

61st CONGRESS }
2d Session }

SENATE

{ DOCUMENT
No. 407 }

NATIONAL MONETARY COMMISSION

German Bank Inquiry of 1908

Stenographic Reports

Proceedings of the Entire Commis-
sion on Points I to V of the
Question Sheet



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NATIONAL MONETARY COMMISSION.

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LIST OF THE MEMBERS OF THE BANK INQUIRY
COMMISSION.



CHAIRMAN.

Havenstein, president of the Reichsbank direktorium, Wirklicher Geheimer Rat.

VICE-CHAIRMAN.

Doctor von Glasenapp, vice-president of the Reichsbank direktorium.

MEMBERS.

Von Cetto-Reichertshausen, Freiherr, director of the Bavarian Landwirtschaftsbank, E. G. m. b. H., Munich.

Fischel, Arthur, banker (Mendelssohn & Co.), Berlin.

Fischer, Ernst, Kommerzienrat, Privatier, chairman of the Chamber of Commerce, Reutlingen.

Von Gamp-Massaunen, Freiherr, Wirklicher Geheimer Ober-Regierungsrat, Member of the Reichstag and of the Prussian House of Delegates, Hebron-Damnitz, Kreis Stolp, and Massaunen, Kreis Gerdanen.

Gontard, Friedrich, manufacturer (Gontard & Henny), Leutzsch near Leipzig.

Heiligenstadt, Dr. Carl, president of the Prussian Central-Genossenschaftskasse, Berlin.

Kaempf, Johannes, Stadtältester, president of the German Handelstag; president of the deans of the merchants' association of Berlin; vice-president of the Reichstag, Berlin.

Von Kanitz, Count, Chamberlain, captain of cavalry, retired; Member of the Reichstag and of the Prussian House of Delegates, Podangen, near Tüngen (East Prussia).

Lexis, Dr. W., Geheimer Ober-Regierungsrat, professor of political sciences in the University of Göttingen.

Mommsen, Karl, assistant judge, retired, director of the Mitteldeutsche Creditbank, Member of the Reichstag, Berlin.

Müller, Richard, manufacturer, Stadtrat, Member of the Reichstag, Berlin.

Peter, Karl, director of the Vereinsbank, Karlsruhe (Baden).

Raab, Friedrich, porcelain painter, Member of the Reichstag, Hamburg.

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- Riesser, Dr. Jakob**, Geheimer Justizrat, honorary professor in the University of Berlin, Berlin.
- Roland-Lücke, Ludwig**, landed proprietor, formerly director of the Deutsche Bank, Sonnenburg near Freienwalde on the Oder.
- Schinckel, Max**, chairman of the Hamburg Chamber of Commerce, partner in the Norddeutsche Bank in Hamburg, partner and director in the Diskonto-Gesellschaft in Berlin, Hamburg.
- Schmidt, Dr. A.**, member of the directorate of the Friedrich Krupp joint-stock company, Essen on the Ruhr.
- Singer, Paul**, Privatier, member of the city council, Member of the Reichstag, Berlin.
- Ströll, Dr. Moritz**, director of the Bayerische Notenbank, Munich.
- Wachler, Dr. Paul**, Ober-Bergrat, retired, member of the Herrenhaus, Berlin-Charlottenburg.
- Wagner, Dr. Adolph**, Geheimer Regierungsrat, professor of political sciences in the University of Berlin, Berlin.
- Von Wangenheim, Freiherr**, landed proprietor, chairman of the Bund der Landwirte, Klein-Spiegel, near Gross-Mellen, Regierungsbezirk Stettin.
- Weber, Dr. August**, director of the Löbauer Bank, Member of the Reichstag, Löbau (Saxony).

LIST OF REPRESENTATIVES OF THE IMPERIAL
GOVERNMENT AND THE FEDERATED
GOVERNMENTS.

From the IMPERIAL MINISTRY OF THE INTERIOR:

Müller, Geheimer Ober-Regierungsrat, vortragender Rat.

Dr. Fastenau, Königlich Preussischer Gerichtsassessor, kommissorischer Hilfsarbeiter.

From the IMPERIAL TREASURY:

Dombois, Geheimer Ober-Regierungsrat, vortragender Rat.

From the REICHSBANK DIREKTORIUM:

Dr. von Lumm, Geheimer Finanzrat, member of the Reichsbank direktorium.

From PRUSSIA:

From the Ministry of Finance—

Dickhuth, Geheimer Finanzrat, vortragender Rat.

Busch, Geheimer Finanzrat, vortragender Rat.

From the Ministry of Commerce and Industry—

Dr. Richter, under secretary of state.

Dr. Göppert, Geheimer Regierungsrat, vortragender Rat.

From the Ministry of Agriculture, Public Lands, and Forests—

Von Falkenhausen, Freiherr, Geheimer Regierungsrat, vortragender Rat.

Von Massenkoch, Freiherr, Geheimer Regierungsrat, vortragender Rat.

From BAVARIA:

Von Burkhard, Königlich Bayerischer Staatsrat und Ministerialdirektor, plenipotentiary to the Bundesrat.

Meinel, Königlich Bayerischer Geheimer Legationsrat in the Ministry of the Royal House and of the Interior.

From the KINGDOM OF SAXONY:

Härtig, Königlich Sächsischer Geheimer Finanzrat, deputy plenipotentiary to the Bundesrat.

Steglich, Königlich Sächsischer Geheimer Regierungsrat, vortragender Rat in the Ministry of the Interior.

From WÜRTEMBERG:

Von Schicker, Excellenz, Königlich Württembergischer Staatsrat, deputy plenipotentiary to the Bundesrat.

From BADEN:

Weingärtner, Grossherzoglich Badischer Ministerialdirektor, Geheimer Ober-Regierungsrat.

From HAMBURG:

Sthamer, Senator.

LIST OF REPRESENTATIVES OF THE FEDERAL RESERVE BANK OF ST. LOUIS

The following is a list of the representatives of the Federal Reserve Bank of St. Louis, as of the date of the meeting of the Board of Directors on the 15th day of December, 1914.

The Board of Directors consists of the following members:

President: [Name]

Chairman: [Name]

Members: [List of names]

The Board of Directors is composed of the following members:

[List of names]

QUESTION SHEET FOR THE HEARINGS OF THE EXPERTS.

[Made the basis of the proceedings of the entire Commission.]



I.—Is an increase of the capital of the Reichsbank desirable? If so, in what measure?

What effect does an increase of the capital have upon the money market and the condition of the bank?

May it be assumed that it would have a permanent influence on the determination of the rate of discount?

Would a strengthening of the surplus be preferable to an increase of the basic capital?

II.—Is it desirable that the tax-free note contingent be increased? If so, in what measure?

What advantages are to be expected from such an increase?

May it be assumed (and if so, why) that it would have an influence on the determination of the rate of discount?

III.—What means are available to the Reichsbank for promoting the drawing of gold from foreign countries, and for obstructing the outflow of gold to foreign countries?

A.—How may the importation of gold be effectually promoted?

By suitable management of the discount policy? By development of the foreign exchange business? By the granting of advances free of interest or similar methods of facilitating gold importations?

B.—What are the causes of an outflow of gold to foreign countries, and by what means may it be prevented?

What is the nature of the so-called premium policy, under what conditions is it applicable, and how does it work?

IV.—Is it desirable to endeavor to bring about an increase of the cash holdings of the Reichsbank out of the channels of domestic trade?

A.—By conferring upon the notes of the Reichsbank the quality of legal tender?

Would such a measure be to the interest of general business?

B.—By an increased issue of 50-mark and 20-mark Reichsbank notes?

C.—By diminishing the need of circulating media through extension and intensification of the deposit and transfer (*giro*) check and clearing system?

What measures are to be taken to this end? ("Reichs-clearing?")

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In this connection, do the following seem effective and desirable?

- i. A raising of the minimum for noninterest-bearing credit balances in the deposit business of the Reichsbank.
2. The acceptance of interest-bearing deposits by the Reichsbank.
3. The purchase of checks by the Reichsbank.

V.—Is it desirable to take into consideration a diminution of the demands on the Reichsbank:

A.—Through a diminution of the credit-demands of business, especially at the quarterly periods?

What measures might be taken to cause a spreading out of the quarterly requirements by altering the time of payments (mortgage-payments, salaries, rents) which traditionally fall due on the first day of the quarter?

Would it be desirable to enhance the cost of obtaining money from the Reichsbank on collateral security, at the close of the quarter, by increasing the number of days for which interest is charged?

B.—Through a diminution of the credit-demands of the Imperial Government? Is it desirable for this purpose—

1. To endeavor to increase the working resources of the Imperial Treasury?
2. To change the methods in use in the giving out of Imperial Treasury bills? And if so, how?

VI.^a—Does it seem warranted in the public interest (and upon what grounds?) to take care, by way of legislation, of the security and fluidity of the investment of deposits and savings?

What measures to this end should be taken under consideration, and what effects might be expected from them?

In particular, would a provision of law be desirable that should impose on those institutions (banks, cooperative institutions, and savings banks) that undertake to receive deposits the obligation—

1. With reference to the covering of these moneys, to subject themselves to fixed regulations guaranteeing not only security but also fluidity? If so, what should these regulations be?
2. To make and publish, within definite periods of time, detailed balance sheets of prescribed forms? If so, what should those periods be? (Yearly, half-yearly, quarterly, monthly?) And how should the forms of the balance sheets be constructed so as to serve the purpose in view?

^a The conclusive consideration of question VI was postponed, in pursuance of a resolution adopted by the Commission October 15, 1908. (See pp. 686-694 of the Proceedings.)

BANK INQUIRY OF 1908.

FRIDAY, JUNE 26, 1908—12.10 p. m.

Chairman HAVENSTEIN, *President of the Reichsbank directorium*:

GENTLEMEN: I bid the members of the commission of inquiry welcome to the continuation of the proceedings, and open the session by thanking you for the full attendance and expressing the hope that our joint effort may have a beneficial and successful issue.

Permit me, first of all, to put on record the list of those present. The gentlemen who have appeared are Freiherr von Cetto-Reichertshausen, Fischel, Fischer, Freiherr von Gamp-Massaunen, Gontard, Doctor Heiligenstadt, Kaempff, Count von Kanitz, Doctor Lexis, Mommsen, Müller (Fulda), Peter, Raab, Doctor Riesser, Roland-Lücke, Schinckel, Doctor Schmidt, Doctor Ströll, Doctor Wachler, Doctor Wagner, Freiherr von Wangenheim, Doctor Weber.

Of the representatives of the federated governments, Herr Weingärtner, ministerial director, excuses his absence on the score of being obliged to attend the sittings of the Baden Landtag.

Gentlemen, in order to shorten our debate, I suggest that each one—I declared already at the opening that the Bundesrat attach special importance to obtaining the opinions of all the gentlemen composing this body of experts—be good enough, without our putting the separate

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questions to a formal vote, to submit his views in a systematic statement. I presume that this will entail a debate, the course of which we must await.

Freiherr VON GAMP-MASSAUNEN (on the order of the day). The chairman pointed out, when we decided upon meeting to-day, that to-day's proceedings would serve principally to acquaint the Bundesrat with the bill which is to be drawn up and presented to us in the Reichstag. If the administration of the Empire is satisfied with this brief explanation at this stage of the proceedings, I, for my part, would offer no objection; I would, however, emphasize the point that we must have command of somewhat more abundant material for the deliberations in the Reichstag, in order to be able to take a position on this question.

The CHAIRMAN. I have already remarked that each gentleman might give his views in a systematic statement, and that perhaps this will entail a debate. To what extent the material for such debate will be abundant will depend upon the gentlemen.

If no one wishes to say anything further on the order of the day, I grant Freiherr von Gamp the floor to speak upon the question.

Freiherr VON GAMP-MASSAUNEN. Gentlemen, the consideration of the two questions "Is an increase of the capital of the Reichsbank to be recommended?" and "Is an increase of the contingent of notes exempt from taxation to be recommended?" should in my opinion have been preceded by a discussion of general conditions, particularly of the causes of the money and financial crisis

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which has prevailed for a number of years and still continues. For only then could an understanding have been reached as to the means of preventing a recurrence of the critical situation. I say a determination of the causes should have been arrived at, and in this connection I wish to point out that the representatives of the banks attributed entirely too much weight to the overdevelopment of our industry as a factor in bringing about the crisis; and this point of view was largely represented to the Reichstag by the management of the Reichsbank as well. I am of the opinion that this is an error, and that this error must before all else be dissipated; for we must first determine the causes of the crisis, so as to make it possible to attain an agreement as to the means of preventing the recurrence of such a crisis.

Gentlemen, there are two facts which controvert the view that industry and its development is the chief offender. It is a thing well known, and, moreover, brought to our immediate notice by a compilation presented to us by Director Mueller, of the Dresdner Bank, that the critical periods for the Reichsbank were those from September 15 to 30 and from December 15 to 31. Now, I have made a compilation from the last annual report of the Reichsbank, from which it appears that precisely those bank establishments that receive a preponderance of industrial bills did not experience their greatest stress in the critical days of September 15 to 30 or December 15 to 31. Of the banking firms that I reckon as particularly industrial, Aachen reached its highest credit on May 15; Augsburg and Barmen, January 7; Bielefeld, December 14; Bochum, November 7;

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Chemnitz, October 7; Crefeld, December 31; Dortmund, October 31; Duisburg, January 7; Düsseldorf, December 23; Elberfeld and Essen, December 23; Fulda and Gera, October 31; Gleiwitz and Glogau, November 7; Hamm, November 15; Hannover, December 31; Königsberg, October 23; Leipzig, October 31; Magdeburg, November 7; Mülhausen, November 15; Mülheim (Ruhr), October 31; Nürnberg, September 29; Remscheid, November 15.

It appears, accordingly, that of these great industrial points, Nürnberg alone falls into the critical period of September 15 to 30, and only Crefeld, Düsseldorf, Elberfeld, Essen, and Hannover into that of December 15 to 31.

As against this, the great commercial points which reached their highest need of credit in the periods of September 15 to 30 and December 15 to 31 are:

SEPTEMBER 15 TO 30.

	Lowest assets.	Highest assets.
	<i>Marks.</i>	<i>Marks.</i>
Braunschweig	6,906,000,000	13,014,000,000
Breslau	6,408,000,000	16,870,000,000
Frankfurt, a. M.	4,195,000,000	12,760,000,000
	17,509,000,000	42,644,000,000

DECEMBER 15 TO 31.

	<i>Marks.</i>	<i>Marks.</i>
Altona	4,183,000,000	11,164,000,000
Bremen	1,033,000,000	16,408,000,000
Cassel	8,175,000,000	13,779,000,000
Charlottenburg (Berlin)	2,300,000,000	4,518,000,000
Cöln	9,355,000,000	18,309,000,000
Darmstadt	2,889,000,000	8,081,000,000
Dresden	5,570,000,000	11,251,000,000
Hamburg	3,457,000,000	24,008,000,000
Karlsruhe	4,958,000,000	9,182,000,000
Kiel	13,427,000,000	27,225,000,000
München	6,959,000,000	18,417,000,000
Berlin	15,094,000,000	93,388,000,000
	77,400,000,000	255,730,000,000

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A rise of over 300 per cent, therefore, occurred in these places, from which it follows that it was not industry in especial that claimed the money supply of the Reichsbank, but that it was, above all, the commercial centers.

I find a second reason against the view that industry was chiefly responsible for the crisis, in an assertion of my own, that industry has in the last decade laid up a very considerable surplus, and has become to a very material degree a credit giver in place of a credit receiver. I permitted myself to cite one or two examples of this, whereupon Herr Schwabach thought to instruct me by saying that these were quite isolated instances, which accidentally came under my personal notice. Following him, Herr Steller, the manager of one of the greatest industrial works of Rhenish Westphalia, last year showed that according to last year's balance sheet the following industrial bank credits existed:

	Marks.
14 mines.....	45,000,000
15 chemical factories.....	23,700,000
21 industrial works and foundries.....	75,000,000
28 machine shops.....	7,500,000

Seventy-eight companies therefore had a bank credit of 151,000,000. Herr Steller explains that the balances of these companies were not specially selected by him, but that he took them at random, while I must confess that he chose rather happily and perhaps not quite without design. But, gentlemen, the fact that 78 joint-stock companies alone possessed 151,000,000 does, nevertheless, very substantially support my assertion. I have since examined a whole series of bank statements and found that the status of many joint-stock companies has very materially improved in the last decade. In my opinion

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there can be no doubt that the joint-stock companies laid up a considerable surplus in the prosperous years—nay, suits were repeatedly instituted against them, the stockholders objecting to the balance because the surplus was so great.

In view of the limited importance of to-day's proceedings, I shall not discuss the point further. But I would request the management of the Reichsbank and the Imperial Ministry of the Interior, at any rate, to place at our disposal, for the deliberations in the Reichstag, more detailed information upon these two questions, in order that we may see into the matter clearly. I believe that it is not so very difficult to determine, through the Reichsbank offices, what bills were presented in the period of September 15-30 of the present year, likewise; who was the drawer, the acceptor, and the presenter of those bills. I do not wish to know the names, I do not wish to cause any indiscretion; I only wish to know whether the person concerned was a manufacturer of machines, or a dealer in wool, or a banker, in order to establish by this means which were indeed the interests that were the chief besiegers of the Reichsbank at the critical period.

Secondly, I would ask that it be determined, particularly in the case of the larger joint-stock companies, having a share capital of over 3,000,000, what sort of change took place in the balances from 1900 to 1907, and especially who constituted the creditors and debtors, and particularly how the bank credit was constituted.

(An interruption.)

I am just informed that this material is at hand. I have seen no such statistics based upon official information.

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I would ask, if, as I am aware is the case, numerous private contributions are to be submitted, that these private results be verified, so that we may regard them as unexceptionable material. I should have no objection to the year 1905 being also brought in for comparison.

It would further be desirable—on this point, too, private publications are at hand, but I would ask that their correctness be tested—to determine the aggregate of the loans that were placed upon the market from 1900 to 1907, in the Empire as well as in the separate States, municipalities, state institutions, etc.

Gentlemen, as far as the first question is concerned—I have thus far made a few general observations, in order to show the reasons why I desire more abundant material for the Reichstag—"Is an increase of the capital of the Reichsbank necessary?" I would first of all assert that, as regards the duties and functions of the Reichsbank, unanimity prevails upon the following points: First, that it is its duty and its business, first and foremost, to maintain the standard and to secure the circulation of money, and that satisfying the needs of credit is only a secondary function of the Reichsbank.

Secondly, I think I can establish that it is the unanimous opinion of the commission that all business interests, industry, agriculture, trade, small concerns, have a claim to be treated on a footing of equality, and that no preference, particularly not to banks, shall be shown. I take it for granted, of course, that as for the rest, the conditions determined on by the Reichsbank will be carried out.

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Thirdly, I would lay it down that the Reichsbank may furnish credit for such needs only as arise from a legitimate, that is, a justified and necessary transaction of commerce, manufactures, agriculture, and minor trades; that, on the other hand, it has not the function and accordingly not the right to furnish credit for the purchase of land, for speculation—that is, for the purchase of stocks—for the payment of wages to laborers, etc.

At this point I would mention the exceptional position of the cooperative institutions (*Genossenschaften*). I am of the opinion that it is a transaction falling into the category of legitimate credit if a cooperative institution takes money from the Reichsbank in order to enable it to pay for the raw material which has been delivered to it. If, then, a cooperative institution, a starch factory, say, is called upon to pay for its supply of potatoes, this would, in my judgment, come under legitimate credit for goods, because a joint stock company or a private individual who carries on such a factory would likewise have to pay for the potatoes. Here it is only the form of the cooperative institution that alters the case somewhat.

Gentlemen, whether unauthorized credit, departing from these principles, is given, has also been discussed; but I do not wish to go further into this question. The Reichsbank has indeed conceded that deviations have occurred here and there, but maintains that on the other hand it acted with energy, but discreetly, and with due regard to circumstances. I can only say that I subscribe to this statement.

I would further declare, in order to remove differences of opinion, that I see nothing against the Reichsbank

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being authorized in case of a party seeking legitimate credit from it and not furnishing absolute security, to procure such security by guaranties, by mortgages, etc. I only wanted to emphasize this because Herr Geheimrat Mueller views the matter apparently from another standpoint, and believes that all claims upon the Reichsbank not absolutely secure in themselves are outside of its sphere of business and should be rejected. Director Mueller of the Dresdner Bank, with whom I shall have frequent occasion to occupy myself, because he has most openly and unqualifiedly represented the interests of the great banks, advocates the view that the regular credits of the Reichsbank should be lowered by from 200,000,000 to 300,000,000 in order that it may have available means at the difficult periods, under all circumstances, to satisfy the demands made upon it for the discounting of short-time bills and the making of loans on collateral. I maintain the opposite view. I am of the opinion that it is the business and the duty of the Reichsbank to lower the demands upon it at critical periods as much as possible in order that it may be in a position to satisfy in non-critical periods, in the broadest possible field, the credit requirements of those engaged in the conduct of business. I am not thinking here, as Herr Geheimrat Mueller indicated, of an extension by preference of agricultural credit. Through the Preussenkasse, agriculture has to a great extent attained a position in which it can satisfy its credit requirements, but I must emphasize the demand that it shall enjoy absolutely the same rights as the other branches of business, and that it is self-evidently just as much the duty of the Reichsbank to accept a bill from me if, for

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instance, I purchase a locomobile, as it is to accept the commercial paper of a great bank, presupposing that the required security is furnished. I claim parity of treatment for agriculture, without wishing it to be accorded special preference.

Now, Herr Geheimrat Mueller desires at the so-called difficult periods the unlimited acceptance of short-term bills and loans on securities. He has justly pointed out that these short-term credits have in many respects not the character of credits, but of regulation of the circulation of money. On this one point he has converted me. I openly acknowledge that, at the time, I did not in the Reichstag attach enough weight to this point. So far as short-term loans are concerned which do not involve the satisfying of credit, but only the adjustment of payments, I regard his standpoint justifiable. In the case of bills, one can recognize this; in the case of loans on collateral, it is more difficult to do so. The Reichsbank establishment that would recognize this must be a specially shrewd one. But I do not desire to enter into questions of detail; I only wish to hold fast to the principle. In my judgment the acceptance of these short-term bills can only be properly demanded when the condition of the Reichsbank permits it without a rise of the rate of discount.

Director Mueller says that the Reichsbank must restrict long-term bills, and, on the other hand, must be obliged, under any circumstances, to grant credit upon short-term bills and securities; if it did not do the latter, a great calamity would be the result. Herr Mueller

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remarked further: "Where does it stand written that the Reichsbank throughout the whole year discounts every good long-term bill?" To this I reply: "Very good; but where does it stand written that the Reichsbank is obliged to discount every good short-term bill?" Neither the one nor the other stands written—that is, the Reichsbank must judge according to the particular circumstances of the case whether in that special instance it can extend its credit without injuring rightful interests; and, above all, there must be impartial treatment, and under no circumstances must banks be favored in this respect. The view held in industrial circles is that as long as the means of the Reichsbank permit, it is, indeed, obliged to accept every good bill throughout the year, and that it should and must exercise restriction only if its condition makes a restriction of credit necessary; but that even then all interests should be equally affected by such restriction.

Now, what is meant by a short-term and a long-term bill? I have gathered from the compilation in the business report of the Reichsbank that bills have very different periods to run—a thing that goes without saying—and that Berlin, if not the most favored, is among the most favored localities in this respect, in that the average time is thirty-one days. Other places, however, are given; for example, Aachen, where the average time is seventeen days; Frankfurt, nineteen days; Hamburg, sixteen days, etc. In Berlin, too, therefore, there must be a large number of bills that run considerably longer than thirty-one days; otherwise

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there could not result an average of thirty-one days. If we consider that, especially at the difficult periods, bills of ten days are given, it follows that here, too, long-time bills are largely issued.

Now, Herr Geheimrat Mueller has not stated whether he means to say that a bill of fourteen days is a short-time one and anything beyond that a long-time one. I do not believe that he will care to make such a distinction. But he has not stated his view clearly and distinctly, in noting the distinction between short-time and long-time bills. I think that the long-time and short-time bills should not be treated differently in principle by the Reichsbank, unless the transactions in question do not bear the character of credit requisitions but of a settlement of obligations. If this distinction can not be made, all bills must be treated alike. The law demands this, and we demand of the Reichsbank that it should carry out the law with uniformity toward all.

The Bank of England discounts, to my knowledge, six and nine months' bills in international business.

(Contradiction.)

Mr. FISCHER. Not over ninety-five days.

FREIHERR VON GAMP-MASSAUNEN. Then it is the Bank of France.

(Renewed contradiction.)

I know that one of those banks years ago—I spoke to the former president of the Reichsbank upon the subject—issued bills of at least six months, in the colonial trade. I attach no importance, however, to the matter, since

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there is, I say, no distinction of principle between short-time and long-time bills; the acceptance of bills must in general be made to depend upon the condition of the market.

Gentlemen, it has been stated here that the circulation of notes has materially increased in the course of years. This I can not concede. In the year 1873 the total circulation amounted to 1,350,000,000, and in the year 1907—that is, thirty-four years later—it was 1,621,000,000, of which that of the Reichsbank was 1,479,000,000 and of the private banks 142,000,000. In the comparison of the individual years it is generally overlooked that the private banks had in 1873 a very considerable circulation of notes and that the Reichsbank has stepped into the place of those banks. If, then, we wish to make comparisons, we must compare the total number of private banks then in existence, and their notes, with those of the Reichsbank.

Gentlemen, if it should really be established that industry did especially tax the resources of the Reichsbank, I must still declare that all the experts agreed in thinking that industry must continue to expand if we wish to improve our balance of payments and balance of trade; we must, therefore, not only reckon with the fact of the increase of industrial credit, but must positively desire it and strive for it under all circumstances; for otherwise we shall not get out of our distressing condition.

Now, Director Mueller wishes the running credit of the Reichsbank to be lowered by from 200,000,000 to 300,000,000 marks. Herr Mueller speaks from the standpoint—I wish to express myself briefly—of the drainage

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principle. If the Reichsbank really wished to reject those credits, 200,000,000 to 300,000,000 would go to the banks. The banks would then, if I follow the conclusions of Herr Mueller, go to the Reichsbank and either diminish their credits or take this money from it in some other way, and the Reichsbank would advance this 200,000,000 to 300,000,000 in an indirect manner. This proposition of Director Mueller is irrational, then, from his standpoint. I do not share his point of view, as I shall soon explain.

If we must reckon with a lasting increase of credit needs, we must find means to help the Reichsbank, and here I ask: How can the Reichsbank procure such means? By raising the rate of discount it can attract money from abroad. But we have heard from Herr Mueller himself that this expedient may easily fail, and that it would, as a matter of fact, have failed last year, even if we had had a bank discount of 10 per cent.

The Reichsbank may, furthermore, increase its deposits. Director Gwinner has expressed his approval of the increase of the deposits, but only under the supposition that the Reichsbank shall pay interest. In itself I am not opposed to such a proceeding. If the Reichsbank thinks it can accomplish it, I should have no objection to it. But I would call attention to the fact that the increase of the deposits does not furnish absolute security, because the deposits may be withdrawn at any time, and in critical times would undoubtedly be withdrawn. If, then, this method is followed, it will be a help, and if such help is applied to a certain extent, the capital of the

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Reichsbank will not have to be increased to the degree that would otherwise have been necessary.

The surest way, however, to attain an improvement of the condition of the Reichsbank is by increase of its capital. I consider the drainage principle erroneous; were it correct, no considerable loan could be placed in the market without withdrawing the gold from the Reichsbank. Whoever gives out a loan of 50,000,000, then, could not procure this 50,000,000 otherwise than by having the banks go to the Reichsbank and diminish their credits there or raise money on securities, etc. The money, then, would have to be taken from the Reichsbank. If a foreign loan were to be issued to-day, that would by all means be the only way to procure the cash. In ordinary times, however, business has hundreds of ways of obtaining money, without making direct demands upon the Reichsbank. I need not enumerate these ways; one man sells "Americans," another gives up contemplated improvements, a third sells other valuables, a fourth has assets that are lying idle—in short, this so-called drainage principle is based upon a false conception.

I should think, therefore, that the only effective means of providing for an assured improvement of the condition of the Reichsbank is by the increase of its capital, just as every joint-stock company improves its condition most surely by increasing its share capital, and not by assuming a bonded debt. That is the method adopted by the sound joint-stock companies. I believe, further, that if this increase, which should be reckoned at 70,000,000,

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takes place in a series of years, say from four to five years, and the times of payment have been suitably fixed upon, this augmentation of capital may at the same time be effected by the paying in of gold that is withdrawn from trade. We have heard from the representatives of the banks that, last year, in order to spare the Reichsbank, they withdrew from 70,000,000 to 80,000,000 in gold from trade. What they were then able to do they can do to-day likewise. If, namely, the shares are given out in small denominations and are placed among the general public through the post-offices, etc., it will be possible to receive the shares back, at least partially, in gold.

It has been pointed out that the Bank of England and the Bank of France have not a great amount of share capital. I am of the opinion that the conditions of those banks can not be compared with those of the Reichsbank. Certainly, the English Bank gave a great part of its capital to the State, and likewise the Bank of France. But has not the Reichsbank done the same? In January of the current year the Reichsbank took over from the Government treasury bills amounting to 200,000,000 marks, keeping them at times in its portfolio; it gave more to the Government than its aggregate share capital; and, according to my recollection, at the time of the final statement of the Reichsbank, December 31 of last year, it still had, on the most critical day, treasury bills amounting to about 70,000,000. It put over a third of its capital, therefore, in the shape of credit, at the disposal of the Imperial Government. Besides, England is a country so rich in capital that no great demand is made upon the Bank of

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England anyway to procure credit, for the notes are generally more than covered. In England very little gold is in circulation and not much in the Bank either; and if Germany is liable to get into a position in which the gold is pumped out to the degree it is in England, then we are facing a grave and very gloomy future. England may allow itself this luxury; but with us, if the gold supply were withdrawn from trade to the extent it is in England, and we should then be obliged to discharge international obligations I do not know how we should go about it. It is possible for England, by its colossal holdings in the securities of all civilized countries, to procure gold everywhere and at all times; but we have in recent years disposed in great part of our best foreign loans, and overloaded ourselves with Americans. Besides, in times of difficulty the Bank of France always rushes to the rescue of the Bank of England by furnishing it gold, a thing that the German Bank can, of course, not reckon upon. I believe, consequently, that it would be the worst thing possible to take England as a model.

But in France, too, the conditions are different. There industry stagnates, so that to regard France as an example is not justified. Our industry must be developed further, our agriculture be made more intensive, and even the artisan class must be supplied with more capital. Thus we are obliged, under all circumstances, to place a considerably greater amount of bank credit at the disposal of business.

Now, as to the increase of the contingent of notes exempt from taxation. Seldom has a provision which is,

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perhaps, theoretically unobjectionable, resulted in such a fiasco.

The CHAIRMAN. That really pertains to the second question.

Freiherr VON GAMP-MASSAUNEN. I should wish, then, that the commission would express its opinion to the effect that the Reichsbank should increase its capital by about 70,000,000 marks.

The CHAIRMAN. May I ask that the question of the surplus be discussed?

Freiherr VON GAMP-MASSAUNEN. I hold that simultaneously with the increase of the primary capital a corresponding increase of the surplus must take place, since, according to the legal requirements, the premium would go to the surplus. I should object to increasing the surplus alone and not the primary capital, because the increase of the surplus would be accomplished quite preponderantly at the expense of the Government, while I consider it justifiable to effect the greater solvency of the Reichsbank by an increase in the amount of its own shares.

Doctor STRÖLL. In common with a great number of the experts, I am rather indifferent in regard to the enlargement of the capital of the Reichsbank. The potency and the carrying strength of the Reichsbank are determined by other factors than those of its capital. An augmentation of basic capital the Reichsbank does not need, and in general an augmentation of its working capital is likewise needless, because, under the assumption that it has the necessary coin in its hands, it possesses,

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theoretically and practically, the inexhaustible horn of plenty of the right to issue notes.

Nor do I look forward to a permanent augmentation of the stock of gold, for the metal that flows into the bank on some wave of business—in this case it would be the payment for the new shares—does not signify. What alone does signify is the amount of specie the Reichsbank can permanently retain, and that, again, depends not upon its capital, but upon international conditions. Neither do I look forward to a lowering of the rate of interest through an increase of capital, for in all civilized countries the rate of interest depends upon factors other than any capital, no matter how vast, of any central bank.

It has also been said that the Reichsbank should increase its capital because other banks have greater capital. That argument is not a valid one, for capital plays a different rôle in other banks, particularly as regards basic capital, and the Reichsbank remains always the "bank of banks"—remains always the greatest German bank. I think I need hardly remind the commission that the Reichsbank has been obliged, in critical times, to come to the aid of many a proud bank of the first order.

It has further been said that the Reichsbank needs increased capital on account of its real estate holdings. This consideration is likewise not decisive, for if the Reichsbank has up to the present invested 60,000,000 in real estate I am of the opinion that the point of saturation has now been reached. The Reichsbank has established itself in all the larger places, and if it establishes itself at other points the erection of bank buildings will hardly be necessary.

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Altogether exaggerated, however, and shooting far beyond the mark, is the assertion frequently made, even by experts, that an increase of capital would not in any way fortify the position of the Reichsbank. Every bank becomes stronger and more potent by having capital added to that which it already possesses. I can not conceive how opinion can differ on this point. In what form such strengthening will manifest itself, that is the concern of the managers of the Reichsbank; but a strengthening, and a permanent strengthening, would be produced by an increase of capital. I say only that a strengthening so vital that it would tell essentially in the problems of the Reichsbank would not result. The position of the central bank as a financial power is not, in my judgment, decisively determined by its capital, whether somewhat smaller or somewhat greater.

Furthermore, I do not share the apprehension that if the capital of the Reichsbank and its own resources were to be increased the directors of the Reichsbank would be tempted to force business. This question gave rise to a rather expensive and, in part, heated and acrimonious discussion in the hearings of the experts. After the remarkably straightforward and thoroughly reassuring explanation of the president of the Reichsbank on this point, I believe that we may entirely eliminate this matter from our discussions. That individual blunders occur in an institution which has about 500 auxiliary establishments is a matter of course. I know from my own business experience how difficult it is to carry on a large number of subsidiary concerns in a uniform way. The main point is

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that the general management when it discovers errors should remedy them, and evidently the Reichsbank sincerely desires to do that.

To my mind an enlargement of the bank's capital would recommend itself more with reference to a strengthening of its ability to make loans on collateral. As I have already indicated, I regard the Reichsbank's discounting capacity as fully sufficient, but its capacity to loan on collateral, on the contrary, as slight. I consider it adequate in normal times and in times of moderate strain, but not adequate in trying times. I am so thoroughly convinced, however, that in really trying times bank policies of an altogether extraordinary nature are necessary, that for this reason I regard it unnecessary to aim at increasing the capital of the Reichsbank in peaceful periods with a view to its capacity for loaning on collateral.

On the whole, I do not consider such an increase requisite. However, if it should be undertaken—a thing I should not advocate—it would have to be done on a considerable scale; otherwise it would produce no effect whatsoever.

If the Reichsbank wishes to strengthen its surplus, I consider that a *res interna*. An association of capital can never be too rich in surplus reserves, and I should think that fortifying the surplus would be useful from the standpoint of public economics. Naturally, the dividends would thereby be diminished and the share of the Government curtailed.

I would regard it as regrettable if an increase of capital were forced upon the Reichsbank on account of parlia-

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mentary considerations. I have known the direktorium of the Reichsbank for a generation as an administrative body remarkably sagacious and clear-sighted, one that very well understands its interests; it would be the best judge whether it does or does not require an increase of capital, and in this connection I would say *beneficia non obtruduntur*.

Doctor WACHLER. Gentlemen, I would express my position as regards Herr von Gamp's general remarks in very few words. It would certainly be interesting if we could establish definitely the causes that led to the crisis of 1906-7. But we have already been told that these causes are of so manifold a nature that it will be hard to establish exactly which of the various branches of business made the greatest demands on the resources of the Reichsbank, with a view to determining their degree of culpability in bringing about the money stringency. I share Herr von Gamp's view that industry, in spite of its doubtless very considerable development in recent years, was by no means the sole or the chief originator of the money stringency. If Herr von Gamp maintains that industry was only an inconsiderable factor in the money stringency of those years and supports his contention by the published balance sheets of the companies, I know from my own experience that just as the yearly balance sheets of the different companies vary, so does their bank balance vary greatly. Most of the companies usually have a minimum balance directly after a distribution of dividends, and then it rises until the close of the business year. The majority of the companies with which I am associated, and which terminate

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their business year on the 31st of December, always have on that date a very considerable balance, because they desire to provide the means of paying their dividends after December 31, and must accumulate a balance for that purpose. If then we ascertain from the statement of the 31st of December that a great many joint-stock companies had an extraordinarily large balance and wish to conclude from this that the industrial companies in general could therefore evidently not have made demands on credit, the conclusion, according to my view, would be fallacious. The same companies might at other periods—for instance, in August, September, October—have received even very considerable advances from their banks and have come into possession of any material balance only on the 31st of December. I mention this simply in order to say that all these statistics must be regarded not only according to their figures, but must be looked into upon all sides. They assume then an entirely different aspect; the conclusions drawn from pure statistical figures are not always entirely correct.

