

## *B a n k   I n q u i r y   o f   1 9 0 8*

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But if we look at the matter in the light of yesterday's debate and consider the question merely objectively, with reference to economic expediency, we can not help reaching a very different conclusion.

The experts, including Professor Lotz, have declared without any reservation that if no change is made in regard to the gold standard, if it is settled that the Reichsbank has to pay out gold whenever gold is demanded, and if, therefore, the legal-tender quality of the bank notes is not to be allowed to hold in the case of payments from the bank, there would be no danger whatever in declaring the notes a legal tender.

But we were requested by the president at yesterday's session to consider carefully how this thing would work out at a time of financial crisis. I must say for my part, though it may not sound altogether modest, that my decision in regard to this question is not at all influenced primarily by considerations relative to economic crises, as I assume that this legal-tender quality of the bank notes is something that is presumed to be called forth by the present situation without reference to possible crises. In France, as well as in England, no hesitation was felt in making bank notes a legal tender, partially, even in times of financial crises. In our bank act it was expressly declared that the element of compulsion should in no wise enter into the circulation of bank notes. It may, on account, perhaps, of other considerations, not have appeared opportune at the time of the establishment of the Reichsbank to enact a different provision, but I think it likely that if the law of 1875 had to be made over again to-day we should not do what we did then. In fact, we



## *National Monetary Commission*

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have heard some of the experts declare that they were actually not aware that the bank notes were not a legal tender. There can be no doubt about it that in business, in our every-day commercial transactions, the bank note is universally regarded as a legal tender. It is quite reasonable to imagine that someone may take it into his head to avail himself of the circumstance that the legal-tender quality is not expressed in the law and engage in some sort of trickery to the detriment of some one or another. There is no evidence, indeed, that such a thing has actually been done. All that we have ever heard of is that here and there the keepers of lottery offices have made the purchasers of tickets pay in gold, the idea being that the winners of prizes might ask for gold instead of paper. I am sure that these gentlemen had not the least reason to worry and could safely allow the matter to take care of itself. No one, I fancy, who had drawn a prize of 1,000 marks would have refused to take it even for an hour because the sum was handed over in bank notes instead of 20-mark pieces.

I am in general extremely opposed to any interference of the law in our economic affairs, because I know that our economic fabric is of so delicate a texture that any meddling with it, even if done with the best intentions, is likely to result in the snapping of threads that can never be joined again. But even those whose reasons for dreading the too frequent invocation of the law are often of the most subtle nature can not object if the legislator gives the sanction of law to what has already obtained for years and become fixed in the mind of the public and what is, moreover, acknowledged to be a useful regulation.



## *B a n k   I n q u i r y   o f   1 9 0 8*

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The only question is, Is there any need for it? I believe there is. For even if the existing condition of the law may give rise to inquiry only on rare occasions, it is none the less the duty of the legislator to give the protection of the law to the situation actually recognized in practice.

As regards the time, the change ought by all means to be made right now. The question still remains as to how far the possibility of economic crises is to be taken into account. As for myself, I have already stated that the consideration of what may happen in a crisis does not affect my judgment regarding the matter, as I regard the provision in question as something which is absolutely called for with reference simply to the needs of normal times. I am willing to admit that the investment of the notes with the quality of a legal tender may perhaps not suffice for the maintenance of regular and undisturbed conditions in the matter of payments when a serious economic crisis is at hand. It will be necessary to resort to a further provision, and this will probably be the introduction of forced circulation. But to be worrying now over what may have to be done when there is a financial crisis seems to me a little premature. Crises have a way of coming which is altogether different from what we imagine and they always come when they are not expected. We can not afford to be continually preparing for a crisis and on that account to discontinue anything that serves us in our present situation. What additions will have to be made in critical times to the measures that we are now adopting is a question to be settled when it arises. Nor do I see any reason why we should hesitate on this account



## *National Monetary Commission*

to adopt the measure in question without waiting any further, as it involves no change in our normal conditions and is not one which it would be well to hold in reserve for a special emergency. The thing that is proposed will in no way be to the prejudice of any arrangements that may be called for in order to meet a crisis. I believe also that the interests of the outside world will in no way be affected by the circumstance that our bank notes are declared a legal tender, a condition which already exists in France and England. Herr Schinckel has pointed out that the introduction of the legal-tender quality of the bank notes might affect existing conditions in a certain way, inasmuch as the redemption of the bank notes has hitherto always taken place only in Berlin, so that bills of exchange drawn in foreign countries on Frankfort or Hamburg might not be regarded as having precisely the same value as those drawn on Berlin. It was on this account, I presume, that Herr Schinckel was constrained to urge that the legal obligation be imposed on the Reichsbank to redeem its notes in gold at any time and place. I should be sorry, gentlemen, if such a legal provision were enacted, because, in the first place, it can not actually be carried into effect, and, moreover, because it would be in the way of further steps in advance that we should like to take. It is impossible for the Reichsbank to redeem bank notes in gold at any moment at any little place in the Province of Posen or in Silesia.

