early in the week it would

[a] It was not until two weeks after the issue of loan certificates that the bank statement showed a deficit of $53,000,000.

not have been necessary to resort to the cumbersome device of money pools. Liquidation on the stock exchange would have been somewhat less, and the alarm, to which the sudden fall in security prices contributed, would have been in part escaped.

During the three days of heavy runs upon the trust companies the strain upon the clearing-house banks was very severe, as they had to furnish most of the money required by the trust companies, whose reserves were deposited with them. At the same time they were shipping money to the interior banks, and they also suffered some loss from payments to their own frightened depositors. But at the close of the week there were many indications that the worst of the panic in New York was past. Withdrawals of money by local depositors were diminishing, the savings banks were exercising their right to require sixty days' notice from depositors, and the trust companies had agreed to pay depositors so far as possible in certified checks upon clearing-house banks. Had New York been a city with only local responsibilities it is probable that the disturbance would have gone no further; but, as in 1873 and in 1893, the disasters in New York had caused alarm to spread throughout the country. The country banker and his depositors were apparently unmoved by the Morse-Heinze troubles, but hard upon the news of the difficulties of the Knickerbocker Trust Company came telegraphic demands from all over the country, including the other central reserve cities, for the calling of loans and the shipment of currency. A number of adverse developments had also taken place in various parts of the country while New York was struggling with its own difficulties. The Heinze troubles involved a bank in Butte, Mont., and in Goldfield, Nev., runs on the banks due to local causes forced them to suspend. In Providence, R. I., a large trust company with deposits of $25,000,000 was obliged to close, and other smaller banks were subjected to runs. The various Westinghouse companies went into the hands of receivers on account of inability to secure the renewal of large floating indebtedness, and as a consequence the Pittsburg Stock Exchange was closed[a]—an exchange dealing almost exclusively with local securities.

These widely scattered troubles contributed to, but were not the principal cause of, the alarm which spread throughout the country, but which was mainly due to the panic in New York. Everywhere the banks suddenly found themselves confronted with demands for money by frightened depositors; everywhere, also, banks manifested a lack of confidence in each other. Country banks drew money from city banks and all the banks throughout the country demanded the return of funds deposited or on loan in New York. The evidence of lack of confidence in and between the banks is clear and it points to a serious difficulty in carrying on banking in this country. For a historical parallel in England we should need to go back to the first quarter of the last century. Explanation is simple, however, if the course of our previous crises is recalled. Seven times during the last century the banks

[a] The Pittsburg Exchange remained closed throughout November and December, as did also that of New Orleans.

suspended payment in some measure at least, and there has been a currency premium, the last occasion having been so recent as 1893. There is a well-grounded belief among the people that it will be difficult to secure cash during periods of economic disturbance. In all countries in times of crisis some depositors withdraw their money and hoard it from unreasoning fear. In the United States there are also withdrawals by prudent depositors who wish to be absolutely certain to have the money needed in their affairs, and by others who are influenced by the prospect of a handsome profit in a few weeks through the sale of money at a premium. Former suspensions have established a tradition which is an ever-present source of weakness and which can only be broken by successful endurance by the banks of the strain of a crisis. The crisis of 1907 provided an exceptionally favorable opportunity, since general economic conditions were far less unsound than on many occasions when payment was suspended in the past. Unfortunately almost as soon as withdrawals began, and before the New York banks had suffered a serious loss in reserve, cash payments were restricted once more. Moreover, payments were restricted for the first time immediately upon the issue of clearing-house loan certificates.

EXPLANATION OF THE SUSPENSION OF PAYMENTS BY THE NEW YORK BANKS.

Before the beginning of the week ending November 2 a few banks elsewhere may have already suspended, but this is not a matter of importance, as it was restriction in

New York that inevitably precipitated more or less complete suspension throughout the entire country. This discreditable step was taken when the New York banks were much stronger than on other occasions and when prospects for securing additional funds were far more promising. The reasons for this action and the necessity for it are the most important questions to which the course of this crisis gives rise. In order to answer them it will be necessary to interrupt the narrative of the crisis in order to make a detailed analysis of the condition of the New York banks at the time clearing-house loan certificates were authorized.

The bank statement for the week ending October 26 must serve as the point of departure, though it is, of course, unsatisfactory, because, being based upon averages, it shows a better condition than was actually the case. The following table gives the principal items in the statement for October 26, with the changes from the previous week:

[Expressed in millions.]

	Oct. 26, 1907.	Difference from previous week, increase (+), decrease (−).
Loans	$1,087.7	+$10.9
Net deposits	$1,023.8	− $1.9
Reserve held	$254.7	−$12.9
Reserve percentage	24.9	
Surplus reserve (deficit)	$1.2	$12.4

A somewhat more accurate idea of the condition of the banks can be gathered from the following table, which shows the condition of the five banks which had been obliged to request assistance, and the condition of all the other clearing-house banks:

[Expressed in millions.]

	Five Morse-Heinze banks.		All other clearing-house banks.	
	Oct. 19.	Oct. 26.	Oct. 19.	Oct. 26.
Loans	$60.8	$52.3	$1,016.0	$1,035.6
Net deposits	$55.4	$39.9	$970.3	$982.9
Reserve held	$10.7	$4.5	$256.9	$250.2
Reserve percentage	19.3	10.8	26.5	25.5
Surplus reserve	----------	----------	$14.4	$4.5

The really solvent banks, it will be observed, had relieved the situation by an increase of nearly $20,000,000 in loans. Their cash loss was only $6,700,000, and they still held a surplus reserve of moderate proportions. But these changes do not adequately represent actual conditions. The statement for the following week shows an increase in loans of $60,000,000 and a loss in reserve of $30,000,000. Some part of this increase in loans, with its resulting increase in deposit liability, was certainly made during the previous week, and doubtless an even more considerable part of the loss in cash had been incurred since payments were restricted during the later week. If we may assume that half the loan and deposit increase was made as early as October 26 and that two-thirds of the cash loss had then been sustained, the statement would have been as follows:

Loans	$1,065 ($1,035+$30)
Net deposits	$992 ($982+$30−$20)
Reserve	$230 ($250−$20)
Reserve percentage	23.2

This table has an unreal appearance, but it is based upon an analysis of all the available data. The bank statement for November 9 showed a very small loss in reserve, only $4,300,000, not very far from the amount of reported movements of money between the banks, the interior, and the subtreasury. The statement for November 2, therefore, probably represented actual conditions very closely. The reported movements of money between banks, the interior, and the subtreasury for the week ending November 2 showed a loss of $7,000,000, and since the banks must have lost some money locally it is safe to assume that at least $10,000,000 of the reported $30,000,000 decrease in reserve came during the week. In the case of loans the figure given is hardly more than a guess, but as the banks made loans more freely after the issue of loan certificates, the assumed increase of $30,000,000 for the week ending October 26 is prabably too large rather than too small.

The actual condition of the banks can hardly have been worse than the showing in the table, and was probably somewhat better. The estimated loss in reserve of $36,000,000 is small after so eventful a week, and does not indicate the extent to which the banks supplied depositors with money. On Thursday, October 24, $25,000,000 was deposited with the New York banks by the Secretary of the Treasury, and between October 19 and October 31 $36,000,000 was secured in this way.[a] Just about half of the money which was paid out by the

[a] Response of the Secretary of the Treasury to Senate Resolution No. 33 of December 12, 1907, pp. 57–59. Senate Doc. No. 208, 60th Cong., 1st session.