I agree with Freiherr von Gamp also upon the point that the first business of the Reichsbank is to regulate the monetary circulation, not to act as an institution for credit. I think he is right, too, in saying that, according to the intention of the law, the Reichsbank may and should nevertheless engage, in the second place, in credit business also. But it appears in practice—and I would state that I differ to that extent—that the credit business is, after all, a very important factor for the Reichsbank, inasmuch as the Reichsbank is and must be the reservoir for all the other bank establishments.

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Freiherr VON GAMP. Quite right!

Doctor WACHLER. I likewise coincide with Freiherr von Gamp's contention that no branches of business should be favored. But I would state in regard to Herr von Gamp's special observation that the banks likewise should have no preference; that, as appears from the information offered by the Reichsbank, it is for the banks that by far the greatest part of the discount business of the Reichsbank is done. And this is as it should be; otherwise we should reach a point where all branches of business would, contrary to the law which determines the Reichsbank's sphere of action, satisfy their credit requirements directly through the Reichsbank. Only then could statistics be compiled which would demonstrate that this or that branch of business had been particularly prominent in demands upon the Reichsbank. But, as I understand it, the credit banks are self-evidently—unless we consider the Reichsbank the primary credit institution, and that, in fact, it should not be—those that must satisfy the credit needs of all classes; and they are naturally those that must, more than any others, undertake the discounting of notes at the Reichsbank. From the actual statistical data we can not by any means draw the conclusion that the Reichsbank satisfies the credit needs of the banks preferentially. This assertion is frequently made in banking literature, as well as in the daily press, and in various gatherings, as a charge against the management of the Reichsbank, but it only exhibits a total misconception of the business activities of the credit banks as well as of the Reichsbank.

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Gentlemen, the language of the question that is laid before us here is, Is it *desirable* to increase the capital of the Reichsbank? From this it seems to me to follow that the representatives of the Government do not regard the question of the necessity of such an increase as under consideration, and that we really need not discuss whether such an increase of capital is actually *necessary*.

Now, it has been urged that the capital of 120 millions in the year 1876 was determined under conditions entirely different, as to population, business, and economic organization, from those prevailing to-day, and that as early as 1900 efforts were made to meet the circumstances, which had essentially changed in those respects, so that in 1901 an increase to 150,000,000 and in 1905 to 180,000,000 took place. In the last two years, however, it is further said the demands upon the Reichsbank have been so great that the strain on the bank has well nigh reached the limit of its capacity. An increase of the capital, therefore, and through this a strengthening of the position of the Reichsbank is desirable, it is urged, in order that it may maintain its ability to adequately satisfy the enlarged demands for credit necessitated by the steady increase of population, the extension of German industry, and the increase of German commercial and transportation business.

But as against this view the following essential objections are to be noted:

1. If the joint-stock banks have, in keeping with the expansion of their business, materially increased their capital in the last twenty years, it does not follow that a like necessity exists for the Reichsbank—a point to

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which Doctor Ströll has already called special attention. For with banks of issue it is the notes really and not the capital that constitute the working capital. As regards the use of the capital as a note reserve, for administrative purposes, or for loans on collateral, it is, in my judgment, likewise sufficient. Fifty-five millions are invested in bank buildings; 15,000,000 to 18,000,000 are annually expended for administration; the loans average from 85,000,000 to 98,000,000; so that with a note circulation of $1\frac{1}{2}$ billion the capital and the surplus of approximately 245,000,000 are sufficient and represent a surplus of over 10 per cent. In reference to the note circulation, however, even an increase of the capital by from 50,000,000 to 70,000,000 would hardly be decisive; and yet a still greater increase, by 100,000,000 or more, can certainly not be thought of. According to my view, then, the bank's capital is irrelevant to the question of working capital and sufficient for other purposes.

2. Since 1905, and particularly since 1906 and 1907, demands considerably greater than in the foregoing years have been made upon the Reichsbank, and the specie cover did drop, to be sure, to 37.3 per cent, with an average of 57 per cent, as against a minimum ratio of 49.7 per cent in 1899, 49.6 per cent in 1904, and 43.5 per cent in 1905. As against this covering, the following excess issues took place: End of November, 1906, 505,000,000 marks with the discount rate at 5 per cent; end of December, 1906, 572,000,000 with the discount rate at 7 per cent; end of September, 1907, 513,000,000 with the discount rate at $5\frac{1}{2}$ per cent; end of December, 1907, 625,900,000 with

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the discount rate at $7\frac{1}{2}$ per cent; then there followed, in January, 1908, a material falling off in excess issues, namely, 386,000,000 with the discount rate at $7\frac{1}{2}$ per cent. The Reichsbank was able, then, in spite of that immense strain—which is characterized by some as an actual crisis, while I should, nevertheless, not characterize that strain as a veritable crisis—to do justice to all the demands made upon it.

When we consider that the note circulation per head of the population is in France 99 marks, in Belgium 82 marks, in the Netherlands 78 marks, in Austria-Hungary 32 marks, in Germany 23.9 marks, in England 13.4 marks, the situation of the Reichsbank may not by any means be termed critical.

It must furthermore be borne in mind that in the last two years money has been scarce in all countries and the rates of discount in all countries, particularly in England, uncommonly high. As regards Germany, which has made remarkable strides in economic development, special account must be taken of the fact that through the conditions in America—for Germany had to buy a variety of raw products, cotton, copper, food supplies, in great quantities at high prices and pay cash—she was sympathetically affected and suffered a heavy depletion of gold just at a period of retrogression. These circumstances must be characterized as altogether exceptional and transitory, and they have, indeed, been so characterized by all experts; they have, in point of fact, improved very materially in the second quarter of 1908. A country with the world commerce of Germany can not remain un-

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touched by the events in the economic life of other nations, and its discount rates will be more or less affected by those prevailing in London and America, be the capital of the Reichsbank what it may.

It has been further asserted—an assertion acknowledged by the bank management, too, as just—that, partly through a misconception of the duties of the Reichsbank, bill credits of no inconsiderable amount, which should not have been granted, have been allowed at some of the bank's offices, particularly at subsidiary ones; these would in course of time be completely eliminated and the condition of the Reichsbank in consequence be quite materially relieved. Doctor Ströll has called attention to this also, and it is all the less necessary to amplify this point, since the bank management itself has, of its own initiative, directed that a remedy be found for this trouble.

From all these circumstances I would draw the conclusion that the Reichsbank, even if it has made mistakes in managing its affairs, has been able completely to fulfill its functions, and does not, in the future either, need an increase of capital.

3. A comparison with the capital of the Bank of France and the Bank of England leads to no different conclusion. I do not wish to repeat what Doctor Ströll has already brought out. I would only specially emphasize the fact that Herr von Gamp's view was thoroughly refuted in a clear and convincing manner by Herr Müller (Fulda) as well as by Professor Riesser, in the course of the hearings of the experts.

4. Now, I come to the question whether an increase of capital can permanently increase the stock of gold. Here

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I essentially agree with Doctor Ströll. I would only remark that according to the assertions of our colleagues, who have been heard as experts, the vicious circle would ultimately show itself, that an increase of capital must always be taken out of the resources of the Reichsbank. But that this must be so can not be mathematically demonstrated; and I think that it is quite possible that by an increase of capital and by subscriptions for new shares resources in the general business world that have been lying dormant may be brought out and roused into life, and thus the Reichsbank's stock of capital and of gold may, after all, be reenforced. To what extent this will be the case, it is difficult to say. I will concede that, theoretically, it can be maintained with as much justice that an increase of capital must ultimately be covered entirely out of the resources of the Reichsbank as that the new capital could be drawn entirely, or even in part, from sources which had not till then been accessible for the purposes of general business. But since this is a point which, in my opinion, can never really be quite clearly made out, I would choose the middle course and say that anyway a great part of the increase that will flow into the Reichsbank will consist of new resources, so that a strengthening of the Reichsbank's position must, as Doctor Ströll has just specified, in any case follow as a consequence. Whether such a strengthening will be permanent depends, to be sure, upon entirely different circumstances, and is hardly to be assumed.

5. Now comes the further question, whether an increase of capital will have any, and if so whether it will have a permanent, influence in bringing about a reduction of

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the rate of discount. The experts—with the exception of Heyman, Wieler, and Steller, who, however, can not adduce any convincing grounds for their belief—have very generally regarded this as quite out of the question; on the contrary, Doctors Wiedenfeld and Bendix have called attention to the point that as the increase of capital must, as is assumed, ultimately come out of the resources of the Reichsbank, its condition will be unfavorably affected thereby, and a rise of the discount rate might rather be the result, since the outside resources previously at the disposal of the Reichsbank would thus have been withdrawn from it. This, however, is not quite accurate, since the Reichsbank would still have its own capital at its disposal, even if in another shape than that of deposits, etc. To be sure, the past has shown that the height of discount rates depends upon factors entirely different from the amount of the bank's capital; in this respect, then, an increase of the capital is decidedly without influence.

6. If, then, even a great increase of the capital could be of no noteworthy, and particularly of no permanent, benefit to the condition of the Reichsbank, it might, especially in dull times, be accompanied by serious disadvantages; for it is hoped that the public will be induced by an extension of the check and deposit business to deposit their idle cash in larger measure either in the Reichsbank or in the credit banks; and the coining of a greater quantity of silver money, as well as the issuing of smaller notes, will not only add to the circulating medium, but is meant especially to obviate the oversaturation of trade with gold coins and to substitute

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paper and small change for the excess of gold used in trade, thus keeping the gold in the Reichsbank and rendering it trebly useful for general trade.

If there should then still be an excess of capital at its disposal, the bank would in quiet times be tempted to run after credits, particularly loans on securities, which it is not suitable for a bank of issue to go into on a large scale, and thus compete needlessly with the credit banks and render itself more than ever incapable of making the note circulation elastic and of being a ready and adequate reservoir for the credit banks in critical times.

In case the check and clearing business and the multiplication of silver and notes bring about the results expected, an increase of capital would be unnecessary, while, by diminishing the Government's share of the profits, it would be directly disadvantageous to the finances of the Empire, aside altogether from the consideration that the bank management might be positively forced into extending its grants of credit in order to make the capital profitable.

7. In any case, the present moment—and this has been pointed out in various quarters—would hardly be opportune to recommend such a measure to the Government, since foreign countries might, at any rate, see in it a weakness of the Reichsbank.

8. An increase of capital would, likewise, involve knotty discussions regarding the regulation of the division of profits, the premium in negotiating bills, etc., which it would be better, at least at present, to avoid, and which, for the rest, should be left to the representatives of the bank administration.

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9. Essentially the same reasons that are urged against an increase of capital hold good also against increasing the surplus. The effect of such a measure would certainly be of still less consequence. It might be maintained here that such an increase, which proceeds only from an excess of profits, retains ready money in the bank which it would otherwise have to distribute. To such a measure the opponents of an increase of capital have, at all events, expressed their assent. The strengthening of the surplus however, would have to proceed from the general excess of profit and not merely from the excess of profit which accrues to the shareholders. It would not be consonant with justice and propriety to establish a surplus solely at the expense of the shareholders. It is not in itself to be rejected as inexpedient, but would have to take place, as long as the management finds it desirable, without qualification or limitation.

Even if one acknowledges that the reasons adduced by the majority of the experts in support of their view are convincing, and must declare oneself opposed, in theory and principle, to an increase of capital, it should nevertheless be recognized—and it is acknowledged by a great number of experts as well as in the literature of the subject—that, after all, the question whether the bank management might deem it desirable to increase the capital in a moderate degree—by from 20,000,000 to 70,000,000 marks—can not be regarded as in any way vital.

If, in particular, the bank charter instead of being granted for ten years, as it has hitherto been, were to be extended for a longer period, it could indeed be justly

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said that our further economic development might actually involve the necessity of also increasing the capital of the Reichsbank. The advancement of the check and clearing system, too, will occasion an extension and increase of branch banks as well as a number of other expenses, for organization and the heightened cost of administration, all of which must make it desirable for the Reichsbank to possess greater means of its own. In the event of a moderate rise of capital, of from 20,000,000 to 70,000,000 marks, I should be of the opinion that in a law for the Reichsbank the amount of the increase of capital and the period within which such increase shall take place should alone be stipulated, but that it should be left to the Bundesrat, in unison with the administration of the Reichsbank and the central committee, to decide when and in what measure it is desired to make use of this power set forth in the law concerning the increase of the capital. And they should, in particular, determine whether an immediate rise to the maximum might take place, or, if the power be granted to raise the capital of the Reichsbank even by 100,000,000, in what period of time this rise should occur, and what shape this distribution of new shares (which should not be permitted to be issued in denominations of less than 1,000 marks) should assume. In our deliberations we have constantly heard from all sides very high praise bestowed upon the trustworthiness, discretion, and shrewdness of the Reichsbank administration. Now, if we entertain this conviction, and if we can, besides, start from the conviction, which has frequently found expression,

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that it is the Reichsbank itself which, in its management, must best feel where the shoe pinches, whether it does or does not need an increase of capital—then we must grant it full power with perfect confidence and leave to it the carrying out of the programme. That is my opinion.

Mr. KAEMPF. Gentlemen, Herr von Gamp thinks it would be desirable to investigate the causes that led to the so-called crisis of the last few years. I believe, however, that it will not be necessary to procure the figures which Herr von Gamp wishes to have, for the causes that brought about the tension of the money market are perfectly obvious now that we can take a survey of the last few years. We have had a world situation which necessarily called for a large circulation; in Germany, we have had a rapid development of industry which necessitated the putting of great amounts of capital into fixed forms, and it is precisely this fixing of capital that led to the tension which has prevailed in Germany during the last few years; and finally the American crisis was added. What, on the other hand, the figures that Herr Gamp wishes to have are meant to prove, and what the figures that he has adduced actually prove, I do not quite see. The figures that he has cited do not prove anything. He picks out among the bank offices those that in the period between the 15th and 30th of September and between the 15th and 31st of December had the greatest demands made upon them, and finds that the bank offices in places where industry is chiefly represented are not among those upon which the greatest demands were made. When I

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consider, however, that it is precisely the fixation of capital that produced the tension, then it is obvious that the bank offices in places where industry is largely represented did not receive bills arising from such fixations of capital, and could not receive them, for credit bills of this kind should not be discounted by the Reichsbank, and were so only in very minute quantities. The demands for credit resulting from such fixation of capital were made much more largely upon the private banks, putting these, on their side, under the necessity, at certain times, notably between the 15th and 30th of September and the 15th and 31st of December, of presenting any kind of bills to the Reichsbank to be discounted in order to obtain the funds necessary to satisfy the requisitions for capital made upon them.

Freiherr von Gamp stated further that a great number of industrial stock companies had and still have large balances in the banks; that therefore industry could not possibly have been in a position to make great demands upon credit. This also proves nothing. If there were a great number of such establishments it does not at all follow that there were not many others in a position to make credit demands upon the banks. It would similarly prove nothing if some one were to say that since a great number of farmers have balances in the banks, agriculture in general is not in need of credit.

Although, therefore, I hold that the figures adduced by Herr von Gamp do not prove anything, and that the figures he desires to have will likewise prove nothing, I take nearly the same view that he does regarding the increase of the Reichsbank's capital within certain limits.

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He did, to be sure, say that the first concern of the Bank is to maintain the standard and to oversee the regulation of the circulation of money, and to see to it that in these respects all should go straight in Germany, on the right track; and that the granting of credit was only its secondary concern. But all his specifications had a bearing not upon question No. 1, the regulation of circulation, but upon the granting of credit. It seems that in his mind the granting of credit plays an extremely great rôle.

If, now, I turn to the question, What is the standpoint from which the possible increase of capital of the Reichsbank is to be judged?, then I can consider but one point of view as controlling. The Reichsbank must actually see to it that the monetary circulation shall remain on the right track. As a prime requisite to this end, the Reichsbank must be able to redeem its notes at any time, and its grants of credit must be regulated from this point of view and from this point of view *solely*—that is, it should discount those bills only as to which it may be assumed with perfect certainty that at their maturity bank notes will flow back to the Reichsbank. This point of view being taken, the Reichsbank must treat all classes alike—allow the artisan class, if it can be fitted into this category, credit just as well as agriculture, commerce, and manufactures. No one should be favored or discriminated against, provided he fulfill the requirements regarding the granting of credit to be exacted in accordance with the view I have stated. Agriculture and the trades should not be granted long-time credit, which is not calculated to secure the return flow of bank notes, any more

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than commerce and manufactures. With the understanding, however, that the bills discounted may be absolutely counted on at maturity to bring about a return flow of the bank notes to the Reichsbank, all classes must be treated alike.

Now, I admit that the circulation of money in the country can not be put into essentially better shape by an increase of the Reichsbank's capital than it has been with its present capital. I do not, for instance, believe that the Reichsbank's stock of gold is permanently increased by an increase of its capital. The experts have already expressed the opinion that the determining factor is the international balance of payments, and not whether the Reichsbank, when it issues new shares, receives in its coffers a certain amount of gold, be the same great or small. Neither do I think that the increase of the Reichsbank's capital can have a material influence upon the reduction of the rate of discount. Therefore I believe that if the object is to regulate the circulation of money an increase of the Reichsbank's capital is unnecessary. Nevertheless, I think that it appears desirable from various points of view.

I am, in the first place, of the opinion that in case of an essential increase—such as has already occurred of late—of the Reichsbank's business in foreign bills an enlargement of its capital may be desirable. The same thing applies to loans on securities. I am, further, of the opinion that it is not a proper proportion for the Reichsbank, with a capital of 180,000,000 and a surplus of 64,000,000, to have expended 54,000,000 in real estate. In the case of

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a private bank this proportion would be characterized as unhealthy.

I hold, besides, that the volume of its deposits indicates that a certain strengthening of its own resources may appear desirable to the Bank.

When I consider all these points of view, I arrive at the conclusion that it seems desirable that an increase in the Reichsbank's capital shall take place; particularly, too, because I believe—and here I find myself in opposition to the honored gentleman who spoke last—that we should seize every means to strengthen the credit of the Reichsbank abroad also. The worst thing that has happened to us in recent years is the inception of a doubt abroad as to the solvency of the German Empire in the matter of the gold standard. We have every incentive to work against that feeling; I consider this the most important aspect of the whole question.

As regards the augmentation of capital, I am not in favor of a great increase. In my judgment an increase of about 60,000,000 is sufficient, and that at a price for the shares which shall correspond approximately to the amount of the surplus. An addition of about 80,000,000 would thus be made to the Reichsbank's own resources, and that I consider adequate to satisfy its needs. Whether this should be carried out in stages or at once is a question open to debate. I would carry it out in stages, in order that the domestic money market should not in any way be disturbed by the issuance of the Reichsbank shares; even though a sum of 60,000,000 is not so great that it can produce serious disturbances in the domestic money market.

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Freiherr VON WANGENHEIM. Gentlemen, when I was appointed to the commission, I tried at first to decline the summons, and accepted it only under the supposition that what was demanded of me was that I should, to the best of my ability, give expression here to the views that prevail in the economic and political circles familiar to me.

Nor do I consider it our duty to enter into a great debate here; there is an abundance of talk; the chief battle is to be fought in the Reichstag. Accordingly, I will limit myself most rigidly.

I beg to be excused, too, if I confine myself to notes this time, by way of exception. I belong usually among the unfortunate speakers who can not make use of notes; but to-day I consider it important that my remarks be reproduced verbatim.

Numerous means have been proposed here to remedy the precarious conditions that prevail with us at present in monetary affairs. But, gentlemen, I do not believe that the adoption of any one or even of a number of these various means will bring about a fundamental improvement. All the questions of the bank inquiry are, in my judgment, to be considered from the following fundamental points of view: The unlimited abuse of credit, with the reckless economic development which it alone made possible, is the real cause of our periodic crises, with all their grave economic and social evils. The aim of all reforms in the domain of banking and credit must, therefore, be to bring about steady, quiet, and moderate development. From this follows the

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necessity of a more general realization of the fact that the business of granting credits out of other people's money is not only a business but also a very responsible office, and that here business considerations must always be made to harmonize with the obligations which arise from the nature of that office. To this effect Riesser, in his work *Zur Entwicklungsgeschichte der deutschen Grossbanken* (History of the Development of the Great German Banks), second edition, page 173, says: "Not only private but public interests are here at stake." In the same passage he remarks: "It is not without significance that even the employees of the banks are spoken of as bank officials, for they are appointed in the service of undertakings whose objects and development are not of a purely private nature, and which transcend more and more the sphere of regulations pertaining to purely private rights."

Riesser then shows—page 130—by a number of examples that the political outpost fights of the nations, which are sometimes followed by the greater battles of the national armies, are to-day fought on the financial field by the great credit banks. Such vital processes, which may, in some circumstances, be decisive of the existence or non-existence of the State and of the distinctive civilization of its people, can not be committed solely to the dividend interests of the private banks. Here, too, under free competition, it is no longer he that is conscious of duty, but he that is most eager for gain, who conquers. In the business reports of the great banks we find complaints of ineffective admonitions to be moderate in demands for

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credit. But because a transaction which one bank would not undertake is at once entered into by its competitors, the private banks do not, in our times, possess the power to check the mania for speculation and profit which underlies the demands for credit; with their eyes open they drift toward the next general crisis.

All these considerations must force the legislation of our time to place the business of dealing in credits with other people's money under such legal regulation as shall safeguard the interests of the people.

As a matter of principle, therefore, in regard to questions I and II, I must put forward the demand that the Reichsbank be nationalized.

Much has been said by the opponents of nationalization as to the jeopardizing of the funds of a nationalized bank in case of an unsuccessful war. But about the same kind of people consider the prime financial preparation for war to consist in the greatest possible possession of foreign gold values in bills and foreign exchange. These foreign bills are with us quite preponderantly bills on London—on the chief market, therefore, of a state against which it is no longer beyond the region of probability that Germany may engage in war. Then, would the "gold in London" form a part of our financial mobilization? The Hague Peace Conference, too, decided with England's assent to prohibit a belligerent power from abrogating the rights and claims of the subjects of the enemy, or from temporarily invalidating them, or excluding suability. (Geheimer Finanzrat Doctor Von Lumm, on Foreign-bills Policy, May 12, 1908.) Anyway, in case of a war

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"gold credits in London" seem less secure than the gold in the vaults of a nationalized Reichsbank.

In case, however, the nationalizing of the Reichsbank will, as I assume, not be agreed to, a fundamentally new conception of the Reichsbank must at least be introduced into its administrative policy and into legislation. To-day it is regarded as the "bank of banks." The shares are held by the banking world and by its circle of customers. Out of this circle the central committee is constituted. These circles are given the first chance to obtain the low-rate credit of the Reichsbank, with the advances free of interest, etc. The Reichsbank must be transformed from the position it has hitherto occupied as the "bank of banks" into the "central bank for the protection of the nation's economic interests."

1. There must take place, therefore, a material increase of the capital, perhaps a doubling (500,000,000), as was proposed by the expert Kommerzienrat Moritz Leifmann, banker, in Düsseldorf ("Zusammenstellung," p. 12). The share capital and surplus of the Reichsbank amounted in 1875 to 150,000,000 marks, in 1907 to 240,000,000; in the 7 Berlin great banks it was 250,000,000 marks in 1875 and 2,500,000,000 in 1907.

Prion says in his work, "Das deutsche Wechsel-Discountgeschäft" (The German Bill-discount Business), 1907:

"The average cash holdings of the Reichsbank, which furnish the basis for the security of the currency, can no longer be termed sufficient, in view of the abruptly changed balance aggregates of the other banks. The acceptances alone set afloat by the banks exceed the average amount of

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the circulating bank notes. In the further development of the credit banks there is great danger that the extension of their credit business may easily go beyond the line drawn by the Reichsbank in determining its holdings of gold as the foundation of the whole edifice of credit. From this standpoint, likewise, an increase of the deposit transactions of the Reichsbank, for the purpose of attracting gold, is by all means desirable."

2. The new stock certificates to be distributed should be of the denomination of 200 marks, as the expert, Bendix (p. 13 of the "Sammlung"), has proposed; and this at a selling price of 130 per cent, as in the subscription of 1875, and under control of the communities, in order that the stock certificates shall not fall into the hands of foreigners or of the circle of customers, or into the possession of our great banks, but into the hands of the German people outside this circle. Preference to the middle class in town and country!

The distribution of these stock certificates should be effected exclusively by the Reichsbank, which should take over the stock at 130 per cent, on commission, and sell it at that price to members of the German middle class, in the order in which their names appear on its subscription books.

This increase of capital would then not be taken from the bank credits—and therefore counteracted by increased demands upon the Reichsbank—so that the available resources of the Reichsbank would not be diminished. Then it would be possible to purchase gold abroad with these augmented resources in order to increase our gold supply.

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I am opposed to the proposition on page 17, that foreign gold bills should be admitted as cash cover within the meaning of the bank law.

The strengthening of the surplus I also favor on principle. This would be accomplished best by a strengthening of the capital. Whether it is to be carried out by stages is a practical question which need not be decided at present. The time could be determined after we return once more to normal rates of interest.

Mr. SCHINCKEL. Gentlemen, we have been asked to express our judgment in regard to the question before us, with brief statement of our reasons. I can not, therefore, avoid returning to the arguments which have already been brought forward by the previous speakers.

I take up in the first place the speech just delivered by Freiberr Von Wangenheim, and can not deny that I was somewhat astonished at his bringing up an extremely important and far-reaching question which is not contained at all in the list of questions before the commission, upon which we have heard no experts, and which would extend our discussions to impossible lengths. I can not find in the list of questions the nationalization of the Reichsbank. Nor have we up to this time ever spoken of nationalization in our debates; neither has the question come up whether changes ought to be made in the organization of the Reichsbank's administration. It was, on the contrary, expressly stated in the inaugural speech of the under secretary of state that fundamental changes in the organization of the Reichsbank were *not* to be subjects of the inquiry. I must, therefore, forego entering into

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particulars on the subject of nationalization; it would, in my opinion, prolong our debates for days.

Freiherr von Wangenheim spoke further of an unbounded granting of credit having taken place. I am under the impression that the situation in which we find ourselves was brought about by all sorts of faults, perhaps among them by a too ready granting of credit; but I must protest against the stress that is always laid upon the credit banks having been guilty of quite special faults. I, for my part, am of the opinion that if too much credit was demanded and granted, much more was done on the part of the cooperative credit institutions than on that of the great banks. There is, in my judgment, too much running into debt throughout the whole country.

Freiherr von Gamp attempted once more to search into the causes which were the most prominent factors in producing the money crisis, as it is always termed, of last fall. Here, too, I must briefly add my view of the arguments that have been advanced. I consider it idle for us to cudgel our brains as to whether it was manufactures or agriculture or commerce that made the chief demands of excessive credit upon the money market and, consequently, upon the Reichsbank. I am convinced that all contributed their share, and to a certain extent, indeed, quite innocently. It is obvious that as a consequence of a flood-tide in business the price of everything rises immensely, as was the case last year. Nothing can be excepted. Raw materials, and grain in particular, rose enormously.

A VOICE: Wages, too!

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Self-evidently, more capital is needed to handle the commodities, and this must be obtained by means of the granting of credits. Any very special offense on the part of manufactures or agriculture or commerce can not, in my judgment, enter into the question here. The best evidence that too many bills were in circulation is offered by the considerations I have just mentioned; the Reichsbank had too little gold, however, primarily in consequence of our unfavorable balance of payments at the time. The present furnishes a proof of this. Now that the business boom has run its course, that prices (with the exception of grain) have fallen just as much as they rose before, we see that there are fewer bills; the Reichsbank has not so many demands made upon it. The only thing which has remained, and which, in my judgment, lastingly demands our chief attention far more than the temporary credit needs of commerce, manufactures, and agriculture, is the running into debt that has in the last years been prevalent in Germany, on the part of the Empire as well as on that of the states and the local governments. And if Freiherr von Gamp has solicited a special statement in regard to this subject I consider it very appropriate; the figures will show how enormous were the demands made upon the money market by domestic loans. It would be a misfortune if, as a consequence of this, we should have to sell foreign bonds and should be absolutely unable to buy foreign securities on account of the great demands upon the domestic stock market. It is only by creating claims upon foreign countries, whether by increased exports or by holding foreign government securities, that we can improve our balance of

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payments, and only in that way can we prevent too much gold being taken from us. I agree with Herr Kaempf that the difficulties and the stringency which we experienced last fall were due far more to the small stock of gold in the Reichsbank than to the large number of bills afloat and the demands for discount, occasioned by them, made upon the Reichsbank. I do not see that the Reichsbank's holdings of bills have in the course of decades risen so enormously. The evil lay in the Reichsbank having too little gold, and this evil is to be remedied by creating claims upon foreign countries. At any rate, I am of the opinion that the Bourse was this time, as it happens, quite innocent, in spite of the indirect assertions to the contrary, for all statistics will demonstrate that speculation did not strain the money market at all; it has indeed seldom occurred that the Bourse required as little money as last fall. This is owing to reasons into which I do not wish to enter; the Bourse has legitimate demands also.

Freiherr von Gamp desires that the Reichsbank treat with entire impartiality all bills which it accepts. But I observe that he departs from this impartial standpoint when he holds that the Reichsbank is just as much obliged to accept all long-time bills, even such as are provided with security-crutches, as it is the short-term bills of the banks. As regards that point I can only reiterate and emphasize my opinion, that, with a view to the solvency of the Reichsbank, there is a tremendous difference between the two. With the Reichsbank, its only means of granting credit, with the exception of loans on collateral, is by discounting bills. The main credit business of the

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Reichsbank, therefore, is limited to the discounting of bills. It should certainly, then, not consider a bill which is sure to be renewed after three months, which must, besides, be provided with some sort of security, according to the law, in order to make up for a poor signature, as on an equality with a bill which will unquestionably be paid at maturity—which it is not necessary to renew. In this sense the short-term bill is self-evidently greatly preferable to the long-term bill, for the short-term bill is paid so much sooner and eases the situation of the Reichsbank. From the standpoint of banking principles, this difference can not be ignored. And here, too, the Bank should maintain impartiality.

At the quarterly periods the Reichsbank will unavoidably have to accept more bills from the banks than from other quarters. It is the banks that, along with the Reichsbank or in place of the Reichsbank, are the intermediaries of credit throughout the German Empire. The private banks must, in fulfillment of their duties, primarily subserve the requirements of credit, while the Reichsbank's prime duty is to regulate the monetary circulation. The private banks will always need to have the assurance that they have the Reichsbank behind them at the quarterly periods. I regard it as a quite legitimate thing, entirely consonant with its duties and not disadvantageous to it, for the Reichsbank to resort, in case of necessity, to a temporary increase of the discount rate—a thing which is no misfortune at all, but a needed warning signal to the banks. It is the duty of the Reichsbank; there is nothing illegitimate about it.

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If the Reichsbank were to wait for the long-time bills of the private banks, or for the bills that come to it at other periods, it might wait a long time. To keep presenting bills—not to mention long-time bills—to the Reichsbank right along, throughout the year, is a thing that no great bank does. That is a mistaken notion on the part of Herr von Gamp. I regret exceedingly that he should have left. This can not be too often brought to his notice. I say this with the best intent. Director Mueller succeeded in convincing Herr von Gamp on one point, and I do not doubt that he will allow himself to be convinced on this point also.

Herr von Gamp spoke, further, in regard to paying interest on deposits. Now, money payable on demand any day should not in addition be provided by the Reichsbank with an interest premium. I do not know whether Director Gwinner favored this, but I can not approve it. On the other hand, I am confident that the deposits which flow to the Reichsbank in the natural way will constitute its least jeopardized assets in critical periods. On the occasion of the hearings of the experts much was said of the fact that of the deposits at the disposal of the Reichsbank nearly one-half is in transit; that is, in process of being transferred. It is self-evident, really, that deposits increase in critical times, because everybody wants to accumulate a reserve, and in far greater measure will this be the case in critical junctures with regard to the deposits of the Reichsbank; everyone will then regard it as the best depository. I am not afraid that the Reichsbank will experience any sort of difficulty on account of its deposits.

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Now, as regards the main question, whether an increase of the working capital of the Reichsbank, either by way of adding to capital or by way of strengthening the surplus, is desirable, I am rather indifferent concerning that problem. I do not, naturally, expect any advantage to arise from an increase of the capital or of the surplus, particularly any effect to be produced on the rate of interest or on the gold holdings of the Reichsbank, which is the main point. I do not fail to recognize that it would not be a desirable measure at the present moment to go into the money market with a new demand for capital; not because I fear that the money market will thereby be ruined, but because—and I would ever again call especial attention to this—every putting up for sale of domestic securities has the great disadvantage that foreign loans, which we urgently need for our balance of payments, will be driven out of the country. I should not, therefore, regard the present as a very appropriate time.

But there is another consideration. It would not be satisfactory for the Reichsbank to dispose of its shares at too low a rate; while too high a rate, again, would, in my opinion, not do justice to the purchasers, particularly if the charter of the Reichsbank is to be actually renewed once more for only ten years. We have heard again to-day that the question of nationalization does not by any means seem to have disappeared from the order of the day. In the event of nationalization, the shareholders, as you know, have a claim upon only half of the surplus; the new shares can not be sold at a much higher

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price than the amount for which they will be redeemed ten years later. If from this standpoint, but for many other reasons as well, it were possible to prolong the charter of the Reichsbank beyond ten years, it would, in my judgment, be most desirable. I think that if a strengthening of the Reichsbank's resources should be contemplated, it is the concern primarily of the management of the Reichsbank. Should it be actually contemplated, I believe that in view of the fact that there is no prospect of prolonging the charter beyond ten years, the question to be considered is rather the strengthening of the working capital by the accumulation of a surplus. Nor do I feel any scruples that an injustice would thereby be done to the Government because the Government contributes three-quarters and the shareholders one-quarter to it.

A point that has not as yet been dwelt upon is that the surplus, half of which would go to the Government in the event of dissolution, was contributed in much the greatest part by the shareholders. It consists in large measure of the premiums on the new shares. The shareholders accumulated the surplus at a time when the Government did not yet have the three-fourths interest. In view of the possibility of a division with the shareholders—a thing most regrettable in my eyes—I should not consider it unjustifiable if they contributed one-fourth and the State three-fourths to a further accumulation, with the provision that each should receive a half upon division.

How this could be accomplished is of course a matter of opinion. I should think that if 10 per cent of the profit over and above a $3\frac{1}{2}$ per cent dividend were put into

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the surplus it would in a reasonable time increase sufficiently to furnish the Reichsbank with the means which it would require for the fixation of capital—the acquisition of buildings. As soon as the fixation of capital exceeds the surplus, there is, according to banking principles, too much fixation. However, not so many buildings are acquired that they could not be paid for through the growth of the surplus.

I can not agree with Herr Kaempf's view that the Reichsbank, as such, is regarded abroad with doubt as to its efficiency and its credit capacity. All other possible things in Germany have been questioned by foreign countries, including the adequacy of the gold holdings of the Reichsbank; but that it is deficient in capital I have neither read nor heard. As far as that is concerned, therefore, foreign countries need not be taken into account. They cast their eyes, indeed, upon everything that takes place in Germany. I may, consequently, say once more, unless the management of the Reichsbank have extraordinary reasons for undertaking an increase of the capital, I should not advocate it. I would rather favor the strengthening of the surplus as a means of increasing the bank's resources.

The CHAIRMAN. In the opening words of Director Schinkel, in which he said that Herr Wangenheim broached an inadmissible subject in speaking of the nationalization of the Reichsbank, I detected a slight reproach against myself. I should like to explain my position on this question to the effect that I do not on my part either

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regard it as profitable for us to treat of subjects that are not directly connected with our list of questions, and that I should likewise regard it unprofitable if an exhaustive debate about the nationalization of the Reichsbank were attempted. Freiherr von Wangenheim, however, had, I take it, no intention at all of opening a detailed discussion of the subject. As I understood him, he only wished to express these convictions: Certain reasons led him to regard the nationalization of the Reichsbank as, above all, desirable; if, and since, nationalization could not be attained within a reasonable time, he expressed the opinion that the same reasons that he adduced for the greater desideratum held good for the less, and that a material strengthening of the capital is to be regarded as this lesser desideratum. Within these limits I thought I had no occasion to prevent a discussion of the subject.

Freiherr von WANGENHEIM (rising to explain). I can only fully confirm what the president of the Reichsbank has just set forth. I stated expressly that in my opinion neither any one nor a combination of the various remedies which have been proposed will lead to a successful issue.

But I believed that I had an additional justification for touching upon the subject. I addressed myself to the Undersecretary of State, Wermuth, who delivered the opening speech here, and expressed my regret that he had excluded the most important questions from the debate. He answered me emphatically that he had not by any means the intention to cut off such discussions, but wished only to indicate the minimum of the range which the discussions of the bank inquiry commission were to cover.