A VOICE. It was not asked to do this!

Doctor WACHLER. That is a practical impossibility. The regulation we propose to append to the bank act will not in



## *Bank Inquiry of 1908*

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any way affect the customs or conditions that have hitherto obtained in the matter of payments and the circulation of money. The existing order in regard to the redemption of notes in gold has not resulted in abuses of any kind. If we are to make bank notes a legal tender, we need not on that account enact a provision regarding the places where they are to be redeemed, and I propose that we allow the law of 1875 to remain unaltered in this respect. If the Reichsbank were to be compelled to exchange notes for gold at any moment and at any place, it would have to keep a pretty good stock of gold on hand in every town of any size, and it would thereby be prevented from extending its system of branch offices, which I consider highly desirable. Another drawback would consist in the fact that the deposit business, which we all regard as so important, would cease to expand, or might even contract, or at most remain confined to the existing branch offices. As the condition of which Herr Schinckel complains relative to the redemption of the notes in gold has existed ever since the enactment of the laws of 1875, and as bills on Frankfort or Hamburg have in spite of this not been treated differently from those drawn on Berlin, I see no reason why we should insert in the bank act a provision of so—I was going to say—vexatious a nature. I am convinced, indeed, that even in the absence of a provision of this kind foreign countries will consider bills drawn on other places than Frankfort or Hamburg just as good as those drawn on Berlin, acting as they have hitherto done.

A further question that has been brought up is whether it might be well not to make bank notes of small denomi-



## *National Monetary Commission*

nations a legal tender. Should these small notes be looked upon more or less in the same way as fractional coins? I should regard it as a great mistake. A bank note is a bank note. If the Reichsbank issues small notes, it ought to redeem them precisely as it does the large notes. I am therefore in favor of making bank notes of every denomination a legal tender.

We have still to define our position in regard to the imperial treasury notes. Here I hold a different view from that of Herr Fischel. He declared yesterday that he did not like these treasury notes. I can assure him that the more I have of them the better I like them. [Laughter.] A further question is whether we ought to make these bills a legal tender likewise. The law of April 30, 1874, paragraph 5, declares expressly that they are not to be a legal tender. If we are to enact an amendment to the bank act of 1875 now, that is not the place for amending the act of April 30, 1874. We might perhaps consider it as something desirable, but there is no absolute necessity for amalgamating the treasury notes with the bank notes. I should not consider it expedient to insert such a provision regarding the treasury notes in the bank act. Besides we are all aware that the imperial treasury notes are an unprotected paper currency, and all the experts have asserted that it would be a good thing if we could get rid of them entirely by the process of redemption. But in our present financial situation it would be altogether impossible to do this immediately. There would be no other way of going about it than by means of a loan, and we are told on every side to beware of new loans.



## *B a n k   I n q u i r y   o f   1 9 0 8*

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And now how about the status of the notes of the other banks? If we are going to declare in the act relative to the Reichsbank that the provisions respecting it apply also to the other banks of issue, we can not count on its meeting with universal assent. There is in reality no necessity for it. We should, however, consider it expedient, and in fact necessary, to offer some sort of compensation to the private banks of issue. Just how this is to be done is not an easy question, and I, for my part, have nothing to suggest. We shall have to leave it to the Reichstag and the Bundesrat to find some suitable means.

I should like to say a word more in regard to critical situations. The more our economic existence shall develop, and the more extended and close our commercial relations with the outside world become, the greater and more acute will be the disturbances that follow in the wake of economic convulsions, and they can be overcome only through a powerful financial mechanism aided by great resources.

Much has been said, gentlemen, about the concentration of money power and about plutocracy, with special reference to the influence of the great banks, and we hear frequent warnings of the great dangers that threaten us. I believe that we have never yet experienced an abuse of the concentration of capital. The hearings of the experts went to show that the management of the banks has hitherto been excellent, but that, as man is frail and mortal, it is necessary to take such steps as will prevent capital from abusing its power in future. In the case of



## *National Monetary Commission*

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really severe crises, such as have to be fought by the mobilization, so to say, of capital on a large scale, it is not a question of the concentration of small amounts of capital, but of huge sums. We ought, therefore, to see to it now that such immense sums can be mobilized and refrain from any legislation that would hamper the activity of the very institutions—that is to say, the great banks and the Bourse—that could effect this object and bring the needed relief. Otherwise, it seems to me, we shall only be throwing obstacles in the way of the well-ordered financial mobilization which will be necessary in future whenever a crisis sets in as the result of some disturbance in our economic existence. It would be wrong on our part, therefore, to regard the single mistakes, of which the most wisely managed institutions are now and then confessedly guilty, as an evidence of the necessity of depriving them of their free and independent activity and of interfering with them and weakening them in such a way as to make it impossible for them to perform afterwards what they could do had they not been crippled.