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Mr. SCHINKEL (on the order of the day). It did not enter my mind in the remotest to refer to the chairman. It was only that I was genuinely frightened when I thought what a broad field of discussion is opened by the subject in question; and I value the work that we accomplished in connection with the experts far too highly to approve of considering so important a matter without having heard them at all in regard to it.

I would add only one thing further: I probably misunderstood Herr von Wangenheim. I understood him to say that even if nationalization could not come up for consideration, the administration would, at any rate, have to be differently organized, since the central committee consists only of professionals. This, too, is a question which has hitherto absolutely not been broached by any expert.

Doctor RIESSER (on the order of the day). I would state that the speech of the Undersecretary of State, Wermuth, must, according to my conception, be interpreted quite differently from the words he used unofficially to Herr Wangenheim. He declared expressly, under directions from the Imperial Chancellor, that—I quote from memory—any *change of organization* of the Reichsbank was to be eliminated from this inquiry. If the nationalization of the Reichsbank is not included in this, then I do not know what his words signify. I am convinced that the president would most energetically have stopped any expert who undertook to make a speech on the nationalization of the Reichsbank, basing his action, too, upon the opening speech of the Under-

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secretary. The experts, consequently, did not express themselves upon nationalization, and we must, therefore, desist at present from touching upon this subject even by intimation; a detailed discussion would, in default of the opinions of the experts, anyway be precluded.

Mr. RAAB (on the order of the day). I think it is really going too far to say that we should not even "by intimation" discuss questions which, as matters of principle, we feel it necessary to present before our other arguments. We have in general been governed, upon practical grounds, by the view of the Imperial Chancellor, delivered here by the Undersecretary. But that we can not, either here or in the proceedings of the parliaments, agree to a setting aside of our principles is a matter of course. I should think, indeed, that if already to-day intimations are given on the subject, our opponents will recognize that the question of the nationalization of the Reichsbank, and also the question of separation into credit and deposit banks—which has likewise been excluded here—will subsequently presumably be revived in Parliament. We only want to prevent its being said later: "In the inquiry commission the gentlemen said nothing about it, and now in the Reichstag they bring up such things." It was in order to avoid this, I believe, that Herr von Wangenheim gave expression to his views.

The CHAIRMAN. I think I defined my position very precisely a while ago. To engage in a searching debate here on the question of the nationalization of the Reichs-

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bank I regard as utterly fruitless; but, on the other hand, I see no objection whatever to touching upon the subject within bounds, as Baron von Wangenheim did, in declaring that the greater end, the nationalization of the Reichsbank, would seem to him, as a matter of principle, the more desirable thing.

Doctor RIESSER. The honorable member who spoke last misconceived my meaning. That the gentlemen should intimate here that they will in Parliament assert their position to the effect that the nationalization of the Reichsbank must take place is quite natural; no one can or will dispute that point with them. But we could not, in view of the importance of the question, be satisfied on our part with an intimation of our opposite convictions; we should, then, have to reply at length, if the question were to be treated at all fittingly by the other side. We can not do that, because the question of nationalization—according to the declaration of the experts, as I understand it—was intentionally excluded, on the basis of the declaration of the Imperial Chancellor's representative.

Geheimer Oberregierungsrat MÜLLER. As a representative of the ministry of the interior, I can only assert that Freiherr von Wangenheim's interpretation of Undersecretary Wermuth's meaning is, in my judgment, quite consistent with what his excellency said at the first sitting. There would have been little object in discussing the nationalization of the Reichsbank with the experts after the opening address, and I myself, as chairman of the subcommission, did not, as the gentlemen may see in the

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minutes, permit Herr Steller to discuss the question. But, gentlemen, it is an entirely different thing if a member of the commission of inquiry, in explanation of his view upon the question of a considerable increase of the Bank's capital, says: "If I can not have what I consider better, namely, the nationalization of the Reichsbank, I shall content myself with the good." That, briefly expressed, was really Baron von Wangenheim's meaning, and I repeat that it is quite compatible with what was said by Undersecretary Wermuth in his opening speech. I stand, therefore, as a representative of the ministry of the interior, upon the same platform as our honored chairman, who has already expressed this opinion.

Freiherr von WANGENHEIM. I have nothing to add to the arguments of the chairman and Geheimrat Müller. Those gentlemen have very exactly stated the object and purport of my remarks.

Mr. FISCHER. I, too, regard the proposition made by Herr von Gamp a useful one, that before entering into the question of an increase of the Reichsbank's capital itself we should briefly try to make clear to ourselves what were the causes that led to the uncomfortable conditions of last year—I myself am not inclined to term it a crisis. I consider it necessary to enter into this point first, because it does not seem to me practical for us to separate in our discussions the question of the bank capital from the question whether we can draw the conclusion from last year's experiences that changes are required.

Starting from the well-known fact that we had an extravagantly high rate of interest last year, I would first

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of all remark that this extravagantly high rate of interest doubtless exerted an unfavorable influence upon the granting of credit and occasioned credit disturbances. But the rate of interest in business transactions is, in my opinion, not determined exclusively by business circumstances; it is also essentially influenced by the rate of interest on capital; and this, again, is conditioned upon the relation between the demand for and the supply of capital, which may be very different from the calls or the requirements for circulating media. As regards the relation between the demand for capital and its supply, however, it can not, in my judgment, be in any way among the duties of the Reichsbank to regulate this, even though its duties be interpreted in the broadest sense. There has been an increased, nay, an excessive call for capital for some years past, and this may be traced to a great number of causes; in my judgment, it undoubtedly began with, and was partly caused by, the need of a money supply for the two great wars of recent years, the Boer war and the Russo-Japanese war. The world's money market can not remain unaffected when such vast demands as were called forth by these are made upon it for noneconomic purposes, in the shape of loan issues. There was at the same time a great expansion of industrial activity in all countries, particularly in Germany, which required fresh capital; besides this, new loans in excessive quantities, proceeding from different sources, mostly state and municipal loans, were brought to the market. The capital available to satisfy these needs was unquestionably inadequate, and the rate of interest on capital was, in

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consequence, forced upward; with every rise in the value of capital, however, a certain influence upon the general rate of interest must make itself felt.

The rate of interest was influenced further by the proportion of the circulating media to the work that they were required to do. This work has become much greater, as has already been pointed out by the experts in the commission of inquiry and by some of our colleagues, through the increased activity in production as well as through the rise in prices of all raw materials, in consequence of which more money than before had to be used for the same production.

Here, then, we are dealing with a factor which involves the absolute necessity of a greater volume of circulating media than we should formerly have required for similar undertakings.

But there is another, and, to my mind, a not insignificant factor to be added, and that is that the source from which the circulating media were to be drawn has not normally expanded. I should like to define this somewhat more precisely. If business increases in general, we need more money. This money can be procured by fresh supplies of currency; but it can be procured also by an extension of fiduciary media. In the last two years, however, the whole extension was confined to the fiduciary media, and it had to be so confined because there proved to be an inadequate augmentation in the monetary supply.

I have allowed myself this digression because I deem it necessary to gain a clear insight as to how far these conditions might have been improved by an increase of the capital of the Reichsbank.

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To an improvement of the conditions prevailing last year two things would have been requisite; in the first place, the great demand for fresh capital, which forced the rate of interest upward, should not have existed, and, secondly, we should have had a larger quantity of circulating media at our disposal.

Having stated this, I would now revert to another observation made by Freiherr von Gamp. He very justly recognized that the most important business of the Reichsbank is that of regulating the monetary circulation. He then alluded to its business as a credit bank, and as our colleague, Herr Kaempf, has already pointed out, he amplified this allusion with such a quantity of detail that it seemed indubitable to everyone that he assigns even to the Reichsbank rather the functions of a bank of credit than of a bank whose duty it is to regulate the monetary circulation. Now, I take the opposite ground; I go so far as to say that the Reichsbank should not be a bank of credit at all, for I do not consider the two functions compatible. The duty of regulating the circulation will, of course, always be connected to a certain extent with the granting of credit; this credit, however, should not be granted in order to provide a person in need of it with the credit he desires, but solely in connection with the issuance of notes, which can not naturally take place gratis or without pledges; on the contrary, the Reichsbank must get into its hands, for its entire amount of note issues, securities which are calculated to bring back the notes to it as soon as they are no longer needed. I, for my part, should wish the Reichsbank never to acquire any bills on

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account of some one's need of money; I should wish that its arrangements for discounting bills were of such a nature that it would acquire bills only when German economic life collectively is in need of more abundant means of circulation. The only possible way of regulating the use of circulating media lies in absolute adherence to this fundamental principle. It can be accomplished only by fixing an appropriate discount rate. For, let us suppose that trade in the aggregate were already provided to satiety with the requisite circulating media and that the Reichsbank, merely in order to satisfy a demand for credit, were to discount credit bills to the amount of 20,000,000 marks; it seems to me really that this would put into the channels of trade 20,000,000 of money that is not needed, and thereby create a disturbance of the equilibrium.

The manner in which the Reichsbank has discharged its duties I would not draw into the discussion, for I fully share the opinion that it has hitherto not only completely fulfilled its function—it has even fulfilled it better than other banks; and as proof of this I would instance the fact that we were for many years spared such crises as are produced by an evident lack of equilibrium between the circulating media and business needs.

Now I do not by any means wish to preclude the Reichsbank from furnishing even direct credit, and thereby adding to the circulating medium, in case an addition to the circulating medium is required for the uses of trade; but I hold that the fixing of its rates of interest should be governed by this consideration: That it must, above all, adhere

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to the principle of maintaining an equilibrium between the demand for money and the needs of business. We can not, for that reason, regard the question of interest rates as indifferent, and, in my opinion, the second question presented to us, What influence will an increase of capital have upon the determination of interest rates? must be answered first, before coming to a conclusion on the question, Is an increase of the bank's capital requisite at all?

I want to premise that I agree with the view that the capital of the Bank should form solely a guaranty-capital for its business and for the fixations of capital connected with it. If we should arrive at the conclusion that the bank capital must be augmented, we must necessarily proceed from the view that it has hitherto been insufficient for the above-named purposes. That opinion I do not hold. I think that the capital, which, including the surplus, amounts to 244,000,000, has fully sufficed for the business of the Reichsbank. If I believed that the capital is too small I should have to think that the Reichsbank was not in a position, and that on account of too slender capital, to fulfill its function—the regulation of the circulating medium; that, for instance, it was obliged to refuse to discount bills and make loans on collateral, in spite of business needing the currency arising from these transactions. I believe that all experience contradicts such an assumption. I believe, further, that the desire to increase the bank's capital is based more or less, on the part of all who entertain it, upon the idea that credit has not been given readily enough. Now, we have, on the other hand, listened to views, which I would not controvert too

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sharply, which stated that perhaps, on the contrary, credit has been granted too readily. We must, in any case, acknowledge that the extension of banking has been so extraordinarily great in the last ten years that the opportunities of obtaining credit were doubtless not too meager, and that one can not say the Reichsbank should have had more capital to satisfy the requirements of credit. The amount, too, by which the capital would be raised would be far too insignificant, in comparison with the total of the credit demands, for it to play any sort of part.

But now, in order to examine the effect of an augmentation of capital, let us imagine that an increase had been effected; and believing that we can recognize the changes that would result therefrom more clearly by using large figures than small ones, I would choose a pretty large figure as an example. Let us assume that the capital of the Reichsbank was augmented by 200,000,000; what influence would this exert upon the entire character of our economic conditions? If it is recognized that great loans are taken up without producing a material disturbance in the money market, we must recognize also that the possibility does most certainly exist of issuing new Reichsbank shares in considerable quantity; the question would solely be whether the shares could hold out a promise of enough profit.

Now, I see a very essential difference between the Reichsbank receiving fresh capital and another institution increasing its capital, for I can not admit that in the trade of the world there is, in general, ready money lying about which is lured forth specially by the issuance of bank

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stock and is only thereby rendered profitable. If that were so, we should have to assume in the case of every great loan, if it were taken up under favorable conditions, that a material augmentation of monetary resources accrues from it, since it, too, rakes up money from every nook and cranny, and makes it serviceable to trade. But, speaking broadly, this phenomenon has not been observed.

The essential difference, however, is this: That when the Reichsbank increases its capital it diminishes the resources of the market to an extent that corresponds with the increase of its own working capital. Whether this money flows to it in gold, which I do not by any means consider probable, or whether it streams back to it in notes taken from trade; whether the increase occurs through a diminution in its deposit accounts; in all cases it will be at the expense of the market. When another bank augments its capital, it means that in the market for capital money is shifted from one place to another, but the sum at the disposal of the market remains unchanged. But if the market does not have at its command the money that is required for the payment of the Reichsbank shares there will be more demands upon the Reichsbank, for it can not be ignored that the Reichsbank is the only source that can create money; that can therefore, even in case of a great requirement, place new resources at the disposal of the market.

If those who desire an enlargement of the share capital of the Reichsbank in order that credit may be more easily obtained and the interest rate lowered keep this in mind,

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they must say to themselves that it is indeed improbable that the removal of a sum of money from the general market and the shutting it up in the Reichsbank can lead to that result. I believe that, quite on the contrary, we should, first of all, have the opposite result, and I do not base this belief upon theoretical considerations alone. When, namely, I look back at the time when the Reichsbank last increased its capital, I can remember very well that it was said in the market that in the course of the month of December so and so much money must flow into the Reichsbank, because a payment on the share capital will become due; and that this was regarded, if not as a particularly notable circumstance, as one, at any rate, that influenced the market, to a certain extent, in the direction of contraction.

But the equilibrium of the market can be only slowly restored when the Reichsbank places those resources at its disposal again, and it will have to place them at its disposal, for it is not to be assumed that trade could manage with a smaller quantum of notes upon the Reichsbank increasing its capital. But when trade requires a certain very sharply defined quantum of notes for its purposes, at a certain moment, then these notes must be on hand, and they can be given only by the Reichsbank.

Against these notes, however, the Reichsbank is obliged to demand pledges; these pledges are bills or securities. A permanent increase of the share capital of the bank—and here I beg you once more for the sake of an example to imagine 200,000,000—would, in my opinion, undoubtedly result in the bank having (leaving the loans on

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securities out of the question for the present) bills for 200,000,000 marks more permanently in its portfolio.

We must now ask ourselves: What influence would such a permanent enlargement of the bill portfolio of the Reichsbank have upon its dispositions, upon its interest rates, and its capacity for further discount transactions? I believe that I betray no great secret when I say that within the walls of the Reichsbank the level of investments was, throughout a long period, included, and justly so, among the elements that influenced the raising of the rate of discount. For the greater the number of notes that are not accepted for discount anywhere but at the Reichsbank the more positive are the signs of a rising tide in the demands of business, which the Reichsbank, if its object is to regulate business, can not restrain in any other way than by raising the rate of discount.

It is, however, conceivable that this addition to the bank's capital might be made from the funds that constitute its deposits. If this were done, I should imagine, in as much as the deposits are the working reserve of the merchant class and of the banking world, that this would likewise have the direct effect of tightening the money market. Such a tightening of the market could not possibly bring about a lowering of the rate of discount in the open market, but is rather calculated to cause a rise in the rate, a rise that could not fail to have an indirect effect upon the Reichsbank.

Of course I am not going to maintain—for I have chosen to take a much higher figure than has been proposed thus far for the increase—that the enlargement of the

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capital of the Reichsbank is bound to lead to a rise in the rate of discount. But I believe that we may as well be clear about the matter. It can not lead to a reduction in the rate of discount. The result can only be that the granting of credit will be done to a somewhat less extent through the issue of bank notes. But if this is the case and the circulation is thereby temporarily diminished, I can not see how this is going to have the effect of reducing the rate of interest.

The question remains whether there is any other way for the Reichsbank to invest the funds that are constantly coming into its possession. One way has been suggested—the purchase of foreign bills of exchange. It is affirmed that the bank would thereby ultimately increase the amount of its cash. But it appears to me that the buying of foreign exchange and the increase in the cash are matters dependent upon the relation which the rate of interest here bears to that in other countries, and not upon the absolute rate. The relative rate of interest is the determining condition. In order to retain foreign exchange, it is necessary that we should have a relatively high rate of interest. If we are to retain permanently a larger stock of gold than what would come to us in the ordinary course of things, then likewise the rate of interest here must be high relatively to other countries. But even if it were deemed desirable to let gold flow into the Reichsbank by this means, it could take place only if the bank would, first of all, for a while at least—until, owing to the higher rate of interest, securities were disposed of abroad—raise its rate of discount or make up its mind to

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maintain it at a higher level than that which it would otherwise have reached.

I must therefore come to the conclusion that the scheme of securing easier credit and a lower rate of discount is not promoted by the method in question.

I must say I can not help asking myself whether we are bound to place ourselves entirely on the standpoint that all our energies should be directed toward the maintenance of a low rate of interest. I am inclined to assume that it would be better for us to have a stable rate of interest, one fluctuating as little as possible, than a very low rate that would be only temporary and would later on expose us to the danger of a corresponding violent rise. But even from this standpoint I can not see why we should expect any particular advantage to result from an increase in the capital of the Reichsbank.

I must still point to another feature of the situation. If you will take the trouble of looking over the statistical data which the Reichsbank has submitted to us, you will find that between the years 1897 and 1907 the expenses of the Reichsbank increased immensely. The expenses of management rose from 10,259,000 marks in 1897 to 18,762,000 in 1907. If we go back to the year 1897 we find that the profits were 19,400,000 marks. Now, if the Reichsbank were to increase its capital, I do not believe that it could undertake to frame its policy without considering the question of the rate of interest that could be realized on the enlarged capitalization. We must recognize the fact that the bank has never assumed the attitude of a mercantile institution. But if it means to solicit

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funds from the money market it is bound in a measure to make such capital yield interest. Now, let us suppose for a moment that there was a great slump in the economic situation and that, for example, the Reichsbank showed a total of only 700,000,000 or 800,000,000 marks in discounts and loans on collateral, and let us imagine furthermore that the rate of interest was down to 3 per cent. As far as I can make out, the bank would then barely be able, even under existing conditions, to get a return half-way sufficient for its stockholders. I should apprehend, therefore, considering that its burdens were further increased, that it would be very reluctant to come down to a low rate of discount, and that, even if actuated by a sincere desire to abstain from going into the credit market in quest of promissory notes, it might still at times be induced to do so. If I am not mistaken, the Reichsbank is allowed to take up private notes at a lower rate than 4 per cent, even in the open market. But the notes which are discounted by the bank at the private rate have a much more direct influence upon the rate of interest than the discounting of notes at the bank rate. For, whereas in the case of the notes discounted at the bank rate money gets into circulation only when it is needed, inasmuch as the notes are not taken to the bank before they are compelled to pay the highest rate in the market—which is the bank rate—money does get into circulation even when it is not absolutely needed in cases where the bank goes into the market to buy up notes at the market rate. An increase in the bank's capital would still appear to me objectionable for the reason that we should more

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easily get back to the situation where the bank would feel obliged to resort to this private discounting of notes.

In what concerns the existing capital it has been repeatedly pointed out that there is no sense in comparing our situation with that in other countries, but at the same time we can not afford to say that the experience of the outside world has absolutely no value for us. Whatever be the real nature of the capital of a bank of issue, whether it is to be regarded as a reserve fund merely or as capital by means of which the bank can dispense credit, is a question which there is no use in trying to settle; neither is the capital anywhere separately managed in its double capacity. It is a remarkable fact, however, that the Bank of England and the Bank of France manage to get along, the former almost entirely, and the latter altogether, without any free capital with which to satisfy the demands of credit. I think it is evident from this that the means at the disposal of a bank of issue consist in the issue of bank notes and in its deposits, so that, in my opinion, the question as to whether or not it needs its capital for the purposes of credit is of no importance.

I believe that the present capital of the Reichsbank is altogether adequate to existing needs—that is, probably sufficient to render even a somewhat larger investment in real estate innocuous,—that it is not too small for the purposes of a reserve, and that it is large enough to enable the bank to loan money on collateral on an adequate scale. Loaning on collateral is not done by means of the capital alone, but also by means of the deposits, and inasmuch as the volume of business in the country

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tends constantly to increase, the deposits, it seems to me, must have the same tendency to grow. I must say, however, that the sum of the deposits has not itself kept pace with the general expansion of business in Germany, but I am inclined to take this rather as an expression of the somewhat abnormal conditions that have prevailed in the business world of Germany, and other countries as well, in the last few years, and I feel pretty sure that the economic situation is going to straighten itself out in the course of not many years. I should imagine, however, that this very increase in the capital of the Reichsbank would tend in a measure to hinder this readjustment.

The more we rely upon the capacity of the Reichsbank in the matter of discount and upon its capital with reference to this function, and the more we look upon it as an institution for discounting notes, instead of an institution for rediscounting notes, which, in my opinion, it should be, the smaller will be the surplus placed at the disposal of business interests in the country at large. I am, therefore, inclined from this standpoint also to regard with disfavor the proposition to increase the capital of the Reichsbank.

I may say that I am one of those whose attitude in regard to this matter may be described as one of indifference. I attach no special importance to it. The increase at this particular time does not strike me as being of any advantage whatever, neither do I see any need of enlarging the surplus just at present. By this I do not mean to say that it is not conceivable that the expansion of business in general and of the business of the

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Reichsbank in particular may be such in the course of the year as to make it appear desirable to add to the capital of the bank.

I have already stated my view in the first session of subcommission I and II to the effect that it would be very desirable to regulate the status of the Reichsbank not merely for a term of ten years, but for a much longer term. I said, furthermore, at the time, quite in the spirit of Oberbergrat Wachler's opinion, that I was not in favor of enlarging the capital of the bank, which is ample at present, but that I thought the proper thing to do was to insert in the new bank charter a provision by which this could be done, if the need were felt, at any time in the future, the regulation being so framed as to confer the necessary power right now (certain principles being laid down relative to the matter), so that, when the necessity presents itself, it shall be possible, without having to overhaul the whole question of the bank charter, to institute the increase by means of some simple process as, perhaps, through an understanding between the Bundesrat and the Reichsbank. I do not consider an increase in the capital of any advantage at the present moment.

Mr. FISCHER. Having heard, gentlemen, all that the speaker has had to say, I am tempted to go even beyond the suggestion of the president and to urge a vote without further debate. The only reason for craving your indulgence a little longer than is agreeable to myself or to you is that I find that of all the members of the commission I am the only one that does not represent either

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the domain of science, the world of banking, industrial enterprise, or the class of agriculturists, or at least the interests of some large city, and that I am here in reality to represent, so to say, the middle and lower classes and their condition—the provincial element, which, to be sure, is also desirous to be allowed to have its say.

As its spokesman, I want to say that I regard the Reichsbank, such as it has existed down to the present day, as one of the most excellent and successful of our economic institutions, and I am of opinion that we ought not to neglect anything in order to maintain it in its present position, to extend its usefulness as far as possible, to strengthen it, to develop it, and to fortify it against any danger—fortunately not threatening at this moment, but easily possible in the future—that may arise from the crooked operations of banks or of banking concerns, whose activity we can readily imagine would be less altruistic and more egoistic than that of the Reichsbank.

But with all its excellencies the Reichsbank has hitherto not been perfect. It was especially a matter of deep regret to everyone that during the last few winters it was not able to prevent a rate of interest and of discount which, in the eyes of the public, was nothing short of usury. We are all of us assuredly bent upon discovering a means by which this sort of thing will no longer be a necessity. Not even the most expert among experts has discovered a panacea that will bring about this consummation, and the only one that is at present being urged strikes me as being of very doubtful efficacy—at all events, it has been ruled out of the discussion. It is therefore

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my opinion that what is going to take place here is just what has happened in so many similar cases; that is, that if no single great panacea can be found we shall have to resort to a number of petty devices, which in their totality and their cooperation may in a general way effect that which a great expedient, but one that is not discoverable, was to have brought about.

Among these lesser expedients I place without reservation the enlargement of the capital of the Reichsbank by 60,000,000 marks and the gradual raising of the surplus to one-half of the amount of the capital. I regret to be unable in this matter to agree with the majority of those who are experts on the subject. I can not help being under the impression that in their efforts to demonstrate the futility and even the harm of an increase of capital, etc., they have in a way been trying to prove too much. You must remember that all our propositions and arrangements are not intended for the coming weeks and months, but for the next ten or twelve years. When you consider that the Reichsbank has on an average been doubling its business every ten years, it is evident that in the course of the period for which we propose to legislate we shall be dealing with an aggregate business of perhaps 700 billion marks. If at the beginning it was thought necessary to provide a capital of 120 million marks for a prospective business of 36 to 80 billion marks for the first ten years, then it appears to me that when we have got to reckon on a business of 700 billion a doubling of the capital can not be regarded as anything preposterous.

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That such an enlargement of the capital could work mischief in any way I can not for a moment imagine, and I am glad to see that it is even now admitted on every hand, however divergent the various standpoints may be, that the status of the Reichsbank, although it might not perhaps derive any great direct benefit, would in some respects be all the better, and that as a result of a better status probably a greater quantity of gold might find its way into the bank than before.

The objection that the first result would be a threatened rise in the rate of discount does not strike me as very formidable, for the logical deduction from such an argument would be that the most effectual way of reducing the rate of discount was by returning to the shareholders the sums which they have invested in the bank capital. This is, of course, rather farfetched, but it is an intimation that there is no use in going too far on the other side. I believe that the same thing holds good of the Reichsbank as applies to every commercial institution, large or small—namely, that an extraordinary increase of business should at all times be accompanied by a corresponding increase in the fixed capital, and I can hardly conceive what real harm could result therefrom. The danger of diminished dividends to the stockholders does not appear to me a very serious one. I know perfectly well how pleasant it is to get from 8 to 10 per cent on one's bank stock. But I can say at least that I always have a bad conscience in pocketing regularly such a big dividend on such safe paper, and I am of opinion that the possessors of Reichsbank shares may as well be

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satisfied with 6 per cent, if they can feel that they are to get it right straight along.

When I express myself so absolutely in favor of an increase of the capital stock, I mean, of course, that I am also in favor of the increase of the surplus, and I believe that without any question in this respect, also, we can go considerably further than most of the propositions that have been made. Let us assume, as has already been urged, that 10 per cent of the current profit is put every year into the surplus. This would, reckoning on the basis of the favorable result of last year's business, amount to about 1,000,000 marks for the stockholders and 3,000,000 for the Government. I believe that both the stockholders of the Reichsbank and the Empire get in reality a much greater profit if the former receive 1,000,000 less and the Government 3,000,000 less, if thereby the rate of interest is permanently lowered to a considerable extent and the bank is not obliged to maintain such an abnormally high rate for the whole Empire, and, in fact, for everybody who is under the necessity of borrowing gold, as we have had the past winter. I believe, therefore, that in the course of ten or twenty years it will be possible to bring about a very substantial increase in the permanent capital of the Reichsbank and in its surplus, and that this could only be an advantage and not productive of any mischief. The second question I shall reserve for later discussion.

DOCTOR WAGNER. Gentlemen, I am greatly tempted, after several of the speakers who have preceded me have gone beyond the bounds of the subject that is our imme-

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diate concern, likewise to enter into a discussion, more or less searching, of the various questions that have been included in the other departments of the bank inquiry. I propose, however, to resist this temptation as far as possible and permit myself only one or two brief remarks in response to the broad utterances that have been made here to-day.

The main question that has led us to institute this bank investigation is one that pertains to the rate of interest and the matters connected with it. The main question is bound to be: What are the conditions that have induced the inordinately high rates of discount? With regard to this, I wish to declare briefly that I am in accord with what Freiherr von Gamp has said on the subject, namely, that we have had an extravagant extension of credit. This extension of credit, however, is in no way, or at most in a very indirect manner, bound up with the activity of the Reichsbank. In this matter, as far as banks have anything to do with it, I must say that I can not regard the stock banks as wholly absolved from responsibility. There would be no object in giving my reasons for this opinion at the present moment. We expect to have an opportunity in the fall to discuss these matters further.

I must express my belief, however—and in this I agree with Herr Kaempf—that even if mistakes may have been made by the stock banks and the purely private concerns, a great mistake—I shall not say the chief mistake, but a great mistake—was that involved in our financial policy in the enormous and altogether too rapid extension of our imperial, state, and municipal indebtedness. This mis-

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take, to be sure, in the case at least of the Empire and the States, and to some extent also in that of the municipalities, is mainly to be attributed to the circumstance that all these political bodies have been too weak and dilatory in developing their taxes. What is responsible for this, especially in the case of the Empire, it is not my business to explain just at present.

I shall now take up briefly the mooted question of the nationalization of the Reichsbank. As far as this is concerned, I am perhaps more committed than any of the German theorists on such subjects to the nationalization of great economic undertakings. I go further—indeed I shall not deny it—than all of my colleagues of the school known as *Kathedersozialisten*, and I am disposed to consider that in a number of cases we should act more wisely in nationalizing and municipalizing such concerns as are specially adapted to a process of this kind than to leave them in the hands of large banks and stock companies, which but too often results in our having private monopolies of a dangerous sort. Nevertheless, as far as the Reichsbank itself is concerned, I can not deny that I feel some hesitation. A close intimacy with financial matters, indeed the whole history of banking, shows us that after all there are some valid objections to banks that are purely state institutions.

As a matter of fact, are we sure that through the nationalization of the Reichsbank we should be creating essentially different conditions? We might as well be clear about it. What is the Reichsbank if not the successor of the Prussian Bank? Like the latter it is a national bank

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as far as its entire management is concerned. From the president down to the lowest employee its officials are all state officials, and consequently the principles of national administration are already asserting themselves in its management. Granted that the central committee of the Reichsbank does represent certain private interests, it is nevertheless not the final court of judicature, and certainly not a court of exclusive jurisdiction.

This question of nationalization is therefore merely a question of capital. Financial considerations would, to be sure, have to be weighed, but they play in reality but a small part in the matter. If you compare the sums which the shareholders of the bank have received on the one hand and the Government on the other, it will be hard to deny that the Empire has not fared badly.

What would be the result if we were to nationalize the bank completely, even with respect to its capital? Under existing conditions it would cost the Government at least 4 per cent if it were to create its own capital for the bank, as loans for an equivalent amount would have to be issued. The bank could not be established on the general credit of the Government. The dividends of the Reichsbank have averaged in the last seven years about 7 per cent, which would mean a gain to the Government of about 3 per cent; that is to say, on 180,000,000 marks the sum of 5,400,000 marks, or, in round numbers, 5,500,000. Such an amount, considered relatively to the needs of the Government or in any similar way, is a mere bagatelle. This could certainly be no criterion in deciding the question of the nationalization of the bank capital. Natur-

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ally, I prefer to see the Government have the 5,000,000 rather than the shareholders, but the matter is altogether too unimportant.

Now, if we have to meet the argument that the constitution of the Reichsbank is in every way such as to cause many banking and commercial interests to be represented in it, which would cease to be the case if the institution were to be completely nationalized, we shall find there is still some other way out of the difficulty. Just at the present moment this does not especially concern us, and does not call for more than a word from me. Even in the case of a national bank, pure and simple, it is easily possible that the idea would be entertained of creating a central committee consisting of representatives of economic interests in general. On the other hand, in the Reichsbank, as we have it at present, a system of the representation of interests could be devised differing from the existing one. I do not consider such a thing impracticable. It appears to me at all events a less difficult and less momentous matter than a complete nationalization.

Finally, we can not leave out of account certain factors of an international character which with reason have been adduced in evidence. There are certain advantages in this very matter of having the Reichsbank, as far as the capital is concerned, organized as a private bank. This was recognized in the case of the Bank of France, in the years 1870 and 1871, at the time of the war.

In spite of all this I could easily be reconciled to seeing the Reichsbank converted into a national bank; but, as I have said, this is a relatively subordinate question, for

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what the institution is capable of doing as a national bank it is doing now, and therefore all I have to say is that we had better drop this question.

I have now come to the questions with which we have actually to deal, and in particular to the question of the enlargement of the bank capital. You will excuse me if I am going to treat this question in what may appear to you a somewhat doctrinaire fashion. I must start out by asking: What purpose, as a matter of fact, does the capital of a bank serve? I believe we can say in a general way that it serves two purposes. Its purpose is first of all and above all that of a guaranty fund, and in the case of various kinds of banks, as far as their activities are concerned, this function is solely, or almost solely, to be considered. I include herein the small banks of issue, the ordinary banks of deposit, in so far as this branch of business is carried on separately by them on the basis of incurred liabilities. To these I must add mortgage banks of every kind, whose actual capital, as far as it exists, is in reality nothing more than a reserve. The course of events in this country, in England, and elsewhere, bears out this view in many ways.

On the other hand, there are a number of cases where we are compelled to admit that the conception of capital, both from the standpoint of theory and of practice, as merely a guaranty fund, is inadequate. There are, in the first place, the stock banks, whose principal aim must be the utilization of their own capital; and secondly, those large central banks, essentially the banks of issue, such as they have come to be in the progress of

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European banking. These banks have, of course, important general functions. Their chief task is to regulate the circulation of the currency. In order to do it they must command sufficient resources of their own. Such a bank must furthermore, in behalf of its own security, be in a position to meet greater demands than a less important bank; it must stand as firm as a rock. It will thus be evident that the amount of the capital is not altogether an unimportant factor, and I believe that the development which the Reichsbank has had from its inception down to the present time argues that the question of the augmentation of the capital is at any rate worth discussing. I have just been making a little computation, a comparison of the first year of the Reichsbank, 1876, with the past year, 1907. I find that in the former year, as against a capital of 120,000,000 marks, there was a sum of about 900,000,000 marks (possibly even more) of cash liabilities in the way of deposits and bank notes in circulation. The ratio was therefore about 1 to $7\frac{1}{2}$. At present we have a capital of 180,000,000 marks as against a round sum of 2,000,000,000 marks (even somewhat more) of cash liabilities represented by bank notes, deposits, and credits of the Imperial Government, the ratio being therefore 1 to 11 or $11\frac{1}{2}$. It is evident, therefore, that the capital of the bank, in spite of the increase, has been materially reduced, relatively speaking, in its capacity of a reserve.

But it will perhaps be asked whether it is fair to institute a comparison between the capital and the amount

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of bank notes, deposits, etc. In the first place, it is necessary to deduct from the sum of the liabilities the amount in cash resources. Still it appears to me that there ought to be a certain ratio between the capital and the total of all other liabilities such as obtains in the case of mortgage banks between the paid-in capital and the amount of the debentures, as well as in the case of many central banks of issue. Furthermore, on the basis of another computation, if, after deducting the cash, I reckon only the uncovered bank notes, deposits, etc., I find that the actual condition has been growing worse, and that in an increasing measure. In 1876 there was a paid-in capital of 120,000,000 marks, and the uncovered cash liabilities amounted to about 349,000,000 marks which was approximately (not precisely) a ratio of 1 to 3. In the past year, 1907, the capital was 180,000,000 marks and the uncovered cash liabilities amounted to 1,200,000,000 marks, which is a ratio of 1 to 6 or 7. (These are merely round numbers, as I have been taking lump sums.) Thus it appears from this standpoint also that the importance of the capital in its capacity of a reserve fund has relatively diminished. This argues that we ought at least to consider whether it might not be advisable to add to the capital in order to increase its efficiency as a reserve. Even here, however, I am bound to confess that the question does not impress me as a matter of great importance, either from the standpoint of theory or of practice.

If, on the other hand, we have to consider the capital in its capacity as a fund for doing business—this is indeed

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the essence of capital in so far as it is needed for ordinary transactions, the sums required for discounts being supplied mainly by the issue of bank notes, but drawn in part also (as in the case of loans on collateral) from the deposits and other available funds and to some extent from the capital itself—we must admit that it is of advantage if the bank has a larger fund in the way of actual capital available for ordinary business, and this, of course, irrespective of the effect of the increase upon the rate of discount or the methods pursued in the business of discounting notes. In regard to this matter entirely different factors have to be considered, and here, if I may be permitted to express my opinion as a mere theorist, I would say that the view propounded by the president seems to me essentially sound. But this much I think you will have to admit—the member from Reutlingen has just expressed himself again strongly on the subject and we have heard the same thing repeatedly before—that an improvement in the position of the bank is pretty sure to result from an enlargement of its capital.

If we look at the capital merely with reference to book-keeping, we may regard it as a fictitious item on the side of liabilities, while notes in circulation and deposits represent actual liabilities; that is to say, sums payable on demand without notice.

I must admit here also that through a merely moderate increase in its capital the position of a bank can not, taking it all in all, be very materially altered. Still some advantage must result from it. In one respect I can not fully agree with the gentlemen who have been representing the

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practical side, but perhaps I have not fully understood them. Let us assume that the capital was increased by 50,000,000 to 60,000,000. This would not amount to a material change in the condition of the Reichsbank, but nevertheless it would be a perceptible improvement. Let us suppose that the fresh capital is paid in in gold. Then for the time being the bank will have increased its supply of gold, and it will thus be in a position to issue an additional amount of bank notes equal to three times the amount of the added capital (if it has the equivalent in bills besides). If, instead, the amount is paid in in bank notes, then the bank will have fewer notes in circulation and this item on the side of liabilities will produce a more favorable showing. Or suppose the amount paid in for capital is transferred to the bank out of the deposits. In this case also the bank will have smaller liabilities. This is an advantage at any rate.

Now, the gentlemen, especially Herr Fischel, if I have rightly understood him, have been reasoning in such a way as though in the case in question the sums which have been made over to the bank through transfers from the deposits and in other ways were tied up. This is by no means the case. The sums that are paid in go in part through the same process as other cash resources. Of course it is conceivable that there might be temporarily a slight unfavorable effect upon the money market, but it would not by any means be a lasting one. The money is not going to remain inert in the bank. It will either make it possible to increase the issue of bank notes, or else it will enable the bank to increase its credits without the neces-

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sity of augmenting its other liabilities. There is more or less advantage resulting from this. But, I must reiterate, it is not sufficiently great to settle the question before us in my mind unreservedly in favor of an enlargement of the capital.

My view of the matter is in accord with the opinion expressed by several of the gentlemen here assembled to the effect that if we are to legislate in this matter our enactment should be framed in some such way as to give to the Reichsbank, with the sanction, of course, of the authority concerned—the Bundesrat—the legal right to increase its capital whenever its managers, as a result of experience and after carefully weighing the circumstances, shall decide that the time is proper and opportune, without providing, therefore, in advance for a positive increase. With all this, I can not regard the question of the enlargement of the capital as more than a relatively subordinate one.

I have still to make a brief remark regarding a comparison with the great banks of other countries. It is a matter that has been already brought up in the previous sessions of the commission and one about which I have once spoken myself. Permit me for a moment to compare what we have here with the banks of the countries that are of most importance to us—England and France. It is correct to say that in a strict sense the freely disposable capital of the Bank of England does not exceed £3,500,000. To this must be added the so-called "rest," amounting to about £3,000,000, or about 60,000,000 marks. This would together amount to about 130,000,000

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marks, or not much more than one-half of the sum of our paid-in capital and surplus. But in this connection we must remember that Germany is in a much more unfavorable position. She is in need in every direction of firmer supports for her credit, and in particular in what concerns her banks, so that in the case of the Reichsbank an increase in its own resources can not fail to be a good thing for us. As a matter of fact, we have this advantage over the Bank of England that we have our entire capital available for the purposes of business instead of having a great part of it tied up, as is the case with that institution.

With respect to France the matter is not very different, but in France likewise the general situation is more favorable than in Germany. If we consult the political horoscope we shall perceive that France has, in the worst case, her front exposed in only a single direction. How much more unfavorable is our situation in this respect! We have, to say the least, two of our fronts exposed; indeed, possibly three, and perhaps even four. These are circumstances that have to be taken into account.

Mr. MOMMSEN. France is not so secure as all that, either.

Doctor WAGNER. At present, when the relations with England are so satisfactory, you can hardly say that. It is practically on her eastern front alone that France is exposed, while it is beyond a matter of doubt that we have to reckon on having certainly two of our fronts exposed, and perhaps even three or four. In the face of this, I think we ought to admit that we have got to go our neighbor a few better when it comes to safety precautions.

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All that I have said, then, amounts to this, that the question is at any rate worth considering. It is not a very important question, but still we may have to consider the advisability of an enlargement of the bank capital, in which case it is my opinion that the best thing to do would be to let the management itself have a virtually decisive voice in the matter.

Just one word more about the surplus. In this matter likewise our practical thinkers can be made to understand that it is possible in a way to treat of the surplus from a theoretical standpoint also. In my opinion, we should recognize three distinct functions as appertaining to it. In the first place, it serves as a security against actual losses; secondly, it can be made to serve for equalizing the dividends, as is the case with other banks and stock companies; thirdly, it may serve as a fund from which permanent accessions may be made to the capital.

As far as losses are concerned, that is not an important factor with the Reichsbank. They are insignificant—no greater than in the case of the principal banks in other countries—if anything, smaller. This function of the reserve is consequently unimportant, but the second matter—the equalization of dividends—that is important. I am aware that this subject does not exactly fit into the debate right here, but there can be no harm in discussing it.

Gentlemen, do you consider it desirable that the dividends of the Reichsbank shall go on fluctuating as they have done in recent years, from 10 or 11 per cent eight or nine years ago down to $5\frac{1}{2}$ per cent, rising again at the present moment to nearly 10 per cent? This is the all-

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important point. It is for this reason, by the way, that in my judgment bank shares are not well adapted to the needs of private investors belonging to the lower and middle classes. They can not permanently retain such stock in their possession. They are either obliged to be forever buying and selling them, or, in other words, engaging in stock speculation, or else they have got to submit to changes in their income such as it is not easy for them to put up with. And the thing is disadvantageous in another way, in that the rate of exchange is thereby made to fluctuate greatly. Had we not better make up our minds that it would be a very desirable thing to apply the surplus in a certain measure, as is done in the case of other institutions of the same kind, toward equalizing the annual dividends to some extent, in order that such fluctuations within the space of a few years may no longer be possible? This, in my judgment, is well worth considering.

Let us come, finally, to the third function, the service to be rendered by the surplus as a means of enlarging the capital. As far as I am able to see, all that can be said is that this function is at least something that well merits discussion on our part. Indeed, all of the members who have more or less kept aloof from the debate regarding the enlargement of the capital have been willing to admit that much. This is partially the case with other banks, and in the practice of England it has become a regular principle to start the joint-stock banks and like institutions with a small capital and to increase this capital gradually by drawing upon the surplus. This is a matter

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that might profitably be discussed with reference to the Reichsbank.

But it may be argued that in the case of the Reichsbank the share of the profits accruing to the Government might thereby eventually be greatly curtailed. It is not necessary, as a matter of fact, to make the amounts very large that are set aside annually. But it would be well, even so, to try to avoid entailing any financial loss to the Government on the one hand, and, on the other, reducing too greatly the dividends of the shareholders. Suppose we say that we shall limit the amount that is to go into the surplus annually to a specific sum, say, two, three, four, or five millions. This would not involve very much of a change either in the revenue of the Government or in the position of the shareholders, and in this way the various other objections would be overcome that have been advanced by the opponents of an increase in the capital of the Reichsbank.

I will briefly sum up what I have had to say. The question of the increase of capital is to me a secondary one. In so far as valid reasons, such as have been referred to, can be adduced, an affirmative answer is called for, without, however, too much stress being laid upon the matter. This being the case, the directors should be accorded a greater voice in the decision, it being understood, however, that by means of the gradual accessions to the surplus, which might be used to equalize dividends, the capital is to be gradually enlarged. It would not be possible to give definite figures at this moment. The surplus at the present time is about one-third of the amount of the

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capital. Suppose we say, then, that the increase is to be up to one-half. This ought certainly not to appear excessive.

Another point is still to be considered. Objection has been made to the bank having so much real estate. Of course it has, and it is bound to have more and more. Its holdings already amount to 54,000,000 marks, which is about five-sixths of the surplus; that is how the surplus is invested. All that remains, then, of the surplus at present, not reckoning the real estate, which is not convertible into cash, is nine or ten millions.

The question as to whether this sum can gradually be increased in such a way that an increase in the surplus shall mean an increase in the capital, appears to me worth considering, and I would therefore suggest that every year, regularly, a further addition be made to the surplus until it is raised to one-half of the amount of the capital. I am all the more in favor of this limit inasmuch as there is such a large item, figuring without any writing off in the column of assets, that represents the value of buildings—buildings which, to be sure, undoubtedly have a greater value than is assigned to them in the entries in the books. I desire in this connection merely to call attention to the fact that the real estate of the bank, as it is not convertible at once into ready funds, constitutes a kind of asset that is not to be taken directly into account. I think I may as well close my remarks at this point.

Mr. SCHINCKEL. In order that we may not have any incorrect figures, I shall take the liberty of saying that I believe Herr Wagner has made an error in his calculations.

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The sum of 180,000,000 marks would not suffice for the nationalization of the bank, for there would be an additional 32,000,000 marks to which the stockholders are entitled. A 4 per cent loan, therefore, of 212,000,000 marks would be necessary, and consequently the gain in the way of interest would not amount to very much.

Doctor WAGNER. That is to say, instead of 5,500,000 marks we should have only 4,000,000 as the additional profit derived by the Empire from the complete nationalization of the bank.

The CHAIRMAN. Would the members like to take a recess?

(Assent.)

Then I will request you to be present promptly at half past 3, so that we may have a chance of getting through to-day.

(Recess.)

Doctor HEILIGENSTADT (proceeding to the order of the day). I should like to suggest that the members who desire be permitted to express their opinion immediately with regard to the second question. I believe we shall in this way get along much faster.

The CHAIRMAN. I have nothing to say against this, especially as I think there will be more or less unanimity with regard to this second question, one that will have to be discussed essentially from a practical standpoint. I will request the members, however, to express themselves as briefly as possible, so that we may have a chance of getting through to-day.

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Mr. MOMMSEN. As regards the first question, I am glad to perceive from the exposition made by Geheimrat Wagner that in many respects his position is, after all, identical with that which we practical bankers have at all times assumed, to the effect that the nationalization of the Reichsbank is not practicable. However, this is not a subject for discussion to-day.

With respect to the capital, Herr Wagner says: "In the case of the ordinary banks of issue the question of capital is in itself immaterial. It is very different, however, in the case of the central banks of issue. We have put these in the same category with the big stock banks; that is to say, in the great bulk of their transactions they have to rely upon their own resources—their capital and surplus." I must confess that I absolutely fail to see why a central bank of issue has to be placed on a level with the large stock banks, and Geheimrat Wagner himself has given no reason for it. It is true, however, that in a bank of issue the liabilities and assets do not figure at all in the same way as in a stock bank, and when we examine the respective items the capital of the bank of issue appears simply as a reserve.

Now it is my opinion—and the same view has been expressed by the gentlemen who have been addressing you, whether they be advocates or opponents of the enlargement of the bank capital—that no really decisive reason for our proceeding at once to increase the capital has been advanced thus far, and in fact none is furnished by the last annual statement of the Reichsbank. As for myself, I must likewise confess that the matter

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does not appear to me to be of much consequence. If it be deemed desirable to draw upon the money market in order to provide a fresh increase in the capital of the Reichsbank, well and good. Let us not suppose, however, that the constitution or status of the bank will thereby be in any way affected. The members, furthermore, are all agreed that no effect will be produced with regard to the rate of discount.

Nevertheless, I do not believe that the increase is absolutely a matter of no consequence in its effect upon the money market. Such a proposition as that put forward by Herr von Wangenheim, who would double the capital and raise the money by means of small shares of 200 marks with such a system of distribution that only the middle classes and not the banks could subscribe, can not be deemed practicable. I can not see how Freiherr von Wangenheim is going to succeed in raising 180,000,000 marks in this way without disturbing the money market.

But even if we were to take a smaller sum, as my worthy colleague, Herr Kaempf, has proposed, say of 60,000,000 marks, we ought, in the existing situation, to think twice over the question whether we are willing to draw upon the money market unnecessarily for such a sum when, as a matter of fact, no practical result can be anticipated.

In regard to the question of the surplus, I have no objection to its being increased. If we examine the figures, we shall find that the real estate of the Reichsbank is bulking larger and larger. As far as I can make

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out, this is partly the result of the circumstance that the bank, unlike other institutions, is not in the habit of doing any writing off in the matter of its real estate, and particularly of the buildings. In this way every rise in the value of the real estate is shown in the balance sheet, and thus the figures pile up. It might perhaps be feasible to introduce such deductions in the future. But at all events it would be found necessary by reason of the ever-increasing figures of the item in question to enlarge the capital of the bank correspondingly in order to avoid leaning more and more upon real estate, and the practical and proper way is simply to revert to the scheme of a surplus to which additions are made at intervals—in what particular way it is not necessary for us to strain our wits to decide at this very moment.

One of the experts has suggested the establishment of a sort of current-account surplus. This would, perhaps, be not altogether impracticable. Considering, however, the large sum with which we have to deal, it could hardly be of great advantage, and it would be much simpler to increase the surplus, and thereby give the working capital of the bank a chance to grow by successive steps.

Geheimrat Wagner has suggested that the surplus might be utilized for conversion into actual capital—that is to say, bank shares might be created out of the surplus, to be assigned gratis to the stockholders. I should not be in favor of introducing in the case of the Reichsbank a procedure of this description; something which is in reality unknown to our German law, or at any rate has hardly been practiced; something for which we should

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have to provide by special legislation, and, indeed, if we get to the bottom of the matter, it is quite indifferent whether the capital is 180,000,000 marks and the surplus 60,000,000 marks, or whether we raise the capital to 210,000,000 marks and make the surplus 30,000,000 marks. Looking at it practically, this whole matter is immaterial, and it is a great mistake, in my opinion, to allow ourselves to drift into such subtleties.

To express myself briefly with regard to the second question, I wish to say that I have no objection to the raising of the limit of untaxed bank-note circulation. It is a purely technical question whether it is desirable to curtail somewhat the amount paid into the Imperial Treasury through the 5 per cent tax on excess circulation. I am decidedly opposed, however, to the complete removal of the limitation of the untaxed issue of bank notes. In the expert opinion submitted to us it was proposed to allow an untaxed issue up to an additional 200,000,000 marks. I should consider that rather high. I think that for the time being we can put up with a considerably smaller amount, drawing the line, let us say, at 500,000,000 marks—

The CHAIRMAN. We have now 473,000,000 marks.

Mr. MOMMSEN. Or 550,000,000 marks. Just at the moment when we are enacting the supplementary bank law it looks rather hazardous on the face of it to place the limit of untaxed circulation too high.

Doctor HEILIGENSTADT. You will not be surprised to learn, gentlemen, that I am in favor of the enlargement of the capital of the Reichsbank, and it will certainly not

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surprise those who have heard me express my views in public on various occasions. I can further point to the fact that I, as a representative in the Reichstag, was a member of the bank commission at the time of the latest renewal of the charter, as well as of the subcommittee created on that occasion, and that I was energetic in advocating the latest increase in the capital of the Bank. I may say, indeed, that I had more to do than almost anyone with the establishment of the present higher capitalization. As I was a member of the Reichstag and had a close knowledge of persons and conditions, I should just like to make it emphatically clear in a few words, in rebuttal of what Director Ströll has stated—my worthy colleagues Müller (from Fulda) and Raab sat with me in the committee, the former also in the subcommittee—that we were on that occasion in no way influenced by parliamentary considerations in advocating an increase of capital.

Mr. RAAB. Quite correct.

Doctor HEILIGENSTADT. That is what Director Ströll asserted this morning. I assure you there is nothing in it. I have since expressed myself in regard to the questions now before us in an address before the Landesökonomiscollegium, and finally in a publication which has been rather severely criticised by the press. Neither the journalistic attacks, however, nor the occurrences that followed have convinced me of the incorrectness of my views.

I am in favor of an enlargement of the capital, and that up to at least 200,000,000 marks; a little more would perhaps be preferable. I am also of opinion that the surplus should once more be open for a further increase and

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that it should never again be automatically shut down, but that, on the contrary, a special enactment should be requisite for the closing of the surplus. At all events the shutting down of the surplus ought not to be an automatic operation.

You have heard it stated here this morning—and the same thing recurs frequently in the expert opinion that has been prepared for your benefit—that the increased capitalization does not in reality mean an actual accession of fresh capital to the Reichsbank. Herr Fischel has expressed a similar view. I am of an entirely different opinion. The prime question is not how greatly or how little the bank may be temporarily affected by the increase in its capital. The main thing is what will be the result in the long run. In my paper I contend that the addition to the capital of the Reichsbank ought to come out of the freshly created capital, this new capital being gradually laid aside and held in reserve. This is the all-important point with me. I do not mean to restrict the present capital market, but I propose that part of the new capital created by our national industries shall be set aside so as to constitute a mobile fund.

The notion that there would be permanently an increased stock of commercial paper in the hands of the bank as the result of an increase in its capital, I regard as altogether baseless. The permanent increase in the amount of paper is not to be counted on for this reason alone, that the bank is not in the habit of extending its credit limit to its customers merely because they are subscribers to its stock. The individual customers will simply be allowed their

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former credit. Gradually the extraordinary credits will have to be covered, and this will have to be evinced either in the return of the bank notes in circulation or in an increase of the cash on hand. In the way of a supplement to the remarkably convincing exposition made by Doctor Arnold in the Bankarchiv I have myself dealt with this question again in my paper, and I am rather surprised to encounter the same old prejudices in this assembly.

As far as I can recollect not a single one of the gentlemen has declared himself to-day opposed, as a matter of principle, to the enlargement of the capital of the Reichsbank. Some have said that they regard it as a thing having no bearing upon the situation or too little to recommend it on the score of utility, but no one has declared himself squarely against it. On the contrary, Director Ströll and Herr Kaempf have admitted that an enlargement of the capital might have the effect of augmenting to some extent the volume of business; that it would not be altogether unimportant with respect to the business done by the Bank in the way of loans on collateral; and that it would be specifically warranted with respect to the real-estate investments of the Bank. Herr Mommsen has expressed himself in similar terms regarding this matter.

For my part, I should like to point out the groundlessness of the intimation made by Herr Fischel that in advocating an increase in the capital of the Bank I may possibly have been influenced by the idea that a more ready granting of credit might thereby be secured. This is not the case. My main reasons for an enlargement of the Bank's capital are based upon altogether different consid-

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erations, considerations issuing from the realm of political economy. Even the possible increase in the amount of gold held by the bank as a result of increased capitalization I regard as a secondary matter. I am aware, to be sure, that an increased capitalization can not fail to have its effect upon the quantity of gold in the hands of the Bank—of course, relatively speaking—and that in the sense in which I take it, it is bound to have more or less effect, according to the circumstances, upon the rate of interest in the country.

To me it seems preposterous, in the discussion of this question, to be constantly making comparisons with foreign countries. They have been a peculiar feature of the testimony of the experts, and in our discussion to-day such comparisons have likewise been made by a number of the members. Of course, it is our business to make a careful study of the conditions abroad if we desire to make the necessary deductions therefrom, but there is no use in attempting to make close comparisons between the conditions here and there. We can not institute a comparison between the Bank of France or the Bank of England and the Reichsbank. The status of the bank, its whole organization, is altogether different. Besides, the central bank of issue constitutes nothing more than the apex of the credit system of a country, and we are aware how vast is the difference between the credit systems even in the case of England and Germany, or, say, France and Germany. It is only from the conditions prevailing in our own country that we can draw the needed inferences.

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As far as I can make out, no one, none of the experts at least, has really got down to the kernel of the matter under discussion, and even the gentlemen who have spoken to-day have not, I am convinced, touched upon the essential facts underlying the conditions with which we have to deal. The only one of the experts who, as far as I can see, has dealt with the economic aspect of the situation—and he has not gone below the surface—is Professor Pohle. I was not present at the session, but I have gathered from the stenographic report that Professor Pohle has at least touched upon this general problem.

All these questions, gentlemen, which have engaged our attention have so strongly taken hold of the mind of the public only by reason of the melancholy showing which credit conditions and the financial situation have made in our country. I am certainly not one of those who believe that economic crises can be rendered altogether impossible. It does seem to be practicable, however, to reach the point at which, through proper regulation of credit conditions and the like, we may succeed in materially reducing the shocks produced by the heavings of the economic disturbance.

I must add that I am naturally not of the opinion that it is practicable to do away entirely with these undulatory movements, in as much as this can be effected in no other way than through the transition to an entirely different system of production. So long as production is carried on by private capital we shall have to reckon with periodical fluctuations, high tides of busi-

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ness followed by subsidence of the tide. It makes a great difference, however, whether the tide carries us up to a boiling point, to be followed by widespread collapse, or whether the fluctuations run their course within comparatively narrow bounds.

The whole question before us—and this is an argument in favor of an enlargement of the capital of the Reichsbank—is not a gold question, as indeed it is not a money question (as Herr Fischel has rightly stated this morning); it is a question of capital.

It is my conviction that in this matter of the monetary system and of credit, whether viewed from a practical or a theoretical standpoint, we are passing through a transition period. The thing is perhaps somewhat irrelevant, but I should like to point to the fact that our theories too are shaping themselves in accordance with new notions and ideas, as is evinced by Knapp's book on a new theory of money, which I am sure is going to be a landmark in theoretical knowledge. Within the past twenty or thirty years a system of manufacturing industry has been developed in this country, which, with respect to the scale of production, has attained much greater proportions than is the case, for example, in England. In England there is a much larger number of minor concerns, but we do not find in all the various branches of industry such giant concerns as exist in Germany and the United States.

Now, if we ask ourselves what the state of the money and capital markets is in reality, it becomes absolutely necessary in the first place to get a clear conception in our minds of the manner in which production is carried on

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under existing conditions and then to try to ascertain the relation which our productive industry bears to the money market.

I shall have to ask for your indulgence if I take the liberty at this point of engaging in a little theoretical exposition, but it is precisely these theoretical considerations which I am going to urge that are behind my own views respecting the necessity of a larger capitalization. This applies also to many other reforms that I consider essential under existing conditions, such as they have developed under the stress of the modern scale of industrial and financial enterprises, if we desire our national industries to go on expanding and attaining the higher levels in a peaceful and orderly way.

Our productive mechanism, as some one has happily expressed it, moves along in the manner of an army on the march, in successive stages from halting place to halting place. That is to say, not every producer produces an article ready for use. Before it is ready for use an article has to pass through a number of hands, each worker proceeding with the manufacture from the stage at which his predecessor left off. To the extent that capital represented by such more or less finished articles enters into production, it is part of the working capital of our industry. You may find fault with my way of expressing it, but the precise terminology is immaterial. The only question is whether I make my meaning clear.

The aim of productive industry is either the production of objects of consumption or the creation of fresh capital to be used for further production. What concerns the

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problem before us most vitally is the relation existing between productive industry and the money market. It is evident that to all industrial operations in which capital passes from hand to hand instruments of exchange and financial transactions are necessary. Even in cases where credit is not called for, industry makes inroads into the money market through its demands for instruments of exchange. At the present time, indeed, and especially in Germany, production is largely based upon credit. Manufacturing industries are to a very great extent carried on by means of credit, and it is only this morning that Herr von Wangenheim declared—and Herr Schinckel seconded him—that production has been carried on altogether on too large a scale through the instrumentality of credit.

In so far as credit enters into production, the process that takes place is as follows: In the commercial market goods pass from hand to hand, and alongside of this process of exchange in the commercial market there is going on in the money market an exchange of credit instruments based upon these very products of industry which are in circulation. This reciprocal action of the commercial market and the money market is a continuous one.

Now, so long as capital circulates in the industrial field in the form of working capital, what takes place is, that in the demand for credit, for every exchange of wares, there will be a corresponding transaction in the money market. This is shown in actual business by the fact that the goods are sold against the acceptance of a draft, which draft is met when the goods are resold against another acceptance. In place of the old draft there is (at least there

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ought to be) always a new one. And therefore, in the money market, parallel with the movement in the merchandise market, an exchange of credit instruments is incessantly going on. This process of exchange continues until the property has reached its destination in its capacity of working capital, or, in other words, until it has lost its quality of working capital, and is either consumed or devoted to the purposes of fixed capital. In case of consumption, the property has to be paid for out of wages, out of hire for services of every kind; that is to say, the respective bills are, and can be, redeemed from this source.

But when the industrial product is transformed into fixed capital, then the economic process in the money market is a very different one. The essence of fixed capital—and it is in this that it is distinguished from working capital—is, among other things, that in its utilization in production it enters into a business transaction not with its full value but only in larger or smaller shares. Fixed capital in industrial operations is capable only of yielding what is called revenue or interest.

But at the moment that the working capital is being converted into fixed capital there are circulating in the money markets demands in the way of bills covering the entire value of the property, and these demands have got to be met. As the fixed capital yields nothing but interest, it is imperative to resort to other sources to cover the bills as they fall due, and so the necessary capital has to be raised through savings from previous earnings or the accumulated profits in the shape of interest on fixed

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capital; that is to say, the amount required in the way of capital must already, in the form of savings, be in existence in the money market.

Now, if you weigh all this carefully and apply these theoretical deductions to the actual conditions in Germany, it will become evident that in recent years we have made very large investments of capital, the equivalent for which had not been supplied in the form of savings. Our fixed capital, as Herr Fischel has pointed out, has in a very great measure been created through the agency of borrowed money.

There is still another phase of the matter. In substantiation of my views on the subject I would refer you to the discussions that took place at the time of the debate regarding Questions II and III, when the experts Herr Leiffmann and Herr Fischel confirmed the opinion expressed by me to the effect that there are, as a matter of fact, frequent so-called "financial disturbances" taking place in the train of regular and legitimate commercial transactions.

The greater the general upward tendency, the more each producer strives to increase the rate of production. A producer, for example, who usually takes three months to make an article pass through one stage in its manufacture will do his best to reduce the time by means of overlapping and every possible expedient. But still, as before, owing to the rigidity of mercantile custom and the usages of deferred payments, a bill at three months' sight is issued on account of the goods in question. As a result of this, where under normal conditions a single bill would be

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circulating in the money market on account of some particular article, there will now be two or three bills in circulation. All of these bills find their way to the banks, are discounted, and then figure for a time in the balances of the banks' customers. The banks are obliged to put out at interest the amounts thus credited to their customers. I do not mean to blame the banks for making these investments. I have no ill feeling toward the banks, just the reverse. The banks are compelled to do it because they are obliged to render these large apparent credits productive by making them yield interest—credits which in reality have no actual foundation, not being based on anything. The way these credits are made productive by the banks in the existing organization of industry in Germany (where we produce altogether too little capital relatively to our spirit of enterprise) is in great measure through investment in the way of fixed capital.

I must conclude from all this that we Germans have been in the habit of setting up as capital that which in its nature is not adapted to the purpose, which ought not to be capital at all; and that we are trying to get along with altogether too little working capital. From top to bottom, from the great banks down to the smallest ones, it ought to be the business of these institutions to try to make a change in all this, to see to it that a proper relation is established, that we may be in a position to work with a considerably larger working capital.

It is, of course, difficult for an individual institution to do much in the way of hastening a change, and the representatives of the banks have repeatedly insisted that they

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were under the stress of competition. I realize this, and if I were at the head of a big bank I should allow myself to be guided entirely by the interests of my bank and those of my shareholders—in plain words, by business considerations. This is—I am willing to proclaim it publicly—the duty of the business man. But the moment we place ourselves on the broad standpoint of political economy, from which it is our purpose to view the problem before us, then I am convinced that this is not a matter in which the will of the individual should be allowed to have its way, but that, on the contrary, it is incumbent upon us to devise some system, possibly through legislative means, that will have the effect, without injuring the banks, of increasing our working capital and of enabling us to retain in that form a considerable portion of our newly created capital.

You see, gentlemen, that in the existing organization of business in this country only such capital as finds its way into the Reichsbank is disposed of in a way to give us no real concern. Such capital alone is preserved under all circumstances in the form of working capital. Considering the importance of the subject, it seems to me imperative for us to try every means to secure for our industry a greater share of capital in the form of working capital, and for this reason I regard a material increase in the working capital of the Reichsbank as absolutely indispensable.

I realize, indeed, that the enlargement of the capital of the Reichsbank is merely a minor means, one expedient among many others that in the existing organization of

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our monetary and credit system it is necessary for us to adopt in order that we may enter into the proper path and continue in it. I believe that we should have recourse to various other expedients that might be found effectual by the side of an addition to the bank's capital, but it is not our purpose to discuss these matters to-day.

To sum up briefly, then, I am persuaded that the enlargement of the capital, with respect to which the attitude of most of the speakers who have preceded me is one of indifference, is desirable and that the increase should be a substantial one, and furthermore I am of opinion that additions should be made from time to time to the surplus.

As to the other question, that of raising the limit of untaxed bank-note circulation, I personally lay no stress upon it, as I believe that the matter of this higher limit, whether it be instituted or not, will in reality never become one of practical importance, provided that we take measures to establish a just proportion between fixed capital and working capital. It may eventually become a practical question if our industry should increase very materially, which all of us, of course, would like to see. It would then be advantageous, in order to enable us to tide over certain times of unusual strain, such as recur at the end of the year and in the month of October, to raise the limit of untaxed circulation. But I believe that when we have provided for the proper organization of capital with respect to industry and the credit system the question of fixing a limit will settle itself.

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Doctor LEXIS. Gentlemen, I shall also express myself briefly, and, first of all, I shall take the liberty of making a few remarks with reference to what has been said by President Heiligenstadt. I am likewise decidedly of opinion that the working capital of our industrial concerns in Germany is really too small; that it would be much better to do business more with our own money and less on credit. This applies, of course, especially to those concerns which turn out manufactured products, as well as to stock banks. In the case of a bank of issue, on the other hand, this requirement appears to me to be least essential, even if it is not altogether inapplicable. In this matter it would be well, in my opinion, to consider what takes place abroad. We see plainly that in England and France the large central banks exist and that they operate admirably without having in reality any actual working capital of their own. Their working capital may indeed be designated as a minus quantity. The Bank of France, for example, has a nominal capital of 182,500,000, but it has 290,000,000 tied up in fixed rentes or in the permanent advance of 100,000,000 to the State. The working capital remaining to the bank is therefore a minus quantity. The same is the case with the Bank of England. Here, too, we find a negative working capital. It is not merely the old debt of £11,000,000 that is tied up, but likewise the whole amount that is required in addition in order to cover the note circulation in the issue department, an amount equal to £7,500,000, inasmuch as the consols that are deposited there can not be withdrawn, and consequently are not at the disposition of the banking department. We

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have therefore £18,500,000—that is to say, a sum reaching to the permissible limit of uncovered bank-note circulation, as against a capital of £14,500,000, exclusive of the so-called “rest,” which embraces some £3,000,000 in the way of a surplus, or, in all, £17,500,000 of capital and surplus, while the amount of the fixed capital, partly in the shape of irredeemable obligations and partly of unnegotiable consols, is £18,500,000.

In these two countries, then, we have an illustration of how banks perform their operations with those resources only which they secure through the issue of bank notes, and, in the case of England especially, through the acceptance of deposits. We have not got so far in Germany, and this is assuredly not a matter of regret. Our Reichsbank has actually no part of its entire capital tied up. It is all in an available form, and if the bank temporarily invests considerable sums in national obligations, these do not by any means represent unnegotiable funds, as they are capable of being disposed of at any moment. The only portion that is tied up is that which is represented by real estate. This amounts to 54,000,000 marks. There remains, therefore, a surplus of 10,000,000 marks, which can be added to the capital of 180,000,000.

The position of the Reichsbank is therefore essentially a different one, and if this institution can not, as a simple matter, be compared either with the English bank or the French, this difference is not a matter to be considered here. The Reichsbank is in a much more favorable situation as far as the availability of its capital is concerned—that is to say, as far as the extent to which its operating

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resources are drawn from its own capital, and consequently I hardly think there is any necessity of increasing the capital of the bank.

Neither do I think that this would in any way bring about an increase in its stock of gold, nor do I believe that the rate of discount would thereby be affected. I concur, therefore, with the majority of the members who have spoken and who have declared themselves to be rather indifferent in regard to the whole question.

There is one point, however, that I should like to bring forward in support of an enlargement of the capital, namely, that the nationalization of the bank will thereby be made a more difficult matter. It will certainly be less easy later on to pay back the amount of the capital if it has been increased by 60,000,000 marks, especially if it is really proposed to carry out the scheme suggested in various quarters of admitting as shareholders investors of small means, with shares not exceeding 200 marks. The Government would hesitate, in the event of the nationalization of the Reichsbank, to force these small investors to sell out at 118 when they had paid 130 and upward for their shares. The nationalization, therefore, is rendered more difficult by an increase in the capital, and this, in my eyes, is decidedly an advantage. On the whole, however, I must admit that I am rather indifferent in regard to the matter.

I should furthermore like to express my approval of the proposition put forward by several of the members that it be left to the discretion of the managers to decide whether the time has come when it would be expedient, for what-

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soever reason, to increase the capital. It would be practicable to insert a provision in the bank law allowing them during the next term of their charter (which I think should be renewed for at least fifteen years) free play in this respect, or, better still, empowering the Bundesrat to authorize at any future time, on the strength of the experience of the bank, an addition of a particular amount to the capital stock.

In regard to the surplus, I am also of opinion that it would be expedient to reopen the fund and to add to it every year a moderate sum (the amount to be fixed later), which is to serve mainly for the purpose of offsetting the constantly increasing investment of the bank's capital in real estate. New bank buildings are constantly being erected, each one finer than the last, which we are certainly glad to see, and the expense is constantly increasing. I should therefore recommend that steps be taken to offset this investment of capital by a corresponding increase in the surplus.

With respect to the second question, I am in favor of fixing a limit to the untaxed circulation of bank notes. I regard this as a very practical expedient for keeping speculation within bounds. I personally should consider a moderate raising of the limit as quite harmless—I would draw the line at 550,000,000 marks—the advantage to be gained being that the number of times that the limit is transcended in the course of a year will not be altogether excessive. In the past year the number was 25. By raising the limit up to 550,000,000 marks the number will be reduced, at any rate, by 10

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or 12. In this sense, therefore, I should consider the raising of the limit expedient.

Count KANITZ. As we are not going to discuss the question of the nationalization of the Reichsbank, I wish to say that I am in favor of a moderate increase in the capital. All the arguments that speak for it have been so fully set forth to-day by the various speakers that I may as well refrain from giving the reasons for my opinion. It would be mere repetition. But after such an authority on banking as Herr Kaempf has likewise expressed himself in favor of an enlargement of the capital, I think we may as well practically dismiss our misgivings in regard to this matter.

I have been particularly interested in the exposition made by President Heiligenstadt. His arguments, however, seemed to me so novel in many respects that I can not possibly undertake to enter closely into them to-day, and I shall reserve to myself the privilege of discussing them when the stenographic report is submitted to us.

I agree with Herr Mommsen and several of the speakers that the enlargement of the bank's capital is not going to bring about a healthier monetary situation. The means that we are applying is at best a slender one, and this in my opinion is also true of the raising of the limit of the untaxed circulation of the Reichsbank. In this matter, too, I can go no further than to say that I concur in the view which President Heiligenstadt has expressed, to the effect that he does not expect any actual relief to result from such a raising of the limit of untaxed bank-note circulation.

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I shall confine myself to this expression of my views, which I think will suffice for the present, as I expect to have an opportunity when the Reichstag takes up these questions to state my position more definitely. I declare myself, therefore, in favor of an increase in the capital. I do not believe in the efficacy of the raising of the limit of untaxed note circulation.

Mr. RAAB. I am likewise in favor of an enlargement of the capital of the Reichsbank. I also do not regard such a proceeding as something of world-wide importance, but it is my opinion that we owe it to the reputation of the Reichsbank to find means of preventing its being far behind other great banks with respect to its capital. Even outside of this consideration, however, which will naturally appeal to our patriotic spirit, I believe that some economic advantages would accrue from an increase in the bank's capital. In the first place, the bank, through an increase in its capital, will certainly be able to exert greater influence upon the credit market. This concession should be made, in my opinion, particularly in the face of happenings—I have in mind private discounting—which in certain cases have had the direct effect of crippling the discount operations of the bank.

I believe, too, that a larger capital will mean a better condition with respect to the increased business of the bank as well as the running expenses, its real estate, and its readiness to meet its current obligations. It appears to me possible furthermore—although I do not believe that an increase in the capital will result in an increase in the stock of gold—that, through the receipt of large sums in

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the way of foreign bills of exchange at specific times, the drain upon the gold supply to meet the demand from abroad might at least for a time be checked, so that the raising of the rate of discount could be averted or postponed. I am in favor of raising the amount of the capital to 240,000,000 or 250,000,000 marks, which would mean an increase of 60,000,000 or 70,000,000 marks.

Whether this increase is to take place at a certain time, or, as in the case of the last increase, be made in installments, is to be left to the discretion of the bank itself.

In regard to the distribution, I am in favor of issuing the additional stock in denominations of 1,000 marks. The proposition to issue the shares in small denominations of 200 marks does not appeal to me, inasmuch as the future of the Reichsbank is still an uncertain one. I can hardly imagine that the bank charter will ever be renewed for a term exceeding ten years. There is after all a possibility—the fact that there is a ban upon the discussion of the subject does not alter the matter—that the Reichsbank will be nationalized.

I am also in favor of reopening and strengthening the surplus, and likewise of keeping it open, as has been proposed by president Heiligenstadt, and furthermore of making its closing conditional upon a special enactment. My attitude in this is prompted by the same considerations as in the case of the enlargement of the capital. The surplus, just like the regular capital, offers an increased security in regard to the cash liabilities and a more effectual counterpoise to the investment (which will probably go on steadily increasing) of the funds of the bank

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in real estate. I believe also that it would be a good thing to create a special reserve against possible losses.

Whether the scheme suggested by Geheimrat Wagner of making the surplus serve the purpose of equalizing dividends can be carried out, and in what way, I should not venture to say. I can say, however, that the idea appeals to me, especially as I should personally be glad to see the shares of the bank passing into the possession of the middle classes, whom I should naturally not like to see exposed to great fluctuations in the market value of their investments. I think that it would be practicable to raise the surplus gradually to the level of half the amount of the capital, and that this would be a welcome consummation. At the same time I believe that we ought carefully to consider the suggestion made in the course of this discussion by one of the experts to the effect that the increase in the capital of the Reichsbank should not be allowed to act to the prejudice of the share of the Government, but that the additional amount should be drawn mainly, if not entirely, from sums that would otherwise go to the stockholders in the shape of dividends. I consider it very desirable that our national revenue in this quarter be placed on a more substantial and favorable footing, and I see no reason—I expect the next few years to make a fine showing—why we should go on forever dealing out such big dividends to the stockholders as they have again been receiving this past year. The interests of the Government are certainly deserving of some consideration in this matter.

I am also of opinion that there is not much to be gained by raising the limit of untaxed circulation. In my

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view of the matter, however, I do not agree with that expressed in this assembly by one of the specialists, with whom I am otherwise generally in accord. Doctor Arendt has advocated the removal of the tax limit and the abolishment of the tax on bank-note circulation altogether. I hold the view, repeatedly expressed in this body to-day, that in this obligation to pay a tax we have a useful danger signal. If we can, by means of a moderately high limit of untaxed circulation, prevent the too frequent recurrence of a disturbance such as manifests itself each time the circulation limit is passed, that will certainly be an advantage. But I do not believe in doing away altogether with the warning which the passing of the circulation limit gives to those who are in quest of credit.

Another suggestion that has been made, and that by a specialist, is that the foreign gold bills be reckoned in the cash reserve. In my opinion this is impracticable and altogether wrong.

Another question worth considering is that of a progressive tax on bank-note circulation—the suggestion has been made and may perhaps come up for discussion later on—a tax adjusted to the extent to which the circulation limit is exceeded. In the case of an inconsiderable excess the imposition of a slight tax would perhaps suffice, but the tax should be made to operate progressively in such a way as to render a great excess of circulation beyond the regulation limit practically impossible. If we are to institute a progressive tax of this kind, it will have to be graduated so as to reach the point where it becomes prohibitory, in order to prevent us from landing we know not

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where. But if such a progressive tax is to become a subject of discussion, we shall have to consider whether we can keep clear of causing a shrinkage in the imperial revenue derived from the tax on bank notes. Admitting that it was only an accidental circumstance that the amount realized reached such extraordinary proportions last year, I should not like to see such revenue, even if it is not to keep flowing in as plentifully as in the past twelvemonth, shut off from us just at the time when we have to be scurrying about for money in every nook and corner.

What I am in favor of, then, is the following: An enlargement of the bank's capital to 240,000,000 or 250,000,000 marks; a gradual enlargement of the surplus to one-half of the amount of the capital; the keeping open of the surplus; and a moderate raising of the limit of untaxed circulation, say up to the level of about 550,000,000 marks. This, it seems to me, would pretty much represent the views prevailing in those circles in whose behalf I believe I may in a certain measure be allowed to speak.

Freiherr VON CETTO-REICHERTSHAUSEN. When I was invited to come here, gentlemen, I took the invitation to mean not that I should come into your midst as an expert, but that I was invited to come as a representative of the agricultural interests, whose main function would be to set forth the attitude of the agricultural community with respect to the recent industrial depression and the means that have been proposed to remedy the situation, and it is from this standpoint that I have sought to deal with the questions before us.

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In the course of the hearing of the experts the assertion was made by Geheimrat Mueller that the enlargement of the capital of the Reichsbank will make it possible to give more extended credit to the agricultural class. The assertion was also repeatedly heard in this assembly in the course of the morning that in the extension of credit agriculture will have a share in the benefit in so far as it is not placed on a lower level than other pursuits. Now I should like to call your attention to the circumstance that agriculture is by no means directly interested to the same extent in the credit that is to be afforded by the Reichsbank as manufactures and trade. It could not, indeed, for a very plain reason, be otherwise, for, on the one hand, as I readily perceive—and my conviction is based on personal observation—credit granted on the security of personal property does not by any means play the same role in agriculture as credit based upon immovable property, and, on the other hand, in the case of agriculture credit based on personal property is in great part, and in fact in the main, provided for by the organs of mutual assistance which agriculture has instituted, such as the agricultural societies, whose activity has been centered in the so-called Preussenkasse, as well as in the establishment of loan associations—in short, provided for in such a way that the increased difficulty of obtaining credit from the Reichsbank, the enhanced rate of discount, affects agricultural interests rather indirectly than directly.

Starting out from these premises I can only repeat that agriculture is but indirectly interested in the matter that is at present engaging our attention. Having said this,

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however, I am glad to be able first of all to repel the individual attacks, if I may use the expression, that have been leveled over and over again against the agriculturists. We have been charged with being unfriendly to the bank, with looking upon it as an institution which has been created to afford as much credit as possible, but which grants too little credit to agriculturists. Herr Helferich even imputes to the agrarians the design of laying violent hands on the Reichsbank in the way of nationalizing it. My esteemed friend Freiherr von Wangenheim has just touched upon this subject to-day, and if he has been disregarding the order of the day it will not be out of order to rebut his assertions.

I must first of all confess that I can not in this matter entirely concur in the views of Herr von Wangenheim, however closely I may be in accord with him in general. I ask myself, and I have repeatedly asked myself, what actual advantage would result from the nationalization of the Reichsbank, and this very day it has been asserted here with perfect justice that the whole administration of the bank bears largely a national character. The bank is managed by state officials, it is, so to say, under national supervision, and it would be no mistake to say that if the bank were to be nationalized right now the management could not and would not appear different or officiate differently from what it does to-day.

(Exclamations of "Quite right!")

But now, gentlemen, I have to ask: What can be the real advantage that would result from the nationalization of the Reichsbank? I can think of two arguments in favor

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of it. The first would be that we might thereby augment the revenues of the Empire; that is to say, that the entire profit of the bank, which now goes to the stockholders, would in future go to the Empire. My opinion is that we are dealing here, and shall always deal, with so small a sum in proportion to the imperial budget that it is well to consider seriously whether an institution so prominent in the domain of banking as the Reichsbank shall be nationalized and an experiment be made which, as has already been affirmed to-day, can by no means be regarded as devoid of danger. I need only point to the contingency of war or the lessons taught by other countries and their great banking institutions which have by no means been nationalized, but for good reasons have been left to private agencies.

It might be argued further that the Reichsbank as a state institution could, and probably would, establish a system of credit according to different principles and would consequently institute readier methods for supplying money than have hitherto been provided. This opinion seems to me to find vogue in various agricultural circles. I, however, personally hold the view that no credit institution of the nature and scope of the Reichsbank, be it under public or private management, can emancipate itself from the general influence of the money market. Experience has shown that the financial crisis which has come upon us these last years in Germany has been felt just as much elsewhere, that it has been felt in a country which we have hitherto regarded as the ideal of a banking community—England. We have seen, therefore,

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that the casual occurrences, pure and simple, have been of so decisive a nature with regard to any banking policy whatever that all the European banks had to bow before the actual facts. I am sure that the Reichsbank, whether it be nationalized or remain in private hands, will simply not be able to withstand the force of naked facts in the event of their recurrence.

Now, with reference to the nature of the relations existing between the agricultural interests and the Reichsbank, I should like to call your attention, gentlemen, to the fact that it is only the great landowners, and they only in a part of the German Empire, who are closely involved in the operations of the Reichsbank. With respect to this matter we have a most instructive document in the table which has been submitted to us, on page 33 of the first supplement to the statistics of the Reichsbank, an enumeration of those who have had credit relations with the Reichsbank in its discount operations, arranged with reference to their distribution according to the branches of industry. You will perceive that in the class of rural industrial concerns (workshops and factories) a disproportionately small number, to wit, 9,589 out of a total of 70,480 firms and individuals who have been entered, have been concerned in the discount operations of the Reichsbank, and of these 9,589 fully one-third represent the four eastern provinces, East Prussia, West Prussia, Pomerania, and Posen. In the Kingdom of Bavaria east of the Rhine the number was only 448, as against 2,246 merchants and 1,398 manufacturers, being 9 per cent of the total; in

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Baden, Hesse, Upper Hesse, and the Bavarian Rhine Palatinate it was only 222, or 5 per cent of the total; in Mecklenburg, Oldenburg, Brunswick, on the other hand, it was as much as 662, or 17 per cent; and in Schleswig-Holstein the number was as high as 1,123, or 36 per cent of the total. The territorial distribution seems to be largely determined by the factor of the relative positions occupied by the different parts of the Empire with respect to the general character of their industrial concerns in the matter of size.

It appears, then, that the conditions are extremely diverse, which, in my opinion, goes to prove the truth of what I have affirmed and to which I wish to add the statement that at the present time not only do the various rural cooperative credit institutions provide more effectually for the needs of agriculture than the Reichsbank, but that in particular the provincial loan institutions, the so-called *Landeskreditinstitute*—I may name particularly the Bayerische Notenbank—are made use of by the agricultural interests in much greater measure. This is not surprising, as these institutions find it much easier to extend their operations to the country, to go to small localities and do business there, than is the case, or can ever be the case, with the Reichsbank.

All this applies likewise to the business of making loans on collateral. At the close of the year 1907 the loans of this kind in the Empire connected with agriculture and allied industries numbered 249, representing an aggregate of 1,972,200 marks, as against a total of 5,666 loans, amounting to 364,297,700 marks; and on March 1, 1908,

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the number of loans was, as at the previous date, 249, aggregating 1,803,300 marks, as against a total of 5,650 loans, amounting to 255,687,100 marks.

Of greater significance, considered from the same standpoint, is the business of loaning money in connection with debentures, in which the loans made on the mortgage debentures of the *Landschaften* (provincial loan associations), the communal debentures, and the debentures of other associations organized on the model of the *Landschaften*, amounted to 12.2 per cent of the total amount of the loans. I desire to add that this is the result of concessions made to the agriculturists without any pressure on their part; and I should regard it as a quite unwarranted demand that the Reichsbank should go more extensively than it has done heretofore into the business of loaning on the debentures of the *Landschaften* and obligations of institutions of like nature. Whether the charge of illiberality made against the bank in this matter has any foundation I am unable to say from personal experience. As far as I am informed, however, I do not believe that it is open to such a charge.

There is still another matter to which I should like to call your attention, and that is, that the reason why, in comparison with the credit business of the Reichsbank, there is so much more of that kind of business done by the individual small cooperative funds, the agricultural credit associations, and also by the centralized agricultural credit institutions is because considerably greater inducements are offered to the agricultural classes than appears to be practicable in the case of the Reichsbank. Concerning

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this point I should like to submit to you some information taken from the report of the Bavarian central loan fund for the year 1907, which, however, applies as well to the savings and loan associations operating within the union of the German agricultural associations and which may be gathered also from previous reports of the union. The latest report of the union has not yet appeared in print. The report which I have, however, of the Bavarian central loan fund shows that the rate of interest on loans was raised on July 1 only up to $4\frac{1}{4}$ per cent and on November 1 to $4\frac{1}{2}$ per cent, while the rate of interest on current accounts was increased from $3\frac{1}{2}$ to $3\frac{3}{4}$ per cent. "In order to offer the associations a higher rate of interest," says the report, "we inaugurated on July 1 a system of deposits on notice. The interest on deposits at two months' notice was from the 1st of July $3\frac{3}{4}$ per cent and from the 1st of November 4 per cent; and on deposits at six months' notice the rate was fixed at 4 per cent from July 1 and at $4\frac{1}{4}$ per cent from November 1.

"If in this matter of interest we keep pace with the rates of interest allowed on deposits by the large banks, it is because we are in a position to invest these funds more profitably than the current account funds payable on demand, which we can invest only in easily convertible resources."

Reference is then made to the discount operations of the Reichsbank, and the report continues:

"The average rate of discount in the case of private bills in Berlin in the year 1907 was 5.11 per cent. The average rate of interest on loans in the case of the Bavarian

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central loan fund in 1907 was 4.17 per cent. This rate therefore was almost 1 per cent lower on an average than that at which private bills were discounted by the banks during that year. The rate of discount at the Reichsbank was higher than that of the central loan fund by 1.86 per cent. The rate of interest at which the Reichsbank advanced money on the security of bank paper and merchandise was higher by 2.86 per cent; that is to say, nearly 3 per cent."

In the face of these facts, gentlemen, which are quite irrefutable, and which can be explained only through the circumstance that we have to deal here with means available for the purposes of credit which are of an altogether different character from those which the Reichsbank has at its disposal—that is to say, localized resources, if I may use the expression—we can readily understand that the interest of a great many of the agriculturists in the rate of discount of the Reichsbank is rather an indirect than a direct one—there being an indirect interest, in the first place, in so far as a higher rate of discount of the Reichsbank can not fail to bring about a rise in the rate of interest in the general money market, and, secondly, with reference to interest on real estate, because a high discount rate regularly has the effect of depressing the price of investments yielding a low rate of interest, especially mortgages, a phenomenon which we have witnessed on a large scale during the past year, so that the provincial loan associations, as well as other similar institutions, were reluctantly compelled to suspend practically making $3\frac{1}{2}$ per cent loans and to pass over to the 4 per cent

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type. It is hardly necessary for me to dwell upon the important bearing which this matter has on the interests of agriculture. The most recent official inquiry regarding the returns of capital invested in agriculture, which was instituted by the Department of the Interior at the time of the revision of the tariff, has shown that the concerns yield on an average at most between 2 and 3 per cent. Now, when a concern yields between 2 and 3 per cent on an investment and money has to be borrowed at 4 or 5 per cent, there must evidently be a deficit.

I do not pretend to maintain that this higher rate of interest falls with full force upon the borrowing operations to which agriculture is compelled to have recourse, for the working capital of agriculture must necessarily yield a higher rate of interest than the investment capital, and in addition to this it is possible out of part of the investment capital (namely out of the live stock and farm implements) to offset the higher rate of interest which is demanded on the sums advanced on personal property. In the case, therefore, of temporary credit requirements, which correspond to the credit requirements for the sake of which the manufacturing industries are obliged to have recourse to the Reichsbank, it is possible for agriculture, inasmuch as its working capital yields a somewhat larger return than its fixed capital, to endure the burden of a higher rate of interest.

It is necessary, however, to take into consideration that, in the first place, especially in the matter of loans on agricultural mortgages, the security of personal property enters as an important factor. This is due to the fact

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that the security which the agriculturist can offer to the lender is in great measure inseparable from his immovable property. The belongings of agricultural property are an essential part of its substance, which can absolutely not be detached, with respect to its value, from the land, and, indeed, the agriculturist is in many cases not in a position to offer any other security. That is the reason why in agriculture credit based on the security of immovable property, even, if from a strictly economic standpoint we may look upon it otherwise, has actually, largely as a matter of necessity, to take the place of credit based on the security of personal property.

I should also like to call your attention to the fact that the requirements of credit in the manufacturing industries are naturally much greater than in the case of agriculture, because the manufacturer, who turns over his capital three or four times in the course of a year, is to a much greater extent obliged to resort to credit than the agriculturist, who reaps only once in a year and turns over his capital much more slowly than the manufacturer. The agriculturist, indeed, who has once started out on the path of borrowing on his personal security, who, as we are accustomed to say, "forces" such credit, is, according to my notion and the experience I have had in my long life, entering upon a very perilous road, and I can not help recalling in this connection a dictum once uttered by a gentleman of my acquaintance, a person whom we in Bavaria esteemed highly, the founder of our Bavarian Fire Insurance Institution, Regierungsdirektor von Jodelbaum, a man remarkably well versed in economic matters: "Let

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us look around and see," said he, "what sort of success those agriculturists have had who have resorted largely to credit. Gentlemen, credit walks about in the company of disappointed hopes." This saying has stuck to my memory, and I believe it is the utterance of a man who knew agricultural conditions very thoroughly and who was able to judge of them.

In order to demonstrate what a poor showing the credit business of the Reichsbank makes in the domain of agriculture by the side of the operations of the agricultural loan associations, and especially of the Raiffeisen societies of the national union of the German agricultural associations, I have prepared a statistical table of the savings and loan funds belonging to the German national union for the year 1905.

Statistics of savings and loan funds for 1905.

Number of credit associations.....	10,999
Members.....	959,717
Assets at end of 1905.....marks..	1,276,980,000
Liabilities at end of 1905.....do....	1,270,390,000
Outstanding with members:	
Current account at end of 1905.....do....	304,070,000
Loans for specific time at end of 1905.....do....	715,160,000
Business deposits of members, current account.....do....	136,160,000
Savings in the associations.....do....	988,350,000
Paid to members:	
Current account.....do....	333,590,000
Loans for a specific time.....do....	215,250,000
Paid back by members:	
Current account.....do....	296,810,000
Loans running a specific time.....do....	134,670,000
Savings paid in.....do....	359,400,000

These figures, in my opinion, indicate clearly in what kind of organizations personal credit is at the present time centered in the case of the majority of agricultural concerns.

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Having set forth this preamble, I should like to get to the main question, the question of the enlargement of the capital of the Reichsbank. I may say that I can give my assent almost unreservedly to the pregnant and clearly defined utterance of my esteemed countryman, Director Ströll. I am first of all of opinion that our credit is not judged abroad to any very great extent by the condition of the Reichsbank. It seems to me, as far as I can gather, that the credit of the Reichsbank is not questioned abroad and has never been questioned. But what has been questioned—and this transpires from the whole political discussion in the daily press—is the stability of our imperial finances, and I believe that the projected reform of our imperial finances will do much more toward improving the standing of Germany as a financial power than any reform of the Reichsbank [cries of “Quite true”], by which I do not by any means wish to say that I underestimate the importance of discussing certain reforms in the management of the Reichsbank, or that I am not aware that the dismal experiences of the past year ought to induce us to consider whether some means may not be found to diminish at least the gravity of such happenings.

In regard to the enlargement of the capital, there appears to be a great diversity of opinion, and I must confess that from the start a question has presented itself to me, one which thus far I seem unable to answer: If the enlargement of the capital is to do some good, on what scale is it to be made? We have heard some of the speakers declare that the capital ought to be doubled and others again that we can get along with an increase of 20,000,000, 30,000,000, or 50,000,000.

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That in time the capital of the Reichsbank is going to be increased as a result of its enlarged operations and that this will probably have to be done on a considerable scale, about this I have very little doubt. I can not for a moment imagine that the Reichsbank could get along with its present capital for another ten or twenty years. I believe, on the contrary, that it ought to keep on increasing its capital in proportion as its business expands, even if I agree with those gentlemen who have expressed the opinion that in the case of a bank of issue less depends upon the size of the capital than upon that of the circulation, or in other words that such a bank ought to work more with its bank notes than with its capital.

But just when the increase is to take place and on what scale, these are the questions, I must confess, that transcend not only my judgment, but that of others as well; and an authority on this subject, Professor Wagner, has only this morning expressed himself in an extremely guarded manner to the effect that he is favorably inclined toward the enlargement of the capital. He suggested, if I remember rightly, that it be left to the Bundesrat to determine when the increase of capital shall be made. With this reservation I am able to say that I am also in favor of an increase in the capital. But if the question is put in the form in which it is now submitted to us, that is to say, that the increase in the capital is to serve above all to strengthen the bank in such a way as to avert further catastrophes similar to those that we witnessed last year then I must say that I am absolutely convinced that in this respect the enlargement of the capital of the bank

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will be ineffective, inasmuch as the financial crisis was due altogether to other causes than an insufficiency of capital. I should like to call your attention to the fact that, according to the statistical information submitted to us, the very increase of capital that has taken place in the last few years has, to begin with, not even had the effect of preventing a rise in the rate of discount; secondly, that it has by no means prevented a considerable flow of gold from the bank; and finally, strange to say—and this is something, apparently, that no one dared to anticipate up to the last hour of our previous session—with the very same capital we have on the one hand a lower rate of discount [cries of “Quite right!”] and on the other hand an extraordinary increase in the stock of gold in the bank, so that in my opinion these very two facts should lead us to infer that there is no connection between the effect of the capital upon the rate of discount and its effect upon the accumulation of gold in the Reichsbank. [Cries of “Quite right!”]

Having declared that my attitude in this matter is not altogether one of opposition, although it is one of opposition with a certain reservation, I shall take the liberty of touching in a few words on the subject of the limit of the bank-note issue. In regard to this, I am also of opinion that we are perhaps expecting too much from the raising of the limit of circulation. The example of England has been pointed to as showing that it will be possible to do away entirely with the limitation of the bank-note issue. Attention has been called also to the revenue that has accrued to the Government from the taxation of excess circulation, and it has been asserted, with justice, that the

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imperial tax thus instituted is, to use a mild expression—I refrain from repeating the strong language that has been heard here—anything but fair. One of the members, I believe, has expressed himself in a still more emphatic manner. What I believe is that the critics of the tax on excess circulation can not altogether emancipate themselves from the train of thought which at the time of the enactment of the usury laws inspired the paragraphs relating to usury, the notion that if any one seeks to make capital out of the needs of his neighbor, he is guilty of a misdemeanor. Proceeding from this standpoint, I must say that I, to start with, can not indulge in any very great expectations in the matter of the raising of the limit of untaxed bank-note circulation, being of opinion that the present circulation limit, with the tax on excess, has by no means served to prevent the increase in the volume of bank notes. And as regards the importance of the circulation limit in the way of what has been called the danger signal, or storm signal, it has been repeatedly pointed out in the deliberations of the specialists that there is in reality no need of such a storm signal, there being various other indications that are just as much heeded as the diminution of the untaxed bank-note reserve.

These are the reflections, gentlemen, to which I have been led in this matter, and if I have perhaps not expressed myself as clearly as you might wish, you will have to account for it by the fact of my slender acquaintance with the affairs of the money market and of our banking system. I have thought, however, that in this brief

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exposition of my views I have expressed the opinion of the majority of my fellow-agriculturists, and in particular of those of South Germany.

Doctor RIESSER. My attitude, gentlemen, with respect to the enlargement of the bank capital is also what I may term a strictly impartial one, indeed a thoroughly indifferent one. If by means of an increase in the capital I could secure a twenty-five years' extension of the bank charter, which I regard as extremely desirable, I should for this reason alone warmly advocate an increase. If, however, this is not to be attained—if the business before us is merely to consider in a sober fashion whether an increase in the capital is in itself desirable—then I must confess that the arguments in favor of an increase are, as far as I am concerned, not altogether convincing.

The increase has been urged especially on two grounds. In the first place, it is believed that a means will be found of strengthening the gold reserve of the bank and thus effectively staving off the disagreeable and long-continued enhancement of the rate of discount which we have recently witnessed, and secondly, it is believed that such an enlargement of the capital has been rendered necessary by the greatly enhanced demands upon the Reichsbank, which have followed in the train of the development of business.

As far as the gold reserve of the Reichsbank is concerned, there is no reason to believe that this can be permanently increased to any extent by the enlargement of the bank capital, because such a permanent increase—only a permanent increase can be considered here—as has fre-

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quently been pointed out, depends upon the way we are situated with respect to international balances, that is to say, whether we, in the last resort, have greater demands upon the outside world than the outside world has upon us or the reverse. But, leaving this matter aside, the Reichsbank had in 1906 gold bills of exchange and foreign gold credits to the average amount of 60,000,000 marks, and an average of 64,000,000 marks in 1907, as against 33,000,000 marks in 1899. According to the report of Herr Geheimrat von Lumm, which is extremely interesting in more than one respect, we had on May 7 of this year no less than 120,000,000 marks in gold bills of exchange and foreign gold credits, an amount to which I assume that accessions have been made in the meanwhile and which makes it possible for the Reichsbank to exert a powerful influence upon the international movement of gold and the rate of exchange by disposing of bills of exchange and thereby exercising pressure on the rate of exchange and in this way preventing the exportation of gold, which, in my opinion, it can do more readily than it could, by raising the rate of discount, counteract an excessive domestic demand for credit and promote the importation of gold from abroad. Purchases of gold by the Reichsbank have taken place on a very large scale even with the present capital, such purchases having amounted in the years 1876-1900 to no less than 2,629,000,000 marks—that is to say, nearly two and three-quarters billions—and the amount could undoubtedly have been greatly increased if the directors could have made up their minds not to stick at the price.

The increase of the stock of gold in the Reichsbank can not, therefore, be said to depend to any extent upon the

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increase of the capital, and we have seen, indeed, that after the last increase of capital the stock of gold in the Reichsbank did not increase but actually decreased as compared with 1895.

So far, however, as the desire for an increase of capital is based on the argument that the demands on the Reichsbank have increased in consequence of the increase of business, it appears to me, first of all, that such reasoning is opposed to the assertion which we hear at the same time that the demands upon the Reichsbank in the way of credit have already been altogether too great, and that it is these very inordinate demands that are chiefly responsible for the increased interest on short loans, or, in other words, for the higher rate of discount. I believe that here, too, the truth lies somewhere between the two propositions. It can not be denied that the demands of manufacturing industry which, as has frequently been the case, has been reckoning on an indefinite duration of favorable conjunctures, and on this assumption has been increasing its investments or creating new ones, have become too great in the last years; and all the banks have now and then neglected, or rather were often not in a position, with their existing capabilities in relation to the needs of the industrial situation, to meet effectually such excessive demands on the part of manufacturing industry. The table which Freiherr Von Gamp has submitted to us to-day is at all events, for the reasons advanced by Geheimrat Wachler, not to be regarded as confirming the assertion that industry, as a whole, in recent years has rather been a creditor of the bank than its debtor. It is, on the contrary,

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inevitable, as Freiherr Von Gamp has already pointed out on another occasion, that our manufacturing industry, especially for the purposes of its export policy, which is bound to be, as we all know, for a long time, and certainly for the time being, our all-important concern, will be compelled to make great demands upon our banks. For this reason we ought not to consider the increasing claims of our manufacturing industry as a matter of regret with respect to our national welfare, even if under the stress of our rapidly increasing population and the consequent difficulty of securing work and food for our people, these claims have been increasing at a rather immoderate rate. It seems to me, however, that the present capital of the Reichsbank ought to suffice for the legitimate demands of manufacturing industry and commerce, and also for those of agriculture as far as the nature of agricultural operations admits of a resort to bank credit. Nor are we compelled to believe that for the purposes of discount or of loans on personal property an increase in the capital of a bank is necessary. In my opinion, however—in such matters it behooves us to speak with reserve and modesty—it is an error to assume that the Reichsbank ought to have more specific regard than heretofore for the three individual estates—trade, manufactures, and agriculture—and that it has hitherto favored the first two estates, and in particular the banks, in the case of the latter so far, indeed, as to have merited the appellation of the “bank of the banks.” I am convinced, on the contrary, that the Reichsbank has hitherto been what it should be in accordance with the legitimate wishes of Freiherr Von Wangen-

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heim, "a central station serving the general industrial interests," and it is such in my judgment precisely when it is, not indeed exclusively, but nevertheless practically, the "bank of the banks," the center of the operations involved in the needs of all departments of the business world in the way of credit, as far as such needs can be met by banking agencies. In my opinion it is a downright elementary error to speak of a "preference of the banks" simply because at certain times it is the banks that have specially great demands to make on the Reichsbank, or bring bills there to be discounted in specially large volume; for the demands which the banks make in these cases, the bills which they present for discount, are in reality nothing else than bills and demands of manufactures, of trade, and, in smaller measure, to be sure, as I have already pointed out, of agriculture also. And indeed Freiherr Von Gamp has to-day at least indirectly acknowledged this expressly. For in opposing the restriction proposal of Herr Geheimrat Mueller, who desired that the Reichsbank be required to reduce its credits by 200,000,000 marks, he declared that this would not work, because then the industrial interests would have to apply to the banks, and these in turn would of necessity have recourse to the Reichsbank for support. This has repeatedly been the course of events in the past, and they will develop in the same way in the future. Of a preference granted to the banks as such—that is, a preference relating to the needs of the banks themselves—there can be no question in cases like these, for in such instances the relation of the banks to the Reichsbank is purely that of intermediaries, their function

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being merely that of gathering up the demands of business which converge upon them.

Nor can there be any question of essential injury to agriculture, for in consequence of the long duration of the process of agricultural production, agriculture is naturally dependent upon long-time credit. In view, however, of the obligation to cover its demand liabilities by corresponding assets, a bank of issue as a rule can not and ought not to grant this credit, either by discounting long-time bills or in any other similar form—not even, for instance, by discounting bills of which it is understood beforehand that when they fall due they will have to be renewed.

But it has been said that an increase of capital, even if it does not cause a permanent increase in the amount of gold—and indeed new shares are only to a very slight extent paid for in gold—and even if, as we all agree, it can have no permanent effect either in raising or in lowering the rate of bank discount, may nevertheless improve the condition of a bank. I think that such an assertion is at the same time correct and incorrect. Certain it is that when the payment is made in bank notes the note circulation of the Reichsbank is decidedly diminished; certain it is, too, that the obligations of the Reichsbank are diminished when the payments are made by entries upon bank accounts; and from this it follows no less certainly that an improvement in the condition of the Reichsbank will in fact take place, and also, I wish to add, an improvement in the ratio between the demand liabilities and the cash and bills with which to cover them. But it is in my

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opinion likewise certain, or at least probable, that no lasting improvement in the condition of the Bank will be introduced thereby, because the money that is withdrawn from trade by payments is again required by trade, and the needs of trade must then be met by the Reichsbank through loans and discounts. The result is that a deterioration of the temporarily improved condition takes place—or at least may and probably will take place.

Finally, to judge from the experience of the Bank of France and the Bank of England, a large capital—and it is only in so far as they have large capital that the condition of these banks (quite different in other respects) bears on the subject—is not required as security capital. Even in bad times it is not required, because at such times it is employed with difficulty, or not at all fully, and therefore can not yield sufficient revenue. Nor is its use then quite safe, especially since the danger is not remote that at these times business of a doubtful character and unsuited to a bank of issue may be sought after and entered into.

But the working capital of a bank of issue is in the first instance and essentially its note capital.

Then, too, the ethical or psychological factor, which plays a decided part in the arguments of some advocates of the increase of capital, fails entirely, in my opinion, to alter the case. The claim is made that since the private banks have increased their capital the Reichsbank can not well do less, if only to maintain its standing. But the standing of the Reichsbank, which is very high, rests not upon its capital, but upon quite different grounds. This standing therefore may be—as it has hitherto justly been—

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very high, even with a smaller capital; and under less good management the standing might be lower than it is to-day, even if the capital were large.

At the same time even I must admit that no great harm can result from an increase of capital, and that therefore, if the Reichsbank itself should demand an increase, and should base its demand upon sound arguments (which I must say I can not at present conceive of), then it ought to be empowered to secure such an increase, with the consent of the Bundesrat.

But, gentlemen, if we really mean to give the Reichsbank a vote of confidence—for this is what it would amount to—then, I think, we must give it our confidence in full measure—we must intrust it with a *facultas alternativa*. We must trust it to be able to decide, according to circumstances, which is preferable—the plan of an increase of the capital or the plan, proposed by others as being more efficient and yet less dangerous, of a gradual increase of the surplus. Then the Reichsbank would have to be given the *facultas alternativa* to choose, subject to the approval of the Bundesrat, between an increase of the capital, of which the maximum would of course be fixed by law, and a gradual increase of the surplus, the general scheme of which would certainly also have to be marked out by law.

In proceeding to increase its capital, however, the Reichsbank would have to take into consideration the condition of the money market at the time of the increase, and this in reference not only to the extent of the increase, but also to the price or prices to be fixed for the issue, and to the times of payment. For my part, aside from the

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proposal to place the decision in the hands of the Reichsbank itself, I should prefer a gradual increase of the surplus; and I should prefer this even if the shareholders were to suffer somewhat, because in this matter also we must act on the principle that the interests of the community must always be considered before the interests of individuals.

I shall say nothing of the idea of nationalization—an idea that ought, to my mind, to be resolutely resisted—because the discussions on this subject have purposely been eliminated from our deliberations and from the bearings of the experts, and because it would be impossible, within the limits of these discussions, to cover the question in any way except by mere indications. I am glad, however, to find that in this matter I am for once in complete agreement with Herr Geheimrat Wagner.

Finally, I should like to call attention to the fact that I certainly stand by every word that Herr von Wangenheim has quoted from my book, "The History of the Development of the Great German Banks;" only, on the one hand, a quotation must not be taken entirely apart from the context, and, on the other hand, nothing must be added to the original. But this is what has happened in the case of the quotation, "The outpost engagements of politics are fought by the banks on financial ground." The addition "by the banks" is not to be found at all in my text. The following is the statement on pages 129-130 of the second edition of my book, "On the History of the Development of the Great German Banks" [*Zur Entwicklungsgeschichte der Deutschen Grossbanken* (1906)]:

"Finally, it must not be forgotten what notable political successes have been won by means of the granting or the

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refusal of loans to foreign states, and to what an extent home policy can utilize for political purposes the prohibition of the placing, the listing, or the employment as collateral security of foreign papers. The outpost engagements of politics are fought on financial ground."

The moment, the direction, and the adversaries, however, in these outpost engagements that are to be fought on financial ground are determined, of course, exclusively by the department of state that is responsible for foreign politics, and not by the banking world.

Finally, I shall permit myself to make some reply to the observations that President Heiligenstadt has made to-day. The statement made by Count Kanitz that these considerations are new is not quite correct; indeed, they are covered in all essential points by the address on "Questions of the money market," which President Heiligenstadt delivered as early as 1906 before the Königliche Landesökonomiekollegium. I have read this address with great interest, and I may say that I heartily agree with almost all the essential principles therein laid down, though, to be sure, I do not subscribe to the inferences which President Heiligenstadt has drawn from these principles—both to-day and also in his earlier well-known essay in Schmoller's *Jahrbuch* (vol. 31, part 4, under the title "Der Deutsche Geldmarkt").

Even though it be true that in general—what, according to my conviction, will be possible only to a very small extent—we should aim at an increase of the working capital as distinguished from the investment capital, yet I hold it to be an error to assume that by this consideration a demand for the increase of the capital stock of

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the Reichsbank can be justified, for I consider erroneous the view expressed to-day by President Heiligenstadt that only the capital which is kept in the Reichsbank permanently remains as working capital, and is therefore prevented from becoming investment capital. It remains as working capital neither if the capital stock is increased, nor if, as was at a former time proposed by President Heiligenstadt in Schmoller's *Jahrbuch*, the banks should be required to deposit about 2 per cent of their entire obligations in the Reichsbank. For in the former case the increased capital will be treated in exactly the same way as the original capital, whether it be invested by the Reichsbank or used or misused as before by a third party, and thus used also for other purposes, since these other purposes can not by any means always be recognized as such. And in the case of the 2 per cent deposit these reasons are supplemented by the consideration that no change in the present disadvantageous relation between working capital and investment capital can possibly be seriously expected to result from the deposit of so inconsiderable a sum as 2 per cent of the obligations of the banks

As for the fixing of a bank-note contingent, I wish to say at once that I am an advocate of it, and under no circumstances, therefore, could I recommend the complete removal of the tax obligation and the tax limit. I would, on the other hand, approve of a certain raising of the tax-free note limit, which certainly has no connection, either in theory or in the practice of the Reichsbank, with the bank's discount rate. And I would approve of it for

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these reasons: That the continual passing of the tax-free note limit must gradually weaken the feeling of such a step being a danger signal, and that this constant passing of the limit would, for the reasons mentioned by several gentlemen, decidedly weaken our position in the eyes of other nations.

Doctor SCHMIDT. Gentlemen, in the hearings of the experts a great majority of the men were opposed to an increase in the capital of the Reichsbank, and that principally for two reasons. The first reason is that a bank of issue really does not need a capital of its own. The example of the Bank of England was particularly referred to. The second reason was that an increase of the capital would have no effect upon the condition of the Reichsbank. The very weighty expressions of opinion against an increase of the capital of the Reichsbank were given additional support by the well-known article of His Excellency President Doctor Koch, who has served the Reichsbank so well. The opposition to-day on these points has been considerably weaker than that of the experts; the two principal reasons brought forward against the increase are in my opinion not valid. If it be asserted that a bank of issue does not need a capital of its own, the truth of this statement is not to be denied. But the question asked on the list is not whether an increase of the capital stock is necessary but whether it is to be recommended, whether it is desirable. If we bring in for comparison the Bank of England, which, in virtue of being the most important bank, controls the gold reservoir of the whole world without available cap-

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ital of its own—and it can do this because its strength is completely assured by government advances and consols—we must not regard the situation of the Bank of England as on the same footing with that of the German Reichsbank; they are radically different. The Bank of England has altogether only seven branch offices; the German Reichsbank has 500. The extent and the kind of business transacted therefore by the German Reichsbank is also quite essentially different from that of the Bank of England. These 500 bank offices and bank branch offices give the German Reichsbank in a certain respect the character of a credit bank. Heartily as I agree with Herr Stadtrat Kaempf and Herr Fischel that this would not, in principle, be desirable, and that in principle, theoretically, the right thing would be for the Reichsbank to refuse to discount bills upon the payment of which at maturity it can not absolutely depend, nevertheless we must not forget that the Reichsbank, too, has a tradition of its own. It has taken over the Prussian State Bank, and in many provinces the offices of the Reichsbank are often the legitimate and almost the only givers of credit for very important spheres of our economic life—retail trade and agriculture. A great deal has been said here about the 200 millions of bills which Herr Geheimrat Mueller would like to see vanish out of the portfolio of the Reichsbank. The president of the Reichsbank, Herr Havenstein, was so very kind as to notify us of his last instructions to the bank offices on this subject; and these instructions have, as I know, met with universal approval. In these instructions, however, it was stated

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that renewal of bills may be granted only once at most. Here again, therefore, the tradition has been maintained that in the case of certain agricultural pursuits, which have a more than three months' turnover of their working capital, the Reichsbank offices should be permitted to grant a renewal even at the time of discounting the bill. Gentlemen, such bills, such credits, which, while they ought not to be extended further than they now are, and than by traditional development they have been, but which should not, in the interests of our common economic life, be completely abolished—such bills and credits do not form a proper note cover, and should not, therefore, be discounted out of the supply of deposits and notes, but out of the bank's own capital. Besides, the bank, as has often been remarked, has a rather considerable landed property—about 55,000,000 or 60,000,000 marks. To be sure, one may build, even with notes; but one can not redeem these notes with houses. The cost of these holdings, too, then, must unquestionably come out of the capital of the bank itself. Loans on collateral are also not suitable for covering notes; and for this reason, if for no other, the bank will do well to supply these loans principally out of its own resources. Loans on collateral are, moreover, a branch of business which is of quite essential importance to the middle classes and to the classes that are not habitually dependent upon the banks. I can easily see how a landowner who provides for his occasional need of credit by putting a mortgage on such of his property as is free from debt may lock up the deed of mortgage in his strong-box and, when he needs money,

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may carry it to the Reichsbank in order to take out a loan on its security.

These are altogether legitimate, sound demands of credit, which the Reichsbank must be in a position to satisfy. It will do well, however, not to regard the meeting of these obligations by its debtors as security for its notes.

A fourth instance in which the Reichsbank does well to rely rather upon its own capital than upon its privilege of note issue, or its deposits, is that of treasury bills, which recur so often and come in in such large quantities. The Bank of England has placed its whole fortune in such State securities. In the Reichsbank these investments have amounted to 180,000,000 and perhaps more. They have, therefore, attained quite extraordinary dimensions. These investments really ought not to be made out of notes and deposits, but ought also to be taken over only within the limits of the Reichsbank's own capital; for otherwise the operation would really be just about the same thing as if the State should decide to print notes directly instead of printing treasury bills. For it comes to exactly the same thing in the end if the State prints treasury bills, takes them to the Reichsbank, and receives bank notes in exchange. Therefore, I think that for this sort of transaction too—the taking up of treasury bills—the Reichsbank must have its own capital on hand, in order that the position of the Reichsbank be unassailable.

Also, as to advances on gold importations, as to other assets, and as to the purchase of bills of exchange, it would be advisable for the Reichsbank to carry on these

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operations—which the Bank of England does not undertake—as far as possible out of its own capital.

I think, then, that these six branches of business, the practice of which distinguishes the Reichsbank from the other great national bank to be compared with it (the Bank of England)—I think that these make it urgently desirable that the capital of the Reichsbank correspond in a certain measure to the extent of these transactions; and since our whole economic life is in process of constant development, and since the amount of the Reichsbank's business has doubled itself within ten years—for these reasons I consider an increase of the capital desirable.

Now, it has been asserted, and to-day even by such experienced men as Herr Fischel and Geheimrat Riesser, that an increase of the capital of the Reichsbank would have no effect whatever on the condition of the bank. It was asserted by the experts that the result would be simply a transference from the deposit accounts to the investment capital. Gentlemen, I have really taken much pains to work myself over to this idea, but it was impossible for me to do so. I can see absolutely no reason why the subscriptions for Reichsbank shares should have any different effect upon the condition of the bank than subscriptions for gold shares, for State loans, for Prussian consols, or for anything else of the kind. For how do these investments come about? A capitalist, with the good interest rates that he gets from his bank, has since October gathered in his coupons and dividends, and now has at his disposal a balance of 300,000 marks at his bank, and considers the moment to have arrived for looking up a

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safe investment for this money. He has long wished to build a house, so he decides to lay out 100,000 marks for the building of a house; with 100,000 marks he will buy English consols; with another 100,000 marks, bank shares which are just about to be issued. He therefore instructs his banker to pay 100,000 marks to the architect; to pay 100,000 marks to the Reichsbank for Reichsbank shares; and with 100,000 marks to buy consols or gold shares in London. All these 300,000 marks go, of course, in different directions; the bank withdraws it perhaps from the deposit account, but the effect upon the deposit balances at the Reichsbank is still necessarily the same for all three operations. During the movement, the operation will make itself felt in some way or other by the Reichsbank. Either 300,000 marks will be taken, or half of that, or a third; but in any case it makes no difference whether the capitalist has decided to use it for building his house, for buying English consols, or for buying bank shares. The difference comes in only afterwards. The money that I set aside for building the house becomes fixed and immovable as real estate; the money that I lay out for buying English consols goes outside the country (and this is, according to Herr Fischel, in some measure desirable); the money for Reichsbank shares is kept at home in the Reichsbank. While the two sums of 100,000 marks each that go to the house and to the purchase of English consols are immobilized or sent outside the country, the 100,000 marks that go into the Reichsbank in the form of Reichsbank shares remain as circulating capital, or, as President Heiligenstadt says, working capital, and thus

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movable capital, as distinguished from the other 200,000 marks, which become investment capital. That money which the capitalist devotes, not to Prussian consols, which are used for the construction of railroads or canals, but to industrial securities, which are used for the opening of mines and other such purposes—this money becomes immobile; it is separated from the circulating capital and turned into fixed capital. On the other hand, the money with which he buys bank shares remains as circulating capital by being still kept in the Reichsbank, and in this way it mitigates the great mistake of which President Heiligenstadt also spoke, namely, that in general in recent years in Germany circulating capital has been too extensively drawn upon for the investment capital. In any case, that is one of the principal causes that have given rise to the high rate of bank discount—that is, to the high rate of interest on short-time loans; and an increase of the share capital of the bank would undoubtedly have the effect that, at least to a slight extent, the increase of circulating capital would be promoted as against that of fixed investment capital. This is, in my opinion, a factor that points plainly in favor of increasing the capital of the bank.

It has been roundly denied that an increase of the capital has any effect at all upon the bank's supply of gold, or upon the bank's rate of discount. Gentlemen, I would not deny this influence in such absolute terms. To be sure, it is not easy to prove it by actual figures, but undoubtedly an increase in the capital of the Reichsbank has a tendency to increase the supply of gold as well as to lower the rate of discount. The 100,000 or 100,000,000

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marks by which the capital of the Reichsbank is increased place the Reichsbank in a position to buy for that sum bills of exchange with which to advance money for shipments of gold. The moment must of course be opportune; at such a time the 100,000,000, or 70,000,000, or 60,000,000 by which the capital of the bank has been increased can easily be changed into gold, and can be brought in the shape of gold into the vaults of the bank—and this not through bank shares having been subscribed for abroad (a thing to be avoided), but because the bank has been put into a position to make advances on gold and thereby to increase its supply of gold. It is also tenable that an increase of its own capital has at least a tendency to cause the rate of discount of the Reichsbank to become lower. Let us suppose that there are many claims made upon the bank's resources; for discounting, for making loans on bills and on collateral it has at its disposal in the form of money its capital, its deposits, and the tax-free note contingent—the bank needs altogether, let us say, 1,200,000,000 marks. Now, if the note contingent does not hold out, and the bank issues taxed notes to the extent of 400,000,000, then it will fix the rate of discount at perhaps 6 per cent. If, as in the instance that Herr Fischel brought forward, the bank has 200,000,000 marks added to its capital, then the exceeding of the tax limit amounts to only 200,000,000. It would therefore have at its disposal 1,400,000,000 instead of 1,200,000,000, and would need two-twelfths, or one-sixth, less discount—that is, 5 per cent instead of 6 per cent. Of course, this can not be accurately proved, but it is easy to see how a tendency toward lowering the rate of discount would arise.

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One element of the case, referred to by Herr Fischel this morning, has, I admit, raised some doubts in my mind. I mean the danger that if money is cheapened and if we should come again after a few years upon a plethora of money the bank might conceivably find no way of employing its investment capital, its deposits, and its supply of bank notes; that the receipts of the Reichsbank from discounts and interest on loans and from other sources might not suffice—after deducting the expenditures, which are considerable—to pay a satisfactory dividend, and that this might cause a sudden fall in the price of the bank shares, which would look very bad abroad. This possibility, however, is still a very remote one. But I would readily agree that the question of when the new shares should be delivered remain in the hands of the Bundesrat, on the motion of the Reichsbank directors. Otherwise I approve the proposal of Freiherr von Gamp, with which Herr Kaempf approximately agrees—namely, that the capital of the Reichsbank be increased from 180,000,000 by about 70,000,000 to about 250,000,000. I should suggest that share certificates be issued somewhat in this manner: That they be offered at a premium of 30 per cent or of some other named per cent, and that this premium go into the surplus. But I would urgently recommend that the speculative element, the element of uncertainty, be removed from the dividends of the Reichsbank. The Reichsbank shares must have the character of sound state securities [very true!] and ought not to have in any way a speculative element of uncertainty, such as now exists in them. The guaranteed interest or preferred interest of

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$3\frac{1}{2}$ per cent at an issue price of 130 is only about $2\frac{1}{2}$ per cent, while state securities yield 4 per cent. Furthermore, an enormous element of uncertainty arises from the fact that bank shares bought at 144 may be repurchased at 115, so that the owners of bank shares who eight or nine years ago acquired the shares at 144 now receive for them 115—that is, they suffer a loss of 29 per cent. A paper that carries with it this speculative element of uncertainty is naturally not at all adapted to making its way into wider fields—an end which has been declared by several here to be desirable, and which, indeed, is very urgently to be wished. I should therefore be of the opinion that a rate of interest should be established for the Reichsbank shares, a preference rate not of $3\frac{1}{2}$ per cent, but of $4\frac{1}{2}$ per cent, with an issue price of about 130, so that they might be assured of a revenue of about $3\frac{1}{2}$ per cent, as compared with 4 per cent on government loans [quite right!]; further, that the buying-in price upon the taking over of the Reichsbank by the Government shall not be less than the purchase price—let us say 130. Now, in order to give to the Government a share in the surplus also, and in order to increase the capital even further through an increase of the surplus, I would urgently advise that additions to the surplus be again introduced. After paying an interest of $4\frac{1}{2}$ per cent on Reichsbank shares, the Government, in order not to suffer any loss, would have first to receive 1 per cent—the difference between the $4\frac{1}{2}$ per cent preferred dividends granted to the shareholders and the present $3\frac{1}{2}$ per cent. Out of the remaining proceeds 5 or 10 per cent could go into the

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surplus, the upper limit of which should be fixed—if fixed at all—at 60 per cent. The proceeds still left over would be divided, in the same proportion as has hitherto been maintained, between the Government and the shareholders. In case of the taking over of the Reichsbank by the Government the shareholders would in no instance receive a smaller sum than that paid by them when the shares were issued.

I believe that if we make these requisite provisions for the shares the general run of the people will find them more accessible and will take them up more readily. Whether it is advisable to issue shares of so low a denomination as 200 marks is an open question; I should not recommend it. I think that 1,000 marks is sufficiently small to make it possible now for even the middle classes to acquire these shares.

As for the question of a tax-free contingent, I am not in favor of a contingent having the arithmetical rigidity of a fixed number, as is now the case. Business has developed to an enormous extent; in the matter of railroad receipts there is a notable contrast between the present time and ten years ago. The transactions of the Reichsbank, the receipts of the Prussian state railroads, the amount of coal consumed, of iron ore produced, and of wages paid—the trade associations give official material on the subject—all these figures will prove to have been doubled at almost every point within the last ten years, simultaneously with an accelerated increase of population. Meanwhile the means of carrying on business in these economic activities remain simply the same as

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before, the contingent of 470,000,000 marks. But surely this is unnatural. If our railroads were likewise to fix a contingent for their working equipment and to say so and so many cars and locomotives may be used, and no more; if more are used than this contingent, there will be a charge of 5 per cent extra on freight, I should say—but that is incredible. And the situation here is similar, if the note contingent is held to so strictly. This much at least is true (and on this point the gentlemen of the commission, as well as the majority of the experts, are apparently agreed): There is need of an increase which shall correspond in a certain measure with the increase in economic intensity—an increase to about 600,000,000 marks.

But even this rigid fixing of a limit ought, in my opinion, to be subject to correction, in order that it may have that necessary elasticity which is demanded by our economic life, and this correction might be brought about by making the tax obligation come into play only when the cash cover, or perhaps the gold cover, has fallen below a certain high ratio—let us say two-thirds; the Bank is permitted to issue notes up to a point at which the cover is only one-third. Now, then, my proposition is this: If the notes in circulation are covered by two-thirds—if, I may as well say, they have a two-thirds gold covering—then the tax obligation is not to apply even if the fixed contingent is passed, so that the contingent will be of twofold character—an absolute contingent of 550,000,000 or 600,000,000, or half of the cash holdings or of the stock of gold. This would also have the great

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advantage that the Reichsbank could endeavor, as indeed it now might, to increase materially its supply of cash. If we have 2,000,000,000 marks of gold in the vaults and a note circulation of 3,000,000,000—if, therefore, we have 1,000,000,000 of uncovered notes—then the condition of the Reichsbank is decidedly better than it is with an uncovered note circulation of only 600,000,000 and cash holdings of 800,000,000 in gold.

Therefore, I wish urgently to recommend that in considering the fixing of the contingent you take account also of the question of note covering, considering, perhaps, the suggestion that the tax obligation on overstepping the contingent be applied only after the cash covering of the notes falls below two-thirds, or $66\frac{2}{3}$ per cent.

Mr. PETER. Permit me, gentlemen, before I begin to answer the questions proposed, to return to the opinions expressed by Director Schinkel this morning in regard to the discounting of short-time bills by the Reichsbank.

I am in complete agreement with these expressions of opinion. Gentlemen, every banking institution—not only the great banks, but also such smaller institutions as have a good financial basis—seeks to discount at the Reichsbank short-time bills only, and to avoid the submission of long-time paper. For long-time paper it is the private market that sets the standard; people wish to discount these bills at the private rate of discount.

I am really very sorry that there is a requirement in the Reichsbank law according to which the Reichsbank is forbidden to discount at the private rate of interest when the Reichsbank rate amounts to 4 per cent or more.

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Many classes would be displeased if the Reichsbank were to put difficulties in the way of the discounting of short-time bills, which are naturally presented chiefly at the quarterly periods.

I come now to the answers to the questions proposed.

I reply: Since the bank's capital comes under our consideration only as a guaranty fund for the obligations of the bank, especially for redeeming its notes, and since it has not the character of working capital—for this, as we have heard repeatedly to-day, is constituted by the circulating notes—I consider that an increase of the capital is not necessary. In my opinion, and also in that of the classes of people that I have questioned, the capital the Reichsbank has had hitherto, including the surplus, is fully sufficient. I admit, however, that an increase would necessarily have a favorable effect on the condition of the bank through strengthening its own resources and through creating a better relation toward foreign money.

I find that in this matter I am in agreement with the opinions expressed to-day by Geheimrat Wagner and with those expressed last month by the expert, Herr Heyman. On the other hand, I can not see that an increase of the capital would have any effect in improving the money market, and in particular the stock of gold of the Reichsbank. A strengthening of the power of the Reichsbank to make loans on collateral I consider unnecessary at normal times, since I agree with Doctor Ströll that in case of war special measures would still have to be adopted with regard to this matter. I am of the opinion that the ordinary need can be satisfactorily met.

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I can not forego the opportunity to express the wish of a considerable number of people that the Reichsbank be empowered again, as it was formerly, to allow the introduction of a preferential rate of interest for loans made on the security of German state papers.

An argument against the increase of the capital is, to my mind, to be found in the loan requirements of the states and of the cities, which must still be satisfied in very large measure in the near future. Furthermore, I look forward to an economizing of the circulating medium which will gradually come about through the extension of the use of checks and drafts, and in consequence of this a lessening, little by little, of the demands made upon the Reichsbank. For this reason also, I consider that an increase in the capital is not necessary.

On the other hand, I am obliged to assent to the considerations brought forward by Stadtrat Kaempf to this extent—namely, I consider that they can be upheld as arguments for the increase of the capital, and that they are worthy of discussion.

Gentlemen, I may sum up my position thus: I do not consider that an increase in the capital of the Reichsbank is necessary; but I do think it can be carried through if it is pronounced desirable by the Reichsbank administration, which is, in my opinion, the first judge to be taken into account and the most competent critic of the question.

As for an increase of the surplus I should welcome it, provided it were introduced through an increase in the capital. An increase in the surplus without increase of

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the capital I should discountenance for this reason—that both the interests of the shareholders (through a cutting down of their dividends) and the interests of the Government would be thereby infringed upon.

As to the last question—that of the tax-free note contingent—I am of the opinion that it should not be abolished. The character of a danger signal has been rightly attributed to it; and rightly, too, was it pointed out that a danger signal loses its meaning if it is too often sounded. In the past year we have constantly heard the sound of this danger signal, and on this account a raising of the note contingent might well be recommended. Gentlemen, though I do not think that the increase of the note contingent is necessary for the Reichsbank and for the great banks, still I do believe that it would be good for large economic classes, provided we continue to have the danger signal. Even if I do not think that the course of the rate of discount can be materially affected by the raising of the tax limit, nevertheless, in my opinion, an increase would be useful to the Reichsbank in so far as it obtained thereby greater freedom of motion. My opinion is that the increase of the note contingent to 600,000,000 marks would prove to be an advantageous measure.

Mr. GONTARD. Gentlemen, I am quite aware that in your circle of parliamentarians, bank experts, jurists, and scholars I occupy an uncommonly difficult position. But when I received the summons to attend the bank inquiry I wrote that I was really in that sense no expert; that I could only answer certain special questions which are concerned with industry. Now, if I am to do justice to my

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task, I must emphasize the fact that I do not regard myself as a representative of a class, as has happened in the case of other men, but that I conceive my present task in just about the same spirit as I conceive my office as member of the board of trade. I have to examine the arguments that are set before me, and I have to decide, to the best of my knowledge and my conscience, whether these arguments that are set before me are valid or not. I have examined the material very thoroughly; the material that reaches one from all sides is, to be sure, so comprehensive that it is impossible for one to examine it from every point of view. Besides, it is extremely difficult to distinguish the important from the unimportant considerations.

Now, coming to the various questions, I wish to express in the name of the commission, in so far as this has not already been done by others, the heartiest thanks to the gentleman who sent us the little manual. I believe that we shall be carrying out the intention of our chairman if we keep our attention closely and particularly on this manual. I shall not go further at present into the separate reasons given, for I could not explain the argument to you further than as it is printed here before you, or as others could do much better than I.

If at this point it be said that business operations have so greatly increased that they call for an increase of the capital, I disagree. The operations of business do, to be sure, call for an increase in the circulating medium, but they do not call for an increase in the capital. Gentlemen, the contention that the land owned by the Reichsbank has

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risen in value, that more pieces of land have been bought, that in general more real estate has been acquired—this contention is plausible enough. But the increase of capital called for by this is but slight. In general, the so-called capital of the Reichsbank is, to my mind, itself only a guaranty fund; the real capital consists in the bank notes. If we are told that other countries have a smaller capital in their banks, while they have before them the same problem as that of the Reichsbank, then in this we have an argument for the belief that we need not increase our capital. It sounds plausible to say that Germany occupies a central position, and must therefore be particularly careful in this direction. But if anything were to be done with that object the capital would have to be very greatly increased—and no one has this in mind. The foreign-exchange policy is not, in my opinion, dependent upon the capital. As far as the question of loans on collateral comes in, it is not necessary to increase the capital; and in this connection I, too, wish to express my agreement with the view that too much business in this line is not good for the Reichsbank, because it might easily call forth too much giving of credit.

That the bank deposits would be withdrawn in case of war seems to me probable. This would, indeed, decidedly point toward the advisability of an increase of the capital. Nevertheless, I am not of the opinion that when new money is locked up in the Reichsbank for capital this is merely taking the money out of one pocket in order to put it into the other.

Reference has been made to former instances in which an increase of the capital has been effected; that, too, would

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be another argument against the increase of the capital, for these increases were of no use. But the counter objection could then again be made that the increase was not large enough. I am quite decidedly of the opinion that gold will not be retained if it comes into the Reichsbank by way of an increase of capital. Only an unessential influence upon the condition of the Reichsbank will be exercised by an increase of the capital; an influence upon the rate of discount will perhaps be felt for a time, but not permanently. In view of all this, I wish to say that an increase of the capital seems to me not absolutely necessary.

I may now take up the question of appearances. It is not, to my mind, necessary that the Reichsbank should unquestionably stand at the very head of the German banks in point of capital. How high, for example, shall it be placed? The Deutsche Bank has now 200,000,000 marks. Suppose it increases its capital in the next few years by so and so much; then the Reichsbank is once more not at the head. To sum it all up, then, in view of all that I have said, I arrive at the conclusion that an increase of the capital is not absolutely required.

Nevertheless, I have such extremely great confidence in our Reichsbank administration that if it should express the wish that the capital should for any reason be increased, I should not for a moment hesitate to declare my approval of a small increase.

As to the question of the note contingent, I wish to admit at once that the amount of the contingent is in every case quite arbitrarily fixed. In this case the greater

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amount of business does certainly call for an increase of the contingent.

Concerning the question of the so-called danger signal, I am certainly not of the same opinion as most of the gentlemen who have spoken to-day. We must make a distinction according as it is big business men or little business men that we are thinking of. The big business men ought certainly to be able to perceive simply from the condition of the Bank what the situation is, while the small business men—those, for example, who have, like myself, about 1,000 or 1,500 customers—are so placed that most of them do not in any case know what the tax is. If, then, after the abolition of the contingent, the people were told, "If there were now, as there used to be, a danger signal, the situation would be precarious," that would come to the same thing as if they were told by the banker, as they are now, that the Reichsbank has passed the tax-free limit.

As for the impression that would be made upon foreign countries by the removal of the tax, I wish to say that we ought not to pay too much heed to foreign countries. A graded tax seems to me too complicated; nor do I think that it would be of any value unless it rose very rapidly. Moreover, if we now consider the question of whether the note contingent shall be entirely removed or greatly raised, I am on the whole in favor of its being greatly raised, although I consider the present moment really not very well suited for such a measure, inasmuch as it would be better to wait and see how far the efforts to bring gold into the Reichsbank will bear upon this

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point. In any case an increase is arbitrary, and we live in an age in which everything is settled according to population—the circulation of silver and so forth. Could we not take the population as a basis in this matter, too, and say, instead of the 473,000,000 marks that we now have, we will take ten times the number of inhabitants of the German Empire as the note contingent?

Mr. MÜLLER (Fulda). Gentlemen, I consider that an increase of the capital of the Reichsbank is not necessary—is not even advisable if the question is put in the latter form. In my reasons for this opinion I am in exact accord with what Doctor Ströll has said here this morning. I think I need not repeat these arguments; they would take up too much time.

I should, however, like to contradict very emphatically the statement that the capital of the Reichsbank stands in any relation whatsoever to the rate of discount.

If now the question is put, whether the surplus should be increased, I would favor an increase up to 50 per cent of the paid-up capital, for a great part of the surplus is now sunk in the bank building.

As for the question of the note contingent, I should be in favor of a raising of the note contingent; I consider it to be indifferent whether the sum be fixed at 550,000,000 or at 600,000,000. I should like to say in this connection, however, that the note tax has nevertheless not been superfluous as a danger signal, that it has had a good effect in recent years, and that we are already getting the benefit of this good effect. For we may well say that the condition of the bank and the state of credit have materially

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improved since the discount screw has been firmly turned. [Quite right!]

Indeed I consider the long-continued high rate of discount in the last year and up to the spring of this year—I consider this a measure for the restoration of sound conditions, for without it the economic situation might perhaps have become still worse. The excessive speculation, “the overtrading,” as Professor Lotz said, would have extended much further and would have had still worse consequences if the curative measures on the part of the Reichsbank had not been adopted.

Now, if at this point it be brought forward by Doctor Schmidt that we shall have to increase the capital of the Reichsbank in order that it may always be able to take from the Government 200,000,000 of treasury bills, or to hold this amount at all times, I should look upon that as an utterly perverse measure. On the contrary, under no circumstances would I lend a hand to further increase the Reichsbank’s capital in order that the floating debts of the Government may be multiplied ad infinitum. It is precisely the system of floating debts, as it has been hitherto, that I regard as a dangerous, mistaken system; and I should be only too glad if a speedy and thorough financial reform should put an end to this floating debt system. Least of all would I approve of a permanent increase of the Reichsbank’s capital, which would promote still further this floating debt system. If we once have a sound government finance, if we also clear a way for the cooperative trade associations by providing credit facilities, then the Imperial Treasury, and through it the

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Reichsbank also, will be disburdened of about 200,000,000 or 250,000,000. The former situation will be restored, when the Imperial Treasury as a rule really had money. Now it is always the debtor of the Reichsbank. Whenever any need arises in the treasury a demand is simply made upon the Reichsbank, and the money taken out of it without regard to the circumstances. This situation should not be allowed to continue. The Reichsbank would even now be on a better financial footing if these floating debts and the loan arrangements of the cooperative trade associations were got rid of. Therefore I think that one should not, in order to obtain a temporary result, adopt measures which will afterwards have a lasting effect, such as those which Director Schmidt proposed.

This is in brief my view. I do not care to go more closely into the reasons for the particular points, for this has already been done in such great detail by Doctor Ströll, Geheimrat Riesser, Herr Mommsen, and others who are of the same mind, that I really think it would be a waste of time to revert to the matter again in any more thorough way.

Doctor WEBER. Gentlemen, the reasons that have been submitted to-day in favor of the increase of the capital have succeeded as little in convincing me as they have in convincing Geheimrat Riesser.

I, too, would confine myself to a few words, were it not that I wish to take up a few points that were touched upon in to-day's debate. This morning my right-hand neighbor, Oberbergrat Doctor Wachler, said that foreign countries had cast a doubt upon the credit of the

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Reichsbank; Herr von Cetto has already said that he has heard nothing of this, that he has read nothing to this effect in the foreign press. But I should like to point out to the gentlemen who favor the nationalization of the Reichsbank that foreigners would perhaps have had cause to doubt the credit of the Reichsbank if it were a pure state bank; and the only reason that can weigh with me to make me plead for an increase of the Reichsbank's capital is that an increase of the capital would further postpone the nationalization of the Reichsbank, or would even perhaps make it forever impossible.

It has been further alleged as an argument for the increase of the capital that thereby the revenues of the shareholders could be watered, and Herr Kommerzienrat Fischer has, I believe, referred to the fact that he would really be somewhat ashamed to receive 9 per cent or 10 per cent on the shares. I should like to call Herr Fischer's attention to the fact that in itself the average share of the shareholder for all the thirty-two years of the Reichsbank's existence will very probably not have been above 6.5 per cent. If it is borne in mind that the price of shares is far above par (about 150 per cent), it appears that the interest stands not at $6\frac{1}{2}$ but $4\frac{1}{2}$, or at most 5 per cent. That is a rate of interest which, taken into connection with the fluctuations of the market and the risks involved, should be regarded as not too high.

Moreover, I, too, consider that an increase of the capital will exercise no influence in any direction upon the condition of the Reichsbank. But I should like to call Doctor Schmidt's attention to the fact that the increase of the

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capital has as little connection with the tax-free note contingent as it has with the condition of the bank. For the note contingent is reckoned with reference to the cash holdings; the capital does not enter into the question of the fixing of the tax limit. Therefore an increase of the capital would bring about no change in this respect.

As for the surplus, Geheimrat Wagner explained this morning that it might have three functions—the function of guaranty, the function of equalizing the profits, and the function of increasing the working capital; and he thought that the surplus might also serve to equalize the fluctuating dividends. The use of the regular surplus for the purpose of equalizing the dividends is in itself prohibited to the joint-stock banks according to our law. In the Reichsbank, too, it should not be permitted except for the exceptions provided for in the banking law. A separate dividend surplus would, therefore, have to be created. Whether that can be done by the Reichsbank seems to me doubtful. The proposal to issue the new shares in sums of 200 marks, nominal value, seems to me dangerous. We have laid down in our law concerning shares the principle that, for well-weighed economic reasons, shares may not be issued in denominations of less than 1,000 marks. And I should like to point out, with reference to the statements of Herr Raab, that the middle class as such has perhaps no need at all to hand over its capital for the purpose of acquiring such shares. If the middle-class people wish to have safe investments at good interest they get the same revenue now from state loans, without exposing themselves to the price fluctuations of a share of stock.

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The second question, as to increasing the tax-free note contingent, includes the subsidiary question:

“May it be assumed (and, if so, for what reasons) that an increase of the tax-free note contingent has an influence upon the determination of the rate of discount?”

So far as I have heard, no reference has as yet been made to this matter by the gentlemen who have spoken before me. I am of the opinion that the tax-free note contingent has no influence upon the rate of discount. The experience of past years establishes beyond a doubt the fact that neither the former nor the present president of the Reichsbank has permitted himself, or will permit himself, to be guided, in fixing the rate of discount, by the consideration whether the highest limit of the note contingent is passed or not; and I think that, conversely, if the rate of discount should be higher than the tax to be paid upon overstepping the note contingent, this would have no influence upon the further development of the rate of discount. It is well known that other causes operate upon the height of the rate of discount.

An increase of the tax-free note contingent, while a limitation of this character is retained, I consider to be on the whole well timed, since we know that in recent years the overpassing of the limit has been so frequent that it seems necessary finally to introduce a systematic arrangement that answers more effectively the purpose of this tax limit. I think it would be a good plan to have the note contingent fixed at perhaps 600,000,000, a sum, moreover, with which no fault could be found on the score of looks, as is the case with the present 473,000,000.

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Mr. ROLAND-LÜCKE. I take it that an extension of the Reichsbank grant will not be allowed to go beyond ten years, and therefore I shall express my view of the matter with reference to this time limit.

I consider that an increase in the capital of the Reichsbank is not advisable, because, on the one hand, I can not be sure that, as the result of such an increase, the Reichsbank will be strengthened in its capacity for drawing in gold and for retaining gold, and because, on the other hand, it is just as difficult for me to imagine that by means of this increase the Reichsbank will be enabled to maintain, or to introduce, an economically sound policy of low discount.

Gentlemen, the most important point, to my mind, in all the statements, written and spoken, that have been brought before us during the inquiry proceedings, is the solemn assurance of the Reichsbank president [quite right!] that in the future the Reichsbank, in its discount operations, will confine itself, even more than it has hitherto done, to receiving legitimate business bills—that is, economically justified fluid bills. [Quite right!]

Gentlemen, it seems to me that many of you do not sufficiently appreciate the importance of this declaration. Even if our whole inquiry should appear to have no success at all in forming outside opinion, I should consider that it had achieved a tremendous success if it should have at least the effect of strengthening the Reichsbank administration in carrying out this assurance of theirs. Gentlemen, if the Reichsbank keeps to this principle you have won everything that you could, in

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any practical sense, possibly desire. You have, to begin with, the necessary influence upon the whole activity of the Reichsbank. A bank or a banker will hardly be inclined to replenish the portfolios to any great extent with such bills as can not be accepted by the Reichsbank. But you not only get the desired moderation of the banker in treacherous times, you get also the desired moderation of the banker in point of the number and the kind of customers whose drafts he will accept.

Geheimrat Von Gamp declared this morning that it was really remarkable that precisely in the hard times of the past year industrial interests in the great industrial districts made so very little demand upon the Reichsbank. I think that Geheimrat Von Gamp overlooks the fact that the greater part of the industrial world no longer uses bills at all; that very large dealers and producers are obliged to sell entirely upon open credit; that therefore the buyers, too, must mobilize their regular outstanding debts not by direct drafts but by credits, which, whether in cash or in the form of drafts, they obtain from the banks. If the declaration made by the Reichsbank president, Herr Havenstein, is carried out in practice we shall have, in the activity that will follow, a sure guaranty that a moderation on the part of the banking world will necessarily take place, a moderation which is desired by many. But we naturally have, in addition to the moderation of the banking world, also the moderation of manufacturers and tradesmen and other entrepreneurs, which will cause them to keep their business within such limits that we shall not be so likely to

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be again confronted with the situation in which we found ourselves last year—that of an overloaded stomach.

Now, gentlemen, if you are agreed with me that we really all ought to do everything we can to nail the Reichsbank down to this declaration, then I confess I do not understand why some of you wish to confer upon the Reichsbank the Greek gift of a large increase of capital. I consider a *great* increase of capital to be not merely inadvisable but dangerous. Gentlemen, if I had my little say in the administration of the Reichsbank, I should contend with all my force against a large increase of capital. Why? An essential part of the reasons have already been submitted to you by Herr Fischel and Geheimrat Riesser. I should like to call your attention also to a few little points which will perhaps make the matter more clear to you.

Gentlemen, to do business—and here I think every business man will bear me out—is not difficult; it is ever so much more difficult to refrain from doing business. I think that a great many of you who are practical bankers still remember, as I do, the time when the private discount rate was 1 per cent, and it was extremely hard for every banking business to employ even a part of its cash assets in a prudent way. Gentlemen, it is precisely at such times that most unsound businesses are started and established. The businesses come to your notice generally much later, but they are more or less compromised just at such times. Now, if the Reichsbank in its discount policy will fulfill only legitimate demands, then we must next ask ourselves: Has the Reichsbank then hith-

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erto not fulfilled these legitimate demands in the German Empire? Has any one of you ever heard a well-grounded complaint from anyone who had been turned down by the Reichsbank? I must confess that I have not. I have never heard of the Reichsbank turning away, in the discounting of such legitimate and economically justified bills, a man who was prudent and economically on a sound footing—whether a manufacturer, a merchant, a farmer, or a man of any other business that you may name. Very well, then; we have seen that the Reichsbank is fully able to respond to these demands; it has the means to do so. And are we now to burden the Reichsbank with this gift—and that at a time when, presumably, we are about to live through for a year, or perhaps two years, to come, a period of very little financial activity? I should not like to undertake the responsibility for such an act.

But I see also other reasons. From the standpoint of the Reichsbank administration, I should feel a certain fear of stepping into the midst of the factions that are contending with each other out here. As regulator of our monetary circulation, as guardian of our currency, the Reichsbank absolutely requires a certain independent position, which is provided for it by its capacity for quick decision. If it is hoped and wished—as it apparently is, to judge from certain of the speakers' expressions—that the direct credit activity of the Reichsbank may be strengthened as opposed to the indirect credit activity, then I must admit—and I believe the matter has already been referred to by one of the other speakers—that I do

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not in the least look upon that as a desirable strengthening of the inner soundness of our Reichsbank. If the Reichsbank has to deal with the real taker of credit only indirectly, it can send him away very easily in case it thinks that a certain restriction is needed. But if the taker of credit is before him in the flesh, it makes a world of difference to the standpoint of the one who does not wish to continue a grant of credit. I must confess I should prefer to have a third party to whom I may say, "I do not want that bill any more," rather than have the man face to face with me, while thinking to myself, "you know you will have to say B, too, after you have once said A and committed yourself."

The idea has been expressed, I think by Herr von Gamp that the Reichsbank would necessarily have more of an understanding of what takes place in industry, or in our economic activities in general, if it entered more often into practical activities, and consequently were more in the way of quickly perceiving, and hence, also, of influencing the indicative phenomena in this or that sphere, or in the economic sphere as a whole. The statement was not expressed in these words, but I have gathered as much from the tenor of certain remarks that have been made. Yes, gentlemen, this perception on the part of the Reichsbank, and the possibility of such a perception, really exists in every sphere, and to as great an extent as the Reichsbank can possibly desire. [Quite right!] Every man in Germany who is engaged in industry will put himself in every respect at the disposal of the Reichsbank whenever the latter may happen to question him with the

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object of obtaining direct information about his business situation, or about the situation of his line of business. In most cases, I think, he would look upon it as an honor to be asked to assist at such an investigation or at such a discussion. Of course, here and there an obstinate fellow will turn up and say: "I have no need of the Reichsbank. What business has the Reichsbank to inquire into my circumstances?" I think, however, that these exceptions are so insignificant that one need not take them into account.

For all these reasons, I should emphatically warn you not to offer to the Reichsbank a large increase of capital.

What the Reichsbank itself thinks about the question of increasing the capital we do not know; but after the expressions which we have heard from President Havenstein, and to which I referred above, I can hardly conceive that the Reichsbank will be in favor of having a large increase of capital as such. Perhaps it will even decline the offer of such an increase. A small, moderate increase of capital—by which I mean an increase of 20,000,000 or 40,000,000 marks—I should consider to be in itself insignificant, not sufficiently significant to cause me to make an energetic effort against it. I should come to a definitive decision as to whether such an increase is serviceable from the standpoint of the community if I had first heard the opinion of the Reichsbank itself, which would then have to set before us its own observations and experiences and the position that it takes, which we naturally have to take into account in all the inferences we make. This, for well-considered reasons, the Reichsbank will not do, at least not now.

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Consequently I sum the matter up thus: From the standpoint of the interests of the community, I should not condemn as hazardous the plan of increasing the capital of the Reichsbank by 20,000,000 or 40,000,000 marks, nominal value. I should even consider it advisable, if the Reichsbank itself approves of increasing the capital to this extent.

Now, for the question of the surplus. My principle as a merchant is that one can never have enough surplus. In accordance with this principle, therefore, if for no other reason, I should consider the opening of the surplus at the Reichsbank to be in itself worth consideration; I should consider it to be advantageous. The proposition made this morning by Herr Geheimrat Wagner could be very well combined with this idea. As I understand it, the existing surplus is employed, when necessary, to bring the dividends up to $3\frac{1}{2}$ per cent. It would be advisable to create in connection with the surplus which, upon the extension of the bank's charter, might have to be formed anew, a surplus No. 2, or whatever else you choose to call it. A means of removing the risk on the fiscal side could be found in this: In the event of non-renewal of the charter, three-fourths of this second surplus would be assigned to the Government as against one-fourth for the shareholders. So that the apparent sacrifice of the State would not itself count for much. This second surplus would perhaps be practically formed in this way: In case there should be on hand distributable profits amounting to more than a 6 per cent dividend, a certain fixed percentage of these profits should go to

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the second surplus. If there should be a smaller amount of profit on hand, so that the distribution of a dividend of 6 per cent would not be practicable, then the amount might be increased from perhaps $3\frac{1}{2}$ per cent to 6 per cent out of this reserve fund.

The question of the raising of the note contingent I should answer as follows:

From hearing the case stated by a number of experts, I have become convinced that, as things now stand, a certain raising of the note contingent is advisable, and I should fall in with those who consider an increase of about 100,000,000 to be a suitable amount. But I should not wish to conceal the fact that in regard to this question, too, considerable weight must be given to the position taken by the Reichsbank itself. It can not be denied that with the raising of the note contingent the Reichsbank administration would give up a factor which hitherto has stood it in good stead in the effective resistance to such sentiment as has opposed a raising of the rate of discount. We have heard, and we ourselves know, that the note tax in itself has not influenced the policy of the Reichsbank with reference to discounts. We can therefore imagine that, without reference to the question of note tax or no note tax, the Reichsbank will in the future regard a raising of the contingent as desirable. In that case, if the contingent is raised, the Reichsbank can no longer have recourse to this argument, so easily grasped by the great mass of the people: We have gone into the note-tax region by such and such an amount—we can do nothing more for you. We weaken the

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Reichsbank, therefore, in the ability to ward off certain attacks; but this argument will perhaps not be made much of by the Reichsbank itself.

For the rest I see no risk, from the standpoint of the community, in raising the note contingent by about 100,000,000.

While I still have the floor I wish to add to my observations a personal remark, which I should not like to have omitted, apropos of the speech made to-day by President Heiligenstadt.

President Heiligenstadt has depicted for us according to his conviction a remarkable type of the director, or of a director, of a great bank. He did not mean to give offense. I am, consequently, very far from finding in the picture of this type as drawn by the gentleman aforesaid any ground for irritation. But I should not like to let this legend about the type of a great private bank director pass entirely unchallenged by us, who are, or have been, bank directors, and in the presence of those gentlemen who have in charge the mercantile education of our young business men. It is all the more clear that President Heiligenstadt meant nothing derogatory, from the fact of his having at once added that if he were such a director he would of course act in the very same way. Well, President Heiligenstadt, you are not yet such a director. But I believe that if you were you would not be one long. [Quite right!]

You have said: "I can not blame the leaders of the great private banks for thinking only of their own banking interest—that is, of the interest of the shareholders and that of their institution—as distinguished from the com-

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mon interest." Ah, respected Mr. President, but that is quite impossible! Certainly, I can conceive the matter from the standpoint referred to, thus: You will be gaining a great thing for your institution. But if I look upon the question to some degree from a less short-sighted point of view, then it must be clear to me that if I injure the community in which my bank has its roots, with a great proportion of all its engagements, I shall sooner or later have to deliver up this temporary gain, and deliver it up with a large increment. I think, therefore, gentlemen, that there are very few of such bank directors as Herr Heiligenstadt conceives. But there are a great many who feel very clearly their responsibility, not on moral grounds, but on grounds of business expediency—we, in our position as merchants, will quietly let the matter rest upon the prosaic basis—who feel, then, their responsibility, in view of the fact that they themselves and their own interests would be the chief sufferers from an act that was in opposition to the general interest. [Quite right!]

The CHAIRMAN. Gentlemen, it remains for me to give those gentlemen a chance to speak on question II who replied this morning only to question I, and I request the different speakers to add at the same time whatever remarks they may be inclined to make in connection with our last debate on question I.

Freiherr VON WANGENHEIM. Gentlemen, as for the increase of the note contingent, I am on this point in agreement with the gentleman who has just spoken. I would not deprive the Reichsbank of the means of defense which it now has in the limitation; and just at present I should

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consider a further increase to be not without risk, since we are presumably on the eve of a great extension of the check and deposit business.

As to the complete removal of the note tax, I can not muster up any enthusiasm for that. I think that in this matter, too, a danger signal must be retained. In case of the nationalization of the Reichsbank the tax would be given up.

I am surprised that in to-day's debate there has again been such scornful mention of the small revenue which the government obtains from the Reichsbank. When I then observe how in the proceedings of the Reichstag the smallest sum is haggled over, I can not understand that contempt, and I bring up again the old agricultural principle: "Even small cattle make manure." [Laughter.] Even small sums are not to be despised.

Freiherr VON GAMP-MASSAUNEN. Gentlemen, I will refrain from replying to views with which I differ. I wish to make just one remark: I do not understand how several gentlemen—the last speaker among others—could say: "I am under any circumstances opposed to an increase of the capital of the Reichsbank."

Mr. ROLAND-LÜCKE. To a large increase!

Freiherr VON GAMP-MASSAUNEN. To a rather large increase; but surely surpluses can not be enough. I admit that in the relations between the shareholders and the Government it makes a difference whether the working capital is enlarged through an increase of surplus or through an addition to capital. But so far as concerns the economic question, Does the Reichsbank need more

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money? it is a matter of complete indifference whether it acquires this money by way of an increase in its share certificates or by way of an increase of the surplus. Therefore the difference is not at all clear to me. I particularly fail to understand how one can maintain that the surplus must in any case be reinforced, for this reinforcement is exactly what we want. Whether it be done in this way or in that is matter of indifference. I admit, too, that this reinforcement can also be introduced in the manner suggested by Herr Lücke. Even his other lucubrations about the distinction to be made between the shareholders and the Government appeal to me a good deal.

I shall now say a word about the tax-free note contingent. Gentlemen, if it were really a storm signal, I, too, should be in favor of it. But many of the speakers have overlooked the fact that the Reichsbank has, not once but repeatedly, declared that it would not permit this note tax to cause it to raise the rate of bank discount unless this increase should be justified and necessary on general grounds. The Reichsbank has therefore itself declared: This danger signal I ignore. I will not proceed to raise the rate of bank discount because a passing of the tax-free limit is to be expected. Now, gentlemen, if you will glance at the last yearly report you will find that in the year 1907 the tax-free note contingent was passed twenty-five times, it was passed continuously from September 30 to December 31, and part of the time it was passed by hundreds of millions. Is that a danger signal? [Yes!] Not at all. [Yes!] It falls through com-

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pletely. Gentlemen, if you should raise the tax-free limit, which is now at about 470,000,000 marks, to 700,000,000, then the tax-free limit would in the past year have been passed only on January 7, on March 30, and on June 29—that is, three times—and from September 30 on, eight times—altogether, therefore, eleven times. If the tax-free limit were fixed at 800,000,000, it would still have been passed seven times. A temporary excess of this kind would fit in with the idea of regarding the limitation as a storm signal.

Gentlemen, it must be, moreover, admitted that there is an essential mistake in principle at the bottom of the determination of the measure of this tax-free limit—namely, the mistake that it is absolutely rigid and utterly independent of the proportion in which the notes are covered. It is quite plain that the notes are secured in a very different way according as there is or is not a considerable covering in gold, and that if you have the means of covering 500,000,000 and have at the same time 500,000,000 in uncovered notes, that is quite a different situation from what exists when you have covering for a billion and have 500,000,000 in uncovered notes. It is, therefore, under any circumstances, a fallacy that lies at the bottom of this regulation; a fallacy, moreover, which is evidently seen through by the Reichsbank administration, for the latter has repeatedly declared, and has also acted upon the resolution, that it will not raise the rate of discount because it has overstepped the tax-free limit. In my judgment this would, anyway, be a more rational plan: That when the note issue exceeds a certain amount

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the percentage of the note-covering be raised by a third. This I should pronounce rational, or else that with an increase in the stock of gold the freedom from tax be extended. We can then say: If there is a larger note covering, then the notes of the Reichsbank are necessarily better secured; then I do not need this provision of the note tax.

I will not here enter further into the question of whether it is rational or justifiable to accept silver coin and imperial exchequer bills as note covering; there will still be an opportunity for discussing that matter another time.

I will therefore sum up my view as follows: I consider the note tax to be altogether irrational, and I should be in favor of its removal as such. The matter has not any large financial importance for the Government. Last year is the only year in which we have had such an exceptional situation that the note tax amounted to from 5,500,000 to 6,000,000 marks. I would suggest that if there is to be a tax, the tax-free note circulation be made dependent on the ratio of the gold cover in such a way that the tax-free note circulation would be extended along with an increase in the percentage of the gold cover.

Doctor STRÖLL. At this late hour I do not wish to keep you any longer by taking up the question of the contingent; and have the less reason to do so, since in the protocol of subcommission I my view is laid down more than once.

I will merely sum up very briefly: I am of the opinion that the provision of a contingent, in which I seem to perceive a basic and important principle of the bank law

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of 1875, should be retained; that, however, the amount of tax-free notes should be increased to the point of, say, 550,000,000 or 600,000,000.

For the rest I refer to my opinions expressed in sub-commission I, especially on page 70 and the following pages and on page 89 and the following pages in the stenographic report.

Doctor WACHLER. Gentlemen, with reference to the question of the contingent or the freedom from tax in case the note limit is passed, my position is that the fixed establishment of a definite sum, which with the permission of the bank law may well have seemed under the circumstances then existing a justifiable method of determining the contingent, has nevertheless turned out to be a failure. I take the position that the contingent, assuming that the Reichsbank needs to have it raised, should be raised.

Furthermore, I must say that the suggestions made by Doctor Schmidt with reference to increasing the contingent seem to me to be appropriate, and, if they are feasible, to be worthy of consideration.

Mr. KAEMPF. Gentlemen, I look upon the establishment of a contingent as right in principle. I consider that a raising of the tax-free note limit is not in itself advisable; I even think that it is advisable constantly to keep in mind the fact that the issuing of notes is no magical performance and that the economic needs of the public are better served if an attempt is made to bring about as great a saving as possible of circulating medium. The English bank act has in my judgment

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worked to very great advantage in this respect, that, whatever other deficiencies it may have, it has fixed a certain sum beyond which uncovered notes may in no case be issued. We have a better regulation of the matter than the English bank, inasmuch as beyond a certain amount we can still issue notes, but for these uncovered notes beyond the fixed amount we have provided a tax. That we have in this an appropriate danger signal seems to me indubitable.

Freiherr Von Gamp confuses two things; he confuses the danger signal which is given to the Reichsbank on occasion as an indication that the rate of discount should be raised with the danger signal for the public. The latter is what we are concerned about; for the Reichsbank is of course always in a position to survey the situation for itself.

As for the raising of the tax-free note contingent, I have already said that for one reason I am opposed to an increase; I consider it unnecessary if we continue to take care to economize the circulating medium. But if it is proposed that we undertake an increase of the capital of the Reichsbank by as much as 60,000,000 marks, I should make no objection to having the tax-free note limit increased in the same measure, so that the tax-free note contingent would be increased by about 80,000,000, or, if you like, 100,000,000. This position I take to be justified also on this account—I am anxious that we should not in any way create the impression of finding it necessary to raise the tax-free note contingent in order to satisfy the needs of credit, which, as we see, are, for the present, already decidedly on the decline.

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Mr. SCHINCKEL. Gentlemen, I must recur, in a word or two, to the very interesting excursion which Doctor Heiligenstadt has undertaken to make with us into theoretical political economy, and I recur to it indeed for a purely personal reason. President Heiligenstadt mentioned me twice as responsible for the remarks made by Freiherr Von Wangenheim. That is not right. Herr Von Wangenheim traced the root of all evil to an unmeasured—that was his word—use of credit and granting of credit. I have, on the contrary, endeavored to prove that if banks and industrial societies had to grant to trade, to industry, and to agriculture more credit than is, perhaps, for their own sakes desirable, there were quite legitimate reasons for the necessity of granting this credit, since it was called for by the emergency. I particularly guarded myself against using the word “unmeasured,” because I can not regard a legitimate act as being covered by this term.

I shall, of course, refrain from a further examination of the subject, although I have received the impression that many other things that President Heiligenstadt said about the credit banks prove that, though he has shown himself to be in sympathetic relation with them, he does not know how things are carried on in these banks; otherwise he could not possibly have made the observation about the heads of the great credit banks which has already been objected to by Herr Lücke. All I can say is that if the heads of the great credit banks were such people as they are represented to be by Herr Heiligenstadt, they would not long be able to retain their present posts.

There is something I am anxious to say to those gentlemen who still, even after these ten years, keep in view

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the plan of the nationalization of the Reichsbank. It is precisely these people who wish to make the Reichsbank shares accessible to the little people without limitation, though of course at a high rate of interest. I must confess that I regard this as an extremely precarious measure. I believe that, as Doctor Schmidt has already remarked, it is quite impossible to do this without limitation. If ten years hence the question is to be brought up of nationalizing the Reichsbank and making the buyers take back their capital under the present conditions, I do not think it will be possible to unload Reichsbank share certificates at so high a rate upon these people who, moreover, if the capital is increased, will not in the following years have such large receipts as before.

As to the question of the note contingent, I share the view of Stadtrat Kaempf—that it is absolutely indispensable. There might be a question of raising it a little; I should prefer, however, to leave it as it is. We are constantly being told that it is no longer a danger signal. Yes, of course; for him who will not take a warning, it is no signal. But gentlemen here are always bringing forward the argument that in the last year the contingent was passed twenty-five times. This precisely proves that one should look ahead, and the facts have shown how this signal ought to have worked; for in the autumn the great gold stringency, or the high rate of discount, came on precisely because people had not paid enough heed to the warning. I would therefore by no means give up this danger signal, and I should not advocate more than a very inconsiderable raising of the note contingent, a raising

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which could perhaps be brought into accord either with the capital that is to be freshly issued or with the surpluses which are to be freshly accumulated. In the latter case I should consider that the proper sum to add to the tax-free note contingent would be five times the amount of the surpluses to be accumulated.

Mr. FISCHER. Gentlemen, I should like to express myself on the subject of the contingent. I hold that the abolition of the contingent would be a great mistake. The contingent, in my opinion, does not serve only to give warning in case of a certain note issue; it is an absolute necessity for the security and solidity of the notes, in that it prevents their being issued in unlimited quantities. This limitation is accomplished in different ways by different institutions. In the Bank of England and in the Bank of France an absolute limit is fixed, which has in both cases repeatedly shown itself to be inadequate. If we should abandon our contingent, then there would remain only the limitation of the one-third note covering. I consider this latter limitation to be entirely inadequate to secure us against the possibility of an excessive note issue, which would be apt to influence prices and to stimulate speculation. It was certainly the intention of the lawmaker when he fixed the figure of the contingent to set thereby a limit which should be decisive for the circulation; and I am convinced that it was not expected that this figure would as a rule be reached; it was to be, on the contrary, a maximum for normal conditions. But in order to avoid the mistake committed by the passage of the Peel Act, they did not set a fixed and absolute limit, but

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left open the possibility of issuing more notes under certain hard conditions; that is, by payment of a 5 per cent note tax. I should regard the removal of the note tax as a thing to be deeply regretted, since with this the natural means of limitation would be lost.

But for the very same reason—just because I believe that the figure of the contingent should be decisive for the normal circulation—I do not hold that the figure, once fixed, must be valid for all time. We have already found that it has proved to be too small. That is perfectly natural, for the situation of the German Empire in the year 1875 was quite different from the situation of ten years ago, and the circumstances to-day are again different, and it may be that in ten years still further essential changes will be introduced. Now, it is extremely difficult to fix upon a figure which shall hold good for any long period of time, and which can be regarded as corresponding to a normal uncovered note circulation. In considering the Reichsbank figures, in so far as they concern the note circulation and the metallic cover, one comes to perceive that in the last two years we have been in no normal condition, and, indeed, principally because we had not in the Bank sufficient means of obtaining gold. For a correction of this abnormal situation I should therefore look chiefly to an attempt to raise the figure of the metal. Thanks to the exertions of the Reichsbank this has in part already been done up to the present day. But if we return to a normal metal figure—which, in my opinion, would have to be higher than it was ten years ago—then I should see nothing dangerous

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in raising the figure of the contingent for uncovered notes. So far as this I would go in agreement with Herr Freiherr Von Gamp—namely, if we had not already established another contingent system I should perhaps have considered it highly desirable that the banking law read simply thus: The notes must under any circumstances be covered by metal to the extent of one-third, but if the cover is less than two-thirds, then further circulation is subject to tax. But to go over to this system to-day would, in my opinion, involve a risk. For example, in the last years, with the low figure of the stock of gold, we should at certain times have actually had at our disposal a smaller contingent of tax-free notes than we have under the present provisions of the law, and that at the very moments when the Bank was, apart from this, very much drawn upon. The impression which would be produced by the circulation of a much greater quantity of tax-free notes I should have considered to be not without danger to the whole economic situation. I have no intention of referring in this connection to foreign countries, because I believe that we ought to make our laws for our own country and manage our affairs according to our own needs. But even at home great harm may be brought about by an excessively anxious view of the situation. I wish to point out that all those acute crises which have been observed in different countries—in England, in America—have always been caused far more by the view of the situation taken by the public in the country itself than by the judgment of foreign nations. And I am inclined to think

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that if in the past year we had had a lower limit for the contingent (at the time when the present limit was overstepped), this circumstance would have caused great confusion in people's minds, and there would have arisen a public unrest which might have worked much mischief.

Now, a study of the figures of the note circulation seems to me to indicate that we ought, in point of fact, to have recourse to an increase of the contingent. I find, that is, that if we take the figures of 1897—I have chosen the average figures—the note circulation amounted to 1,085,000,000, but in the preceding year it amounted to 1,478,000,000; there is, then, an increase of 393,000,000. If we compare the highest figures of the two years—1,320,000,000 and 1,885,000,000—then the increase is even 565,000,000. The first figure, 393,000,000, requires, however, a certain correction. We must subtract the difference in the note circulation of the private banks, which at the end of the same period had about 38,000,000 less in circulation than they had at the beginning; and we must further allow for the smaller circulation figure of the imperial treasury notes, which fulfill in trade the same economic function as the bank notes; that is, we must subtract 60,000,000. Even when we make this deduction, we find that an increase of 295,000,000 for the aforementioned ten years still remains. This raising of the figure can not be matter of surprise, since there can be no doubt that it is to be ascribed in part to a very pronounced boom (*Hochkonjunktur*). If we look at the tables that Herr Christians has placed at our disposal, we shall find that the figures of bills at the banks rose

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from 2,190,000,000 to 4,460,000,000. It is, therefore, in point of fact, not only the business of the Reichsbank, but also the great increase during this time of trade in general that makes it impossible to doubt the justifiability of such an increase in the notes.

But, gentlemen, the really abnormal thing is another figure. In the year 1897 the amount of metal in the Reichsbank was 871,000,000 marks; that in the private banks was 81,000,000; that is, there was altogether 952,000,000. In the year 1907 there was 843,000,000 in the Reichsbank, 65,000,000 in the private banks—only, therefore, 908,000,000 in all. We find, then, that, while there took place a great development of trade, and while this development should have been met in large part by an increase of the gold supply (since it occurred in a period of very extensive production of gold), as a matter of fact our gold supply in the vaults of the banks of issue fell off by about 44,000,000 marks, and consequently we had in the country an uncovered note circulation greater by 340,000,000. I should not be in favor of correcting this condition by authorizing the use in trade of such large amounts of uncovered notes. I should wish the correction to be effected by an increase of the stock of gold at the Reichsbank by, let us say, about 250,000,000. But up to a certain point it seems to me we are justified in raising even the normal figure of our note circulation, and for this reason I should be in favor of raising the note contingent to 550,000,000 or 600,000,000, and thus making legitimate the sum of about 90,000,000, which would in that case be left over as increase.

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Now, reference has been repeatedly made to the effect as a danger signal of the passing of the tax-free limit. It is quite true that in a certain sense it does serve as a danger signal, and I can not admit that the frequent sounding of the danger signal would dull our sense of the danger it indicates and that we should finally pronounce the danger signal to be useless. If we have had in the last years such a frequent overstepping of the note contingent, this has happened precisely because we have been in an altogether abnormal situation in point of economic development as well as in point of the condition of our circulation and the condition of the Reichsbank, and it was actually beneficial for us to receive frequent warnings. The danger signal, therefore, I would retain, but I question whether this danger signal does not often sound at the wrong time. If we say that we must be able to have a certain quantity of uncovered notes in circulation, we ought to keep in mind that at the quarterly periods the demand upon the currency is much greater than it is at other times, for an overstepping of the limit at these periods is nothing abnormal, while at other times it should be regarded as abnormal.

I should therefore like to make the following definite proposal: It should be provided by a new banking law that the tax-free note limit be in the general run of the year 550,000,000 marks, but that at each quarterly period it be raised to 750,000,000. Whether this increase shall be confined to the first week of the quarter or shall be extended over two weeks is a question still to be considered. I think that we should in this way manage to bring the danger signal into repute again, and to have a compara-

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tively correct figure for the extension of the note circulation.

May I be pardoned if I now turn back for a moment to the remarks of President Heiligenstadt? Doctor Heiligenstadt has said that he can not understand why I believe that, if the capital is increased, an increase of the portfolio also would necessarily follow. I must stick to this opinion. I believe that the figure of the notes which are in circulation has nothing to do with the direct satisfaction of the need of credit by the Reichsbank. The figure depends upon the quantity of circulating medium that is necessary, at the moment in question, for carrying on the business of the whole country. I do not think that if, by means of such an operation as the increase of the capital of the Reichsbank and the issue of new shares, a certain amount of the circulating notes, 70,000,000, 80,000,000, or 100,000,000, should be temporarily introduced into the Reichsbank—I do not think that in this event the need of circulating medium would be in the least affected. I am rather of the opinion that it would remain absolutely unchanged, and that the real outcome would be that the bank would very soon be obliged, in fulfilling its function of regulating the monetary circulation, to bring new circulating media into the market by way of its discount business or of its collateral loan business.

I see that on several other points I do not agree with President Heiligenstadt, but I do not wish to take up too much of your time.

Mr. FISCHER. I am in favor of the increase of the note contingent to the sum of 600,000,000 marks, in considera-

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tion of the development which has taken place in the Reichsbank in the last ten years and of that which I hope will take place in another ten years. I join issue in this matter with others who have spoken, and I merely wish to observe that the danger of our coming to have too much gold seems to me not a great one, when I reflect that the development, for example, of the use of electricity for the long-distance railways, of the building of canals, of the opening up of our colonies by railroads, etc., will continue more and more; that vast amounts of capital will have to be devoted to these operations; that probably before long our whole industry will in any case be somewhat limited in its home development; and that it will for that very reason all the more extend its money transactions abroad, and will need all the more capital for larger undertakings in foreign countries.

Doctor WAGNER. Gentlemen, I should like to say a few more words about the increase of the capital, inasmuch as the subject has come up again several times.

I will sum up once more my remarks of this morning. I was really at the beginning rather more inclined than I am now to declare myself in favor of increasing the capital. It is from listening to the debates and hearings of the experts that I have come to be somewhat in doubt on the subject. Therefore, I had in mind this morning a proposal which I now repeat. I suggest that in the draft of the law this provision be made: The Bundesrat is empowered, during the period of the next charter of the Reichsbank, to allow an increase of capital not exceeding 60,000,000 marks (a third of the present bank capital)

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if the Reichsbank administration proposes such a measure; and this increase shall be made at such times and in such amounts as the Reichsbank administration deems suitable. This plan would fall more or less within the bounds suggested by those gentlemen who were not altogether in favor of an increase, but who thought an increase allowable if it did not go beyond 240,000,000 marks.

In this connection I come for a moment to a point that has been alluded to by my special colleague, Professor Lexis, among others, namely, the significance of the basic capital as guaranty capital. I can not altogether share the view expressed by him and by others, that it is not the case with foreign banks also that the whole basic capital enters into the question. It is true that in the Bank of England a large part of the basic capital is fixed, but the whole operates as guaranty fund—that part of its capital which the bank of England has permanently loaned to the State, as well as other capital that is lent out and invested—for the permanent loan has behind it the whole credit of the State. Things are much the same in France. Then, too, I do not think that my colleague, Herr Lexis, is right in regarding the amount of securities in the issue department, which now is, in round numbers, £7,000,000, as entirely unrealizable. To my mind this is not the case. The bank is empowered to issue in England, without metallic cover, only a certain maximum amount of notes—at present this amount is about £18,500,000; these notes must be covered first by the £11,000,000 of permanent debt of the State held by the bank, of which I was just speaking; secondly, by the further sum of

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£7,000,000 in certain securities. But if this amount is not reached while the metallic cover is further extended, then appropriate sums out of these £7,000,000 can also be made use of; the Bank of England can then dispose of these amounts. We must accordingly admit that a part of the capital can also serve as a business fund. The considerations of my colleague, Herr Lexis, concerning the note issue, I therefore regard as not quite to the point.

Then, too, the question has been treated, if I am not mistaken, by Herr Kaempf, who stated that he would favor an increase on condition that the Bank's concession were made of longer duration. Perhaps it was Herr Geheimrat Riesser who said that. [Assent.]

To this I would reply: I think we should consider whether we ought not to declare ourselves in favor of a longer grant than one of ten years, with the stipulation that the Bundesrat be authorized, without consulting the Reichsbank, to add to a period of fifteen years, say, an additional period, making a total of, say, twenty or even twenty-five years. In this case I, too, should come near to favoring the plan.

In connection with the question of the note contingent, another point has to be considered. Although I think we should attach much importance to what men of practical experience say, still, as a man occupied with theories, who has in former years studied with particular care the situation in England, I should like to introduce another point of view. I have already in the subcommission referred to the question of the origin of the Peel Act, and I sum up again here the consequences of the fixing of a

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contingent, as they have come to light in both countries—in England very markedly, with us in a less obvious form. How did the whole thing originate in England? In the most arbitrary manner; because it was thought that all dangers of speculation and excessive speculation, such as lead to crises—for instances of which reference was still made to the year 1830—are to be traced to an uncovered note issue that is too loose, too large, too imprudent. It was thought, therefore, that such a note issue ought to be most absolutely prevented; and all the differences between bank notes and real redeemable paper money were overlooked. This idea can be traced throughout the whole of English literature on the subject of banking. Thus the Peel bank law was framed with the purpose of causing the changes of volume in the note circulation to be precisely the same as would be the changes of volume of the circulating medium under a purely metallic money system. Thus they thought: If, for example, £3,000,000 cash come into England from abroad, then in the case of a purely metallic currency the amount of it would be increased by £3,000,000; and, vice versa, if £3,000,000 leave the country it would be diminished by £3,000,000. The object of the Peel banking law was likewise to bring about this same result automatically in a currency consisting of both bank notes and gold. But it is well known that in practice this has not been the result, and the principle is also fallacious from the standpoint of scientific theory, for the incoming and outgoing of precious metal has no such immediate effect upon the amount of the circulating

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metallic medium. This has been often enough acknowledged by both practical and theoretical Englishmen.

More than this. In England they have at least drawn the logical conclusion. They have divided the bank into two departments—the one, the issue department, for the issue of notes; the other, the banking department, for the other banking businesses—deposits, granting of credit, investments. The deposit money is specially covered by cash (essentially gold), which is placed in the other department only in return for notes. In this way, then, they have divided the stock of gold. This does not become outwardly apparent only because, as has been said, the cash of the banking department consists nominally of notes which the banking department has received for its cash from the note department. Essentially its cash is gold. With us, however, this division of the cash has not been introduced at all. We have imitated the English in a merely mechanical way. Whoever knows the circumstances knows that it came about in this way. It was introduced by the disciples of the English free-trade school—Prince-Smith, O. Michaelis, and others; they did not, however, in this matter copy the Peel act consistently, since they made no provision for a cash fund for the deposit business. But as soon as the cash reserve in the banking department or the note reserve in our bank is much diminished, there arises great anxiety on the part of the business world that has need of credit; the demand for credit is correspondingly increased and makes itself felt earlier and more urgently than is necessary, and the establishment of the contingent serves to make the situa-

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tion in the money market more tense, and even to bring about a panic. It has been truly observed that in this way demands for discount come to the bank sooner and with greater urgency—an event which is bound to have evil results of this kind; especially, of course, in England, where the contingent fixes an absolute mechanical limit to the quantity of notes that may be uncovered by gold. In former times it was £14,000,000; now it is about £18,500,000. The more it appears that the reserve of the banking department is running out, the stronger becomes the pressure of demands for discount. For this very reason they have come in England to a conclusion which I should hold to be not a mistaken one for Germany also, namely, that this so-called danger signal comes at the wrong place and at the wrong time, and that its effect is too acute. I should like to say that the thing is still more unsuitable for our German situation, because with us distrust is spread abroad as soon as the note reserve, which is otherwise regulated, comes to fall off more and more, and people begin to say that before long the German Reichsbank will be obliged, because of the falling off of the note reserve, to take still more strenuous measures in raising the rate of discount. In this way it may even happen, for example, that shipments of gold from abroad, which are intended for us, are held back until the rate of discount shall be higher. I can not but think that this, too, has a bad effect. It was precisely because we profited by the long experience of England that we in Germany instituted the modification of making it possible to pass beyond the uncovered note contingent, though the additional issue was subjected to a tax.

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But though in a weakened—and in so far in an improved—form, the arrangement still works with very much the same results as in England. Among us, too, there is spread abroad too quickly and too vehemently an anxiety which does not end in simply throwing an immediate damper upon the tendency to speculation—which would be a desirable thing—but which has also a very strong tendency to induce even normal demands of credit to be made upon the Reichsbank much sooner than they would otherwise be made. In this I can see nothing propitious. The danger signal does, in fact, operate here, but in a wrong manner; it precipitates and increases the demands for credit that are in question. And for this reason I always arrive, after consideration, at the same conclusion: It would really be better to lay aside the whole system of the contingent. In this connection I should like to recall to you the dictum of a great English practical expert, Lord Ashburton, who once said that there is really nothing more absurd and presumptuous, when one is dealing with such matters, than to put a mechanism in place of the human understanding. And this is what happens in England in the case of the Peel act, and what happens also, in my opinion, with us in the German Reichsbank law. We must, then, trust the bank administration to do the proper thing without any such mechanical prescriptions.

Reference has been made by Herr Fischel to the Bank of France. But the Bank of France has no regulations of this kind; it is unencumbered by them.

A VOICE. The note circulation is limited.

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Doctor WAGNER. Very well; if we had, like France, a maximum note circulation of 4,000,000,000 marks and more, the effect would again be different, for there would remain, precisely at critical times, a large scope for extended issue of notes and granting of credit. For the rest, however, it is noteworthy that this bank, which now has the largest supply of cash in the world, has throughout its existence been free from such restrictions, and it is one of the functions of the bank administration to determine the relation between the quantity of notes and the cash funds. Besides, our bank is anyway already limited by a contingent through the provision that at least one-third of the notes must be covered by cash—a provision that might also, perhaps, be somewhat modified. I agree on this point with what Herr Fischel has said. Every such provision of a cover is also sure to have a more or less mechanical and obstructive effect, but its influence is not as great as that now exercised by the note-tax regulation.

Now, I know very well that serious misgivings are entertained in regard to a complete removal of this contingent system. It is feared that the impression made abroad would be unfavorable. I do not think so; we should not rely so much in these matters upon foreign opinion. Moreover, if England were to-day to get rid of the Peel act, which has long been considered antiquated, would it be thought that the Bank of England was no longer solvent? People would see that it is a restriction that is out of date and not to be retained. Nothing more would be thought in our case. The Bank of England

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even affords an example of how prejudicial, precisely in the matter of the judgment of foreign countries, such a provision may be. I am probably the only one here who remembers distinctly the crisis of 1857. I was still a student, but I was already engaged in banking work. I know that, when the Peel bank act was then suspended for the second time, the cry was heard from the continental press, and even from the voices of experts, that the step was equivalent to the suspension of specie payments, simply because the Bank of England was allowed, on the responsibility of the ministry, to issue uncovered notes beyond the legal limit. In reality this was not the case; there was no discontinuance of specie payments; but people got things confused in their minds. It may happen in the same way with us.

Hence I arrive at the conclusion that it would be better altogether to drop the fixed contingent of the bank's note circulation, than merely to raise now and then the contingent limit. But I admit that with us public opinion is not in general on that side. I have been convinced, to my sincere astonishment, that even most men in practical business are more or less supporters of the contingent system.

On the other hand, fiscal reasons will be brought to bear against the removal of the contingent. The Government needs the note tax. According to what has already been said, large sums are supposed to be in question. But I am going to make a calculation to the opposite effect. What, then, does the note tax really mean to the Government? In point of fact, it means very little. The

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Government has, to be sure, received out of it in the past year the "gigantic" sum of 5,600,000 marks; by this very amount, however, is the net profit diminished, and therefore the net profit drawn by the Government is diminished by three-quarters of this amount, or 4,200,000 marks. Without the note tax the dividends would have been 1,400,000 marks higher—that is, about three-fourths per cent. It is clear, then, that the matter is not financially important for the Government. If we wish to have regard for the financial interests of the Government, we can easily do so by arranging that the share of profits be a little bit—a fraction of 1 per cent—more favorable to the Government; that the proportion be somewhat in excess of 3:4.

But if the gentlemen think, as I have become convinced they do, that it would be well to retain the contingent as a "danger signal," then, to be sure, it must be raised. I wish here to declare myself in favor of the proposals made by some experts. My idea is this: Since we have latterly made large encroachments beyond the contingent, let us raise the sum to 550,000,000 or to 600,000,000, and then—here I agree with others—let us raise it still higher at the much-discussed quarterly periods; for at such times there may be a greater need of credit, and it is precisely then that the chief function of the central bank of issue comes into play; for such a situation in the money market corresponds to a political crisis. I once had somewhat different views, but I have also become convinced that in passing through the quarterly periods there is need of a larger issue of notes, and that this is also justified in view of general interests.

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If, then, the usual contingent is fixed at 550,000,000 or 600,000,000 marks, it can, I should say, be raised at these periods by 100,000,000 or even 200,000,000—that is, it may become 700,000,000 or 800,000,000. Even the ungraded rate of taxation that we have had hitherto might be retained; but it should be raised still further when the overstepping of the contingent goes beyond 550,000,000 or 600,000,000. For example, it should become 6 per cent when the note issue is 700,000,000 and 7 per cent when the note issue is 800,000,000, and 1 per cent more for every added 100,000,000.

If England has had the experience of being obliged, at critical times, to go as far as a 10 per cent discount rate, the same thing may happen to us. In that case we can always have in view a further raising of the tax-free contingent. But for the present it will be sufficient to fix the ordinary contingent at 550,000,000 or 600,000,000, with a note tax of 5 per cent, and to tax a further excess at the quarterly periods in the way I have indicated.

That is what I wished to add to my observations in regard to the contingent system and the note tax. I should like to lay stress once more on this point: It would be better, in my opinion, if our bank administration, like that of France, were trusted to make the proper arrangements on its own responsibility. At present it has to keep within the mechanical regulation, which may on occasion cause much disturbance.

DOCTOR HEILIGENSTADT. Gentlemen, some of you have concerned yourselves with my observations, and I am therefore led to make a few personal remarks.

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In the first place, Herr Geheimrat Riesser mentioned my speeches and represented me as having said that only the capital contained in the Reichsbank can retain the form of working capital. If I really did say that, it is simply a matter of inaccurate expression. In my speech I stated my view with great precision, and said: Such capital as comes into the possession of the Reichsbank remains and is preserved under all circumstances in the form of working capital. I do not by any means mean to convey the idea that all capital which otherwise comes into the possession of the great banks is necessarily deprived of this character under all circumstances. That would be nonsense and would contradict the statements which I have published and which are before you in printed form.

Then, Geheimrat Riesser expressed the opinion that the capital which has come into the possession of the Reichsbank was being used and that it was utilized for investment purposes. The aim of capital is that it should be utilized, but it should be utilized in a liquid form. It does not lose its character as working capital by the mere fact that the Reichsbank makes use of it, but on the contrary it remains working capital whether the bank uses it for buying up bills or not. At the present time, as the president of the Reichsbank explained at the outset in this inquiry, only three months bills were discounted and no extension was granted. By this means an adequate negotiability is effected and at the same time the capital is all preserved as working capital.

After that, Herr Fischel found fault with our analysis of the form that capital assumes when it has got into

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the hands of the Reichsbank. I think it possible that we may have misunderstood each other—

Mr. FISCHEL. It is possible.

Doctor HEILIGENSTADT. For I have always maintained and insisted that the capital that is to be devoted to the increase of the permanent capital of the Reichsbank ought to be drawn from newly created capital. When this capital gets into the hands of the bank, bank notes will disappear in a proportional measure from circulation or else there will be an increase in the stock of gold.

Mr. FISCHEL. But business can not spare the bank notes.

Doctor HEILIGENSTADT. Then the proportion of reserve to circulation would be a more favorable one, Herr Fischel.

Mr. FISCHEL. I can not see the point.

Doctor HEILIGENSTADT. I have explained all this in my printed statements, to which I can refer you. Then came Herr Schinckel and complained that I had not quoted him correctly. If that is the case, I am sorry for it. This, however, does not alter the matter much, for it is the very directors of the banks who have expressed themselves in the sense of the quoted passages. I recollect that only a little while ago Herr Roland-Lücke was speaking even of an overloaded stomach.

Mr. ROLAND-LÜCKE. In general, of course.

Doctor HEILIGENSTADT. In general. I have said nothing else in the statements which I have made on top of those of Herr von Wangenheim, whose presentation of the matter in question I may possibly have confused with your assertions.

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In the next place, Herr Roland-Lücke seized the opportunity of making a personal onslaught upon me which I am convinced is not justified by my assertions. You know, gentlemen, that I have no reason here for wishing to set before you the type of a bank director, that I have never done that sort of thing, and am not in the habit of doing it. I shall proceed to repeat my statements. The whole of the testimony of the specialists—I need only remind you of the testimony of Geheimrat Mueller and various other utterances of the *Haute Banque*—went to prove that they wished to be considered as having been forced into many transactions only in deference to competition and the like. What is it, then, that I have been trying to explain? I have been treating you, gentlemen, to a little theoretical (as Herr Schinckel calls it) disquisition in the field of economics, which I thought necessary for the establishment of my view to the effect that an ascending conjuncture (*steigende Konjunktur*) is accompanied by an accelerated rate of production. The expert, Herr Heyman, has admitted the truth of this on a former occasion and Herr Fischel has also confirmed my view. I have furthermore explained that as a large number of bills are discounted by the banks—I am not speaking of the great banks but simply of the banks in general, and these bills are also discounted everywhere by the loan associations—a fictitious credit (I can not think just now of a better expression) is virtually created. I must ask you to take all this in the sense in which I have meant it, that is to say, that there is practically a credit without any equivalent in commodities.

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Now, what I have affirmed is—and your remarks can apply to this alone—that the banks are compelled to make of this credit a productive agent, a proceeding which I consider perfectly legitimate. This is all that I have said. And now you come and construe this in such a way as to make out of it that I was here depicting a type of a bank director who was subordinating the public welfare to private ends. I have emphatically insisted that if I were a bank director I should by all means consider myself just as much constrained out of regard for my duty in the matter to invest the funds which had been committed to my charge, as the occasion prompted, in the interest of my bank as well as of the stockholders. There is not the faintest suggestion in this—the idea was as far as could be from my thoughts—that I was trying to draw a picture of a bank director such as might give umbrage to you. Aside from this I am not aware that I have said anything about bank directors.

Doctor RIESSER. I should first of all like to address a few words to Freiherr Von Gamp. The Reichsbank has practically always declared that it could never be induced out of regard for its liability to taxation to raise the rate of discount where otherwise it would not have done so. But the Reichsbank has never declared that it attaches no importance at all to the limit of untaxed circulation. Neither do I see how it could possibly take such a position, for, in spite of everything that has been said to the contrary, I am convinced that the limit of untaxed circulation is, and is bound to remain, a danger signal, and that as much for the bank with respect to its granting of credit as for the public which is asking for credit.

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I should like to reply to President Heiligenstadt that I think he has misunderstood me. The passage I had in mind is not at all the one he has just quoted. It was a comparison between the manager of a private bank and that of a national bank that the president had been making.

Doctor HEILIGENSTADT. No.

Doctor RIESSER. Yes; you declared that although the position taken would not appear any more acceptable or more correct in the eyes of the Reichsbank directors, you too, if you were a director of a private bank, would have regard for nothing else than the business interests of the institution and of the stockholders.

To this Herr Roland-Lücke gave the proper reply: "Then you would not be able to retain your position as director very long." And to this I will add that I have always insisted that even the directors of a private bank occupy an official position and do not merely carry on a business; that is to say, that they have not merely to consider private business interests, but that in every transaction they are bound not only to consider its bearings upon their business affairs, but to keep in sight its economic aspects in connection with the economic situation of the country.

Doctor LEXIS. Gentlemen, I should like to say a word or two with reference to the remark of Geheimrat Wagner. He must have misunderstood me if he imagined that I attach no significance to bank capital as a security fund and that I do not consider the part played by the capital of the Bank of England in this capacity of much importance. I was not speaking of the question of a

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security fund at all, nor had I any idea of doing so. What I said referred altogether to working capital. I asserted that the Bank of England has no working capital at all, its entire capital being in the nature of a security fund. That is what I meant, though perhaps I may not have expressed myself with sufficient clearness. The second point is that, as a matter of fact, the entire capital of the Bank of England, and even the sum of 80,000,000 marks over and above it is immobilized, for there are £11,000,000 representing the old debt in the issue department and an additional £7,750,000 consols, likewise in the department of issue, as a further security fund for uncovered bank notes, and the banking department can not touch this capital. If it did, then the limit of bank-note circulation would have to be correspondingly lowered.

Doctor WAGNER. The moment the cash reserve gets beyond this, the bank can make use of part of it.

Doctor LEXIS. That is to say that the banking department, if it has superfluous gold, can get bank notes from the issue department. But the balance sheet of the issue department reads on the one side only as follows: "Total bank notes issued" and on the other "cash and consols." The banking department can absolutely not touch this capital; that is simply impossible. If it did do so, the limit of circulation would have to be changed.

Doctor WAGNER. It seems to me that there are other securities that can be hauled in besides the guaranty securities.

Doctor LEXIS. The banking department has, of course, consols of its own. It is at liberty to dispose of these.

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Mr. FISCHEL. Gentlemen, I have suggested that the limit of untaxed circulation be raised to 550,000,000 marks as the normal limit, but that at the quarterly periods, to wit, for the first and second weeks, the limit be made 750,000,000 marks. In regard to this Geheimrat Wagner has suggested that it would be good policy to tax the excess circulation at the quarterly periods at a higher rate than the excess at ordinary times. This would not be expedient, in my opinion, for the additional 200,000,000 marks does not by any means correspond to the increased tension that we generally observe at the quarterly periods, as manifested by the increased circulation in comparison with ordinary times. In my opinion, 750,000,000 marks at the quarterly period is a smaller figure for the extreme normal limit than 550,000,000 marks for the limit at other seasons. The proper thing, therefore, in my judgment, would be to impose a uniform tax on circulation, whether it be beyond the limit of 750,000,000 marks at the quarterly periods or 550,000,000 marks at other times of the year.

Doctor HEILIGENSTADT. Permit me first of all to say in reply to Geheimrat Riesser that he has been making too much of the contrast which I appeared to have in my mind when I made use of the expression "private banker." I do not see how I could have done anything beyond simply comparing the position of a private banker with my official position as head of a public-credit institution. It is not my main task as head of a public-credit institution to earn dividends, but I consider it the duty of a private bank to turn out reasonable dividends.

Doctor RIESSER. That alone, and nothing else.

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Doctor HEILIGENSTADT. Gentlemen, there are some in this very assembly who have demanded this of the Reichsbank.

If I may be allowed to speak with reference to other expressions that I have heard, I will say that Director Schinckel was kind enough to call my attention to the fact of my having declared that if I were a private banker I should be guided only by the interests of my shareholders. It is true, gentlemen, that I spoke thus; but, of course, I did not mean to say by this that the public welfare was thereby to be overlooked. Nothing could be further from my mind. You will agree with me, gentlemen, every one of you, that you are bound to look out for the interests of your shareholders and your bank. I will ask you to convince yourselves of the correctness of my assertions through the stenographic reports. I shall not make any corrections in the stenographic reports at the place in question.

Mr. ROLAND-LÜCKE. I infer from the words of Freiherr Von Gamp that I did not express myself with sufficient clearness in regard to a provision for additions to the surplus. What I had in my mind was a sum of 1,000,000 or 2,000,000 marks annually. As I was not thinking of any higher sum, it is evident that an accumulation of, at most, 10,000,000 or 20,000,000 marks in the course of ten years would be in line with what I have been suggesting.

So far as President Heiligenstadt is concerned, Geheimrat Riesser and Director Schinckel have kindly spared me the trouble of making a response. This is the way the independent proposition of President Heiligenstadt, which is still in my ears, sounded: "It seems natural to me

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that the heads of great private banks should think only of the interests of their shareholders and of their institutions, even if these be opposed to the public welfare, and, if I were such a bank director, I should do likewise." This proposition evoked a reply on my part, and has, as a matter of fact, been adequately discussed by Messrs. Riesser and Schinckel. I am perfectly satisfied now with the explanation of President Heiligenstadt. I did not intend, indeed, to make a thrust at him; what I meant to do was merely to avert the danger of a false interpretation being put upon the assertions which he made at the start.

The CHAIRMAN. Gentlemen, the last speaker on the list has been heard.

I must inform you that, in accordance with an understanding arrived at between that gentleman and myself, Freiherr Von Gamp will not produce the special statistics with respect to the origin of the bills which he asked for this morning, for the reason that this would involve considerable work for the Reichsbank and would in part be even impossible, and I wish to add that the statistics which Herr Von Gamp has called for respecting the amount of the loans for the period 1900 to 1907 and the annual statements of the banks for the same period will be tabulated at our hands according to the private tables that have appeared in the *Deutscher Ökonomist* and in the *Frankfurter Zeitung*. I assume that the members of the committee of inquiry approve of this.

(Assent.)

Gentlemen, we have come to the close of our deliberations, and I thank you heartily in the name of the federated

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governments, and especially in the name of the Reichsbank, for the zealous assiduity which you have displayed in the prolonged discussions of the day, for the valuable and manifold suggestions with which you have favored us. I hope, gentlemen, that I shall have the pleasure of greeting you in the autumn in unimpaired numbers and vigor, prompt as now with your suggestions and ideas. In the meanwhile "*Auf Wiedersehen!*"

(Close of session, 8.15 p. m.)

THE FEDERAL RESERVE BANK OF ST. LOUIS

and in the interest of the public, the Board of Directors of the Federal Reserve Bank of St. Louis, Missouri, has decided to issue a new series of Federal Reserve Notes, which will be put into circulation on or about the first day of January, 1914. The new notes will be of the same denominations as the old notes, and will be made in the same manner as the old notes. The new notes will be made in the same manner as the old notes, and will be made in the same manner as the old notes.

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MONDAY, *October 12, 1908—10.16 a. m.*

Chairman, Wirklicher Geheimer Rat HAVENSTEIN,
President of the Reichsbank direktorium:

GENTLEMEN: Let me welcome you in the Reichsbank to a renewal of our discussions, and let me thank you for coming in such numbers to resume your labors and discussions, as well as express the hope that our deliberations may prove of great benefit to the economic welfare of Germany and the interests of the Reichsbank, and that they may achieve results worthy of your labors and devotion.

I have first to inform you that the following members of the committee of inquiry have asked to be excused from appearing to-day: Freiherr Von Cetto-Reichertshausen, who can not come until to-morrow, and Count Kanitz, who may join us to-morrow, but possibly not until the day after.

The following members of the committee of inquiry are present: Messrs. Fischel, Fischer, Freiherr Von Gamp-Massaunen, Gontard, Kaempf, Doctor Lexis, Mommsen, Mueller (Fulda), Peter, Raab, Doctor Riesser, Roland-Lücke, Schinckel, Doctor A. Schmidt, Singer, Doctor Ströll, Doctor Wachler, Doctor Wagner, Freiherr Von Wangenheim, and Doctor Weber.

One of the imperial commissioners, Ministerialdirektor Weingärtner, has had to excuse himself on account of official business.

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The list of those present at the sessions will be kept daily, and I shall therefore request the members to enter their names.

It is in order now to open the debate.

Question III.—What means are available to the Reichsbank for promoting the drawing of gold from foreign countries, and for obstructing the outflow of gold to foreign countries?

A.—How may the importation of gold be effectually promoted? By suitable management of the discount policy? By development of the foreign exchange business? By the granting of advances free of interest or similar methods of facilitating gold importations?

(B) What are the causes of an outflow of gold to foreign countries, and by what means may it be prevented? What is the nature of the so-called premium policy, under what conditions is it applicable, and how does it work?

I propose, gentlemen, that we adhere to the method of debate which was followed in the case of questions I and II of our question sheet, and which seems to have worked very well—that is to say, that each member shall express his opinion regarding the individual questions, as the imperial chancellor is anxious to get the views of all the gentlemen constituting this committee of specialists; but I wish to say emphatically that I do not by any means wish to restrict the members to this single expression of their views. I should, on the contrary, be glad, and I should appreciate it, if these individual expressions of opinion were followed by general debate, so as to produce a discussion calculated to throw light on each question.

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I think it would be best, just as was the case at the hearings of the experts, to discuss the questions of the influx and of the efflux of gold jointly, as it is practically impossible to separate the two. I suggest that you deal with, or, if you choose, touch upon, the question of the effect of the discount policy in so far as it is determined by the conditions prevailing in our national economy, or reacts upon it. I think it would not be wise to deal separately with the question of the international balance of payments. The experience which we had in connection with the special debate on this subject in the spring shows that there is no getting through with this theme. If the balance of payments is to be discussed at all, I would suggest that this be done along with the discussion of questions A and B. The questions pertaining to the organization of the business of foreign exchange, advances without interest, the gold market, and the gold-premium policy are in my opinion such closely circumscribed subjects that it would perhaps be better to leave them out in this first discussion in order to deal with them separately later on, so that at the outset we may be able to confine ourselves altogether to the matter of the rate of discount, dealing with it particularly with respect to its effect upon the inflow of gold and the prevention of its outflow.

Freiherr VON GAMP-MASSAUNEN (proceeding to the order of the day). I should like to ask the chairman to be kind enough to inform me when and where a very important question is to come up for discussion—that relating to the consumption of gold throughout the country in the various industrial processes. This question is not on

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the question sheet, but it is one which has been treated in a very thorough manner by those interested in the subject, and I regard it as of great importance, inasmuch as a considerable quantity of gold is withdrawn from circulation through its employment in the arts.

The CHAIRMAN. I think we shall be able to take up this question in connection with the outflow of gold.

Freiherr VON GAMP-MASSAUNEN. The point named is "outflow of gold to foreign countries." I am willing, however, to have the subject discussed in that connection.

Doctor STRÖLL. Gentlemen, in considering the subject of Germany's stock of gold and the inflow and outflow of the metal, what is paramount is our international balance, which is not the balance of trade alone, but the balance in the whole account of sums payable and sums receivable. For us seated around this table to try to affect this balance is attempting the impossible. This is a matter of the national industry, and it is a matter of national polity in the highest sense of the word. If we come forward here as counselors of the Imperial Government, all that we are called upon to do is to express our opinion in regard to the expedients more or less radical that present themselves in the technical domain of banking and currency—expedients which can not be determining factors in the situation, but merely cooperate in shaping it.

If we were constantly to have an unfavorable balance, Germany would be compelled to see an ever-increasing fraction of its stock of the precious metal going abroad. The question, therefore, to what extent we have a balance against us is one that in my opinion we can not altogether

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get around. Unfortunately, this question is not one of those that can be answered the moment they are put. One of our experts made use of the refreshing expression that he did not care a straw, not a pinch of snuff, for the balance of trade. Of course, I am not prepared to go quite so far as that; but there is one thing, however, that I think we must admit, and that is that we have hitherto not had any reliable gauge of our international balance; and, as a matter of fact, we have none yet. We can indeed figure out our balance of trade, but it is impossible to ascertain the amount of our capital invested abroad or of our investments in foreign securities. It is a question in my mind whether the method of Professor Schaer, which as you know has not remained unchallenged, is sufficiently effective to supply this need. We are still obliged to make conjectures and estimates and to be satisfied with just a few indications bearing upon this matter.

One of the main indications is, especially if we consider a long stretch of time, the country's stock of gold; and not only the visible stock of gold in the banks of issue, but also that invisible, or, at least, not measurable quantity of gold which is circulating among the population itself. With respect to this matter various opinions have been expressed in the course of this bank inquiry. While some have considered this gold circulation within the country to be quite sufficient for the need, and even plentiful, others, on the other hand, have expressed the view that Germany has in a way reached a stage of anæmia with respect to its gold. On this account, indeed, the

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suggestion has been made—it comes from Freiherr Von Gamp—that a census be taken of the gold supply, which, however, in my opinion, would for practical reasons be utterly impossible.

It is my opinion that in this matter, just as in most human affairs which are open to controversy, the truth is probably somewhere about midway between the two extremes. As I was on my way to Berlin last May to be present at the bank inquiry the following considerations relative to the gold question presented themselves to my mind. As a director of a bank of issue my daily experience showed me that we have a currency pretty well saturated with gold. I could see that in the Reichsbank and in the private banks fluctuations in the stock of gold are very quickly leveled out and that the ups and downs in the record come pretty close to each other, all of which points, of course, to the fact that there is gold to the stage of saturation in our supply of the instruments of exchange. Statistics had taught me, furthermore, that in the past ten years—leaving out, of course, the year 1907—gold to the amount of about one and a half billion marks was supposed to have flowed into the German market. I knew perfectly well, besides, that it is only in very exceptional cases that the Reichsbank has raised its rate of discount merely for the reason that gold was leaving the country. And I also knew that Germany has been steadily growing richer and is constantly making investments of capital in foreign countries, and that the sums which Germany draws from these investments in the way of interest, etc., would much more than suffice to offset the amount by which the

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balance of trade is against us. I was aware, too, that thinkers who have a broad outlook upon the economic situation—such men, for instance, as his excellency, our chairman—regard Germany as a creditor state, having in the long run a balance in its favor, and that they consider a temporary outflow of gold as of little importance. Furthermore, I said to myself that such critical times as those of 1907, such a conjuncture of a great domestic demand and an international scramble for gold, are not likely to repeat themselves. And finally—and this is a very important point, with respect to which I agree perfectly with Herr Von Gamp—I was acquainted with the official estimate of the consumption of gold in the arts, which at that time was assumed to be somewhere between 14,000,000 and 20,000,000 marks, and I considered such an amount as of little moment with respect to the stock of gold in the country.

If, actuated by these facts and considerations, which in my opinion do not by any means justify a pessimistic view of the situation, I adhere, on the whole, to my view, and if I still believe that, while we have an unfavorable balance of trade, we have a favorable balance of international obligations, yet there is one point—and here I am coming to the matter that Herr Von Gamp has touched upon—in regard to which I must admit that I have been undeceived, and that is in regard to the needs of the German gold industry. I was astounded by the alleged figures of the yearly consumption, running up to between 80,000,000 and 100,000,000 marks, as well as by the egoistic naiveté with which the representatives of the gold industry regard

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this assault upon the German coinage gold as, from every point of view, their prerogative, not only legally but morally, taking it all as a matter of course. If it is true that every year from 80 to 100 millions find their way into the melting-pot, then indeed the pessimistic dread of anæmia in the matter of gold is not to be reasoned away.

Freiherr VON GAMP-MASSAUNEN. Hear! Hear!

Doctor STRÖLL. What does it all mean? And so we are to take it that the gold which we purchase each year with such painful toil, the gold that represents the surplus of our national industry, is not devoted to our pressing monetary needs, but is offered up to the Moloch of industry [A voice: Moloch?]*—*at least of one industry, which, in my opinion, is arrogating to itself altogether too much in this matter of the use of our coinage gold. Of course, I am not speaking of a Moloch of industry as a whole. I clipped the force of this expression the moment it was uttered, so as to guard against a false interpretation. I, for my part, consider the recognition of the fact that we are annually sacrificing between 80 and 100 millions of the German coinage gold to the demands of industry one of the most important fruits that the whole bank inquiry has brought forth.

Freiherr VON GAMP-MASSAUNEN. Quite correct!

Doctor STRÖLL. I regard it as a sort of warning which we have received at the eleventh hour. And we may be glad of this warning; the question is whether we are going to heed it in the future. As far as I am concerned, the fact that so much gold is swallowed up by the industrial arts is sufficient, as I have said, to make me take a less

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optimistic view of our gold situation in its entirety than the view I took in May, when I first came here. This consideration alone ought to justify each and all in urging every means tending to encourage the importation of gold and to hinder its outflow.

Let us ask ourselves what are these means, remembering that in this inquiry we are to deal only with such instrumentalities as pertain to banking and coinage. In my opinion—and Herr Von Gamp has anticipated me—the question sheet which is to serve as our guide in these discussions needs an addition in the way of a question concerning the consumption of gold in the arts. I should like to dwell on this question for a moment.

In this matter a change will have to be made, not by means of a revision of the bank law—we had better leave the bank law alone—but by an amendment of our coinage regulations. What we have to do is to introduce some kind of provision in our coinage regulations that will tend to do away with the evil in question. The coined gold of the German Empire is gold of a specific kind; it is worth while to guard it by imperial enactments, and it is necessary to make some legal provisions with respect to it. This coin gold is altogether different from the international gold bullion, which is regarded as merchandise, and which, for aught I care, industry can get hold of to its heart's content. When we are told that it is not merely the German gold industry that is drawing upon the nation's fund of the precious metal to satisfy its needs, but that this same fund is being made use of to a very great extent by the Scandinavian countries, then I must

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say these are conditions that call for the intervention of the Government. I am not a metallurgist and do not pretend to know how to go about it myself. But it seems to me in a vague way that the chemical science of Germany ought to be able to devise some way, by introducing some alloy or other in the composition of the coin gold, of preventing industry from appropriating this gold regardless of consequences—some sort of an alloy, I say, which, while not depriving the gold of its fitness for coinage and recoinage, would at least render its use in German industry difficult. Personally I should not be sorry at all, in case of necessity, to see a penalty imposed upon the use of the German coin gold in industry, for the public good is paramount to the property rights of the civil law.

I now come to the question of the possible means of increasing the gold supply as formulated under Head III of the question sheet. Fresh light has been thrown on this question, as you all know, by the interesting and weighty suggestions of our distinguished colleague, Herr Fischel. Some of the means which he suggests strike me as desirable and worth considering, while others appear less adapted to the end in view. A very effective means in my eyes would be the vigorous prosecution by the Reichsbank of the foreign-exchange business. This comes naturally within the province of a central bank, whose business it is to regulate the circulation of the currency and to be the guardian of the monetary standard. The more completely the Reichsbank takes charge of the exchange business, the more it monopolizes it, in fact, the better. The Reichsbank would in this way be at all times in close touch with

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the money markets as well as with trade in general, as behooves an institution which proposes from its coign of vantage to take a calm survey of the economic situation and to influence it. I should like to see the Reichsbank as accommodating and liberal in its dealings as possible, subordinating its own business interests to the interests of the public. I do not consider it necessary to enter into details at this particular moment, all the more so as the splendid exposé which has been drawn up by Geheimrat Von Lumm has made it evident that the new bank management in this very matter has struck out upon a path different from that pursued by its predecessors, that it has profited by the lessons furnished by other countries, and that it has already greatly improved the situation as compared with the previous state of things. Of course there is no use in imagining that we can accomplish everything, for there is no way yet found of getting rid of the foreign acceptance. The main trouble is always with the English acceptance, and regarding this in particular Geheimrat Von Lumm expressed himself very guardedly, in my opinion rather too optimistically, if I may venture to say so, for he hinted at the contingency of war and fancied he ought to appeal to The Hague conference. For my part I must say that I would not give a straw for this kind of comfort, for if we were to set about now to mobilize our army the Reichsbank would, as was the case with the Bank of France in 1870, start up at once as a war bank and as a national bank, and the enemy would have the job of a financial fight with us. If the English bills of exchange in the hands of the Reichsbank should make an

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extravagantly big lot, they will in time of war undoubtedly be immobilized from time to time. Whether that be a great misfortune is not so certain. On this account also I am not in favor of having the foreign bills of exchange reckoned as part of the bank's stock of gold, as has often been urged. For, as I have said, in the event of a future war, there is going to be more of a financial contest than has been the case hitherto. If the business of foreign exchange, by reason of the meager returns in the way of interest and more or less loss in the matter of exchange, makes some demands upon the unselfish spirit of the Reichsbank, the same thing is true in a much greater degree in the case of the so-called "inducements" which the Reichsbank in various ways offers to the gold importers. Such a way of promoting the inflow is certainly very commendable. The newly-shaped activity of the bank has already shown quite extraordinary results, and if the Reichsbank intends to continue on this course and succeeds in taking the gold that comes to Europe in the spring and autumn and reserving part of it for its needs, I believe we shall have made a great step in advance. We can certainly point already to decided progress. We financiers in the interior of Germany are not in a position to give much advice regarding the traffic in gold, as we see too little of it. As for myself, it would be presumption on my part to do so.

For the same reason I hesitate to express any opinion regarding the suggestions of our distinguished and well-informed colleague, Herr Fischel. I can hardly say indeed that my opinion amounts to much more than a

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general impression. My impression is that we have before us a specialist of the first rank, who has taken the results obtained from the observations and experiences of many years and condensed them into a precise expression of his views, which is highly deserving of our consideration. The fundamental idea of Herr Fischel that Germany ought to have a place in the sunlight in the matter of the traffic in gold and the acquisition of the metal resulting therefrom, and that she ought to free herself from the fetters which she has placed upon herself, I consider perfectly sound. Among the means which he particularly suggests for attaining this end are the abolition of the seigniorage which is laid upon the Reichsbank, the establishment of a gold market in Berlin, and, in connection with this, the establishment of a gold refinery.

I believe firmly in the proposition that the Reichsbank be relieved of the expense of coinage. The bank is doing all that can be asked of it in behalf of the public good. As to whether the establishment of a gold market in Berlin along the lines suggested by Herr Fischel is practicable or not, I have no opinion to express one way or the other. As I have said before, I am too far away from the field to assume the attitude of one who thinks he knows. What I am able to say, however, is that I shall welcome every measure aiming to secure for Germany as large a share as possible of that precious commodity of all nations which we call gold. And if now and then this has to be achieved at some sacrifice, I am none the less in favor of it, as I consider the whole thing consistent with sound principles of economy. For even the temporary

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possession of gold may be of the utmost importance to us, and the more gold we manage to secure, the more readily shall we be able in untoward times to hold on to it, and the closer shall we get to the view of our good old Ludwig Bamberger, who used to say that there is no sense in being excited if occasionally a couple of dozen millions of the precious metal slip out of the country, as they are pretty sure to return with the advent of better times. We should not feel ourselves compelled in the case of a legitimate outflow of gold, such as took place in 1907, to interpose various difficulties and vexatious impediments, a proceeding which may have appeared very patriotic but which in my opinion did more to lower us in the estimation of the world at large than has been generally supposed. Dealings in foreign exchange, inducements in favor of gold imports, and the measures suggested by Herr Fischel are all links in a single chain, not of uniform strength indeed, but as a whole very powerful and capable of producing important results.

Having referred to these practical measures for the protection and security of our gold supply, I shall just take the liberty of saying a few words concerning one less practicable and another altogether impracticable means. The less practicable means is the one which I shall designate as screwing up the discount; the utterly impracticable one is the putting of a premium on gold.

The operation which I call screwing up the discount has no permanent effect in the way of causing an accession of gold but merely a temporary one, due to the attraction to the bank of short-term funds, which perhaps, as an

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addition to our working capital, we can not always spare, even if the cost be excessive. On the other hand the higher rate of discount is such a burden upon our domestic economy that we can not in the long run get along with such a system. I repeat, then, in the long run under a gold standard, this is an unpractical means because it is burdensome to our industry and occasionally has even the effect of choking it.

As regards the scheme of putting a premium on gold, I should consider any attempt to introduce it, or to carry it through, simply fatal. What sense is there in adopting this alleged method of protecting the gold supply, which in the land of its birth, in France, has been almost completely abandoned and is being replaced by a rationally adjusted foreign exchange and discount policy? Why should we adopt a means which may perhaps protect the gold in the bank but as a result of which the gold in circulation will all the more easily become the prey of the exporter? What is the use of constantly bringing up the conditions in France in the discussion of our own situation? They are not at all applicable, being fundamentally different from our own. And in my opinion the conditions here are in many ways so vastly more sound and normal than those prevailing in France that any analogy with reference to our situation would be wholly illogical. And why should we, by putting a premium on gold, plunge the German public everywhere into strife, excitement, and turmoil merely in order by doubtful means to protect—and that is only a supposition—a nation's stock of gold which protects itself without artificial means and without

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any change in the foundations of our monetary standard, simply through the ordinary course of events? I am so thoroughly convinced that there are but few in this commission, and perhaps none at all, who are advocates of this premium idea that I hardly think it necessary to proceed beyond these few remarks.

In all questions concerning gold and our policy with regard to it the Reichsbank stands at the fore. To it as the legally constituted guardian of the monetary standard new tasks are constantly assigned, entailing trouble and sacrifice, while at the same time it is expected to apply more searching and comprehensive methods to the discharge of its previously existing functions. The Reichsbank knows what everyone knows, that we have entered upon a new age, and that this means new methods, new aims, and new duties. The fiscal and more or less bureaucratic standpoints which in past years have largely characterized the bank's policy are gradually disappearing, relegated to the background. The spirit that is now asserting itself absolutely above all else is the consciousness of the national character of the institution, a regard for the public good, divested of all considerations of private gain. I cannot help thinking that the Reichsbank is now entering upon a new phase of development, tending toward a loftier plane and still higher aims, and there is a general impression that the new management, without departing from its time-honored traditions, does not underrate the problems of the present and is not going to shirk its duties. I am sure that every patriot has reason to congratulate the Reichsbank heartily on its past record and on its deter-

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mination to adapt itself to the needs of the present situation.

The CHAIRMAN. I would once more suggest to the members that in order to prevent these discussions from being too desultory, they reserve the questions relating to the conduct of the foreign exchange business, the gold market, and the gold-premium policy for future separate discussion, and confine themselves for the time being to the general question of the discount policy of the bank with reference to its effect in attracting gold and preventing gold exports, as well as upon the domestic situation generally.

Freiherr VON GAMP-MASSAUNEN. Do I understand that the suggestions of Herr Fischel in regard to the drawing of gold from abroad may be discussed in this connection?

The CHAIRMAN. I will ask you to include in this discussion such questions as that of the gold market.

I have to inform you with reference to the suggestions of Doctor Ströll respecting the danger to our standard coinage resulting from the melting down of large quantities of German gold, that we have since last spring been doing the very thing that he has proposed and have consulted the various assay offices, mints, etc., in regard to the possibility of restricting this use of the standard metal in the arts by means of some alloy. We have not received all the reports as yet. As far as they have come in, however, the result is emphatically negative. We are told that no means has as yet been found of treating the metal in such a way as to leave it suitable for coinage and at the same time to render it unavailable for industrial purposes. Gold that admits of being coined can just as easily be converted to the needs of industry. Thus far, I repeat, the

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answers are not affirmative, but we are still awaiting further reports.

Doctor RIESSER. I will take the liberty of asking the chairman to reconsider whether the plan of dealing separately with the foreign exchange business and the gold premium is really practicable. I must say in all modesty that I do not think it will work. There is such a close connection between the subjects that it is almost impossible in discussing the question of the inflow of gold or the possibility of preventing the export of gold to abstain from making some slight reference here and there to foreign exchange or the fastening of a premium on gold. But whoever happens to speak will hesitate to treat of such weighty questions merely by way of allusion and in an incidental manner, especially when these subjects are introduced for the first time. I would ask the chairman, therefore, to consider if it is not practicable for us to discuss these questions also, with the proviso that, in case it should turn out—which, however, I do not believe—that these questions have not been fully discussed, we shall deal with them once more each by itself.

The CHAIRMAN. I have no objection to having the question of the gold premium discussed along with the other questions in a merely cursory way. I believe, however, that the subject is so very broad that the moment contradictory views clash with each other in this commission it will be utterly impossible to do otherwise than discuss the question thoroughly apart from everything else. If the members of the commission are unanimous in regarding this matter of a forced gold premium as some-

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thing impracticable and are not inclined to go deep into the question, we shall at all events soon get through with it. But I should like to wait and see whether the exchange of views is not going to develop into a thorough discussion, which I should indeed consider highly desirable.

Freiherr VON GAMP-MASSAUNEN. I should like to second the request of Doctor Riesser. I hardly believe that there will be any protracted discussion regarding these two points in particular. Each one of the speakers will take occasion to define his attitude in a few strokes. It will expedite business very materially if we can settle the matter right here. Judging by the course of the discussions in the commission—the president did not attend all the sessions—I have come to the conclusion that there is not going to be any great diversity of opinion in the commission in regard to this matter of a gold premium.

The CHAIRMAN. Very well, gentlemen, suppose we try the experiment of including these two subjects in the discussion of the question before us. We shall see how far we can get.

Mr. GONTARD. Chairman and gentlemen, just after a banker has had the floor [interruption] or at least a representative of the banking fraternity, it may appear somewhat presumptuous for one who does not belong to that guild to get up and address you. I shall begin by protesting against the expression which we have just heard applied to our manufacturing industries, "that Moloch of industry," even if the author of it saw fit to recant in a measure.

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I say, gentlemen, that if the members of this commission, as one of the experts has put it, have been summoned as physicians on account of the general financial depression of 1907, which affected above all our manufacturing industries, to make a diagnosis upon our national body and, as skilled hygienists, to advise regarding the best way of bringing our gold circulation or our impoverished capital—I will not call it blood—into better condition, it is natural for us to ask: Which parts of the body were to blame for the ailment?

It will not take us long to find out that the situation in the autumn of 1907 was not an actual sickness but rather a healing process, partaking of the nature of fever, which the overstrained body—the whole body—was undergoing, for, as Menenius Agrippa put it in his fine way to the ancient Romans, it is not possible to separate the individual parts from the whole body. And therefore I protest against putting the blame for the trouble on any single part, as, for example, our manufacturing industries. All the various parts were involved, and even those that could not be held responsible were obliged to yield to the combined pressure of the others.

Our people as a whole has not gone beyond its means, for the national wealth is very great; but it has not been able for a while to accommodate its expenditure to its income. This trouble begins unfortunately with the Empire, whose finances the representatives in the Reichstag propose to straighten out, and spreads to the municipalities and the educated classes, who are too anxious to live well and up to the standards of fashion to be able to

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lay aside much money. That there have been large numbers of people who have been saving money is evinced by the 15 billion marks in the savings banks and the three and a half billion in the loan associations and banks, in so far as these represent actual savings. But, all the same, this is much too little considering the demands of German enterprise, taken in conjunction with the rise in price of raw materials within the last few years. Neither are the funds of savings banks, which are invested in mortgages, sufficiently elastic to help us tide over a period of financial depression. Nor should they be used for such a purpose, for that class which brings its money to the savings bank consists of people of the least means in the whole country, and it is certainly not the class whose wealth ought to be invested in risky undertakings. I am not aware that there is any table giving the statistics of the various classes of depositors in the savings banks. If there were such a one it would comprise, or at least it would have comprised up to a short time ago, many more members of the laboring classes than one would imagine. To show how difficult, how impossible, it would be to find out, even with the aid of statistics, what section of the population is ultimately responsible for the financial depression, I am going to give you an example from my own experience.

The ordinary conditions of sale in the soap business are several months' time or a small fixed discount for cash, at the option of the purchaser. An occasional increase in the discount is not practicable, because times and prices change and it is impossible afterwards to get down the

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discount to what it was originally. In those rural districts in which consumers' leagues and cooperative stores have not been introduced as yet, and where the retail merchants (who belong chiefly to the middle class) are consequently prosperous, it is the common custom of the store-keeper, who in ordinary times avails himself of the discount, to defer payment in times of stringency as far as he can in order that he may make the most of the money that comes in from his customers by using it for all manner of business transactions, as, for example, the buying up of farm produce. Now, if I am obliged, by the fact of my customer not paying me, to get my notes discounted at my bank to a large amount or to secure large loans on collateral, then the sums in question will figure in the statistical table under the head of manufactures. But the money is not there at all. Is this sum, which was required for the general need, to be charged to manufactures, in spite of my not having enlarged my factory in the least; or to the retail trade, to which my customer belongs; or to the banking business, because my customer thought perhaps that he would make the most of the opportunity by speculating on the exchange; or to agriculture, because the farmer either did not settle with my customer or else sold some commodities to him which, under less favorable conditions, would have remained unsold or disposed of somewhere in a less profitable way? And just as it is with me, so it is with every sort of manufacturing industry and business that is not enabled, by the formation of cartels or by the possession of some special advantage, to dictate strict terms of payment to its customers. That is what it all amounts to.