Having stated this much, I shall in conclusion merely say that I can not see any objection to our imparting to the actually existing condition the sanction of law by making the bank notes a legal tender.

Mr. PETER. Gentlemen, the question whether it would be advisable to try to add to the metallic stock in the Reichsbank by withdrawing gold from circulation is no longer a doubtful one, it having been universally answered in the affirmative. It is a general conviction



## *B a n k   I n q u i r y   o f   1 9 0 8*

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that the amount of gold in circulation can and must be curtailed. Men who have a technical knowledge of such matters have been advocating it for some time past and the recent scarcity of money has called the attention of all classes to the subject. General interest has, accordingly, been manifested in the interrogatory that has been submitted to us. If I had been called upon to deliver an opinion in the spring of the year regarding the question before us it would have been very much at variance with the one which I wish to submit to-day after studying the various opinions of the experts and especially after carefully noting all that has been said here in such a convincing manner in the course of the last few days. I considered the investment of the bank notes with the legal-tender quality an unnecessary and even mischievous measure—unnecessary because I said to myself, no one would dream of refusing the notes of the Reichsbank by reason of any doubt as to their absolute security, and because any person who for some reason must absolutely have gold would not have the least difficulty in getting it, as all he would have to do would be to go to the Reichsbank and have the notes redeemed. I regarded the measure as mischievous because it was calculated to awaken mistrust—unfounded, of course—on the part of the outside world.

My view of the matter to-day is a different one. For one thing, the situation has changed; we can safely say that it has improved materially. I am in favor of making the notes of the Reichsbank a legal tender. I agree with those who say that a good paterfamilias is accustomed to



## *National Monetary Commission*

look ahead and is not in the habit of reserving for a critical time what he can do to better advantage now. But what has more especially influenced my judgment is the circumstance that the general opinion in regard to the financial condition of Germany has undergone a most encouraging change since the time when we assembled here to get the opinions of the experts. Apart from the condition of the Reichsbank, which to-day has more gold in its vaults than it has ever had, it must have become evident to the world at large that Germany is not so very badly off with respect to its paying capacity. A nation that of its own accord raises 5,500,000 marks for the Zeppelin fund can not be poor. I have no longer any apprehensions regarding our standing abroad. I think, on the contrary, that the measure will have a wholesome effect. Even foreign countries can not help perceiving in it an evidence of strength and self-confidence, all the more so as it is a clear indication that no one in Germany thinks of touching the foundation stones of our monetary standard.

The question has been raised as to how the measure would work with respect to our own internal situation, and, in particular, as to whether there might not be some danger, at a time of financial crisis in Germany, that a great deal of gold would be hoarded away by timid people, so that the stock of gold in the vaults of the Reichsbank, instead of being augmented, would be reduced. It is quite likely, of course, that individuals here and there will put aside some gold in order to meet their liabilities. I believe, however, that this state of things will not last and that in a short time the gold will make its appearance



## *B a n k   I n q u i r y   o f   1 9 0 8*

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again, as people will find out that this expensive sort of reserve is superfluous.

As for the time when the proposed change ought to go into effect, I believe a good opportunity will be afforded now by the enactment of the supplementary bank act.

I approve of Director Schinckel's suggestion that the notes be made redeemable at all the branches of the Reichsbank. I propose, however, in addition, that the branches be obliged to redeem immediately only so far as circumstances will permit. [Exclamation: "That is embodied in the law as it stands."] They will, of course, be expected to do their best to get the gold as quickly as possible.

I see no danger whatever in making the 120,000,000 marks of imperial treasury notes a legal tender.

I take the liberty of suggesting that a proviso be attached to the enactment regarding the legal-tender quality of the bank notes (of which I approve), one which, in my opinion, ought to be and can be put into effect. It can not be gainsaid that the measure in question would operate to the prejudice of the other banks of issue, as there will be no possibility of making the notes of the private banks a legal tender. On account of the great difference thus created, these notes would not be considered as safe as before, and their already limited circulation would be further curtailed. But the individual States concerned are greatly interested in the maintenance of their banks of issue, which are of great service in satisfying the needs of credit within their territories. Some sort of indemnity, if not a complete one, could be offered to the



## *National Monetary Commission*

private banks of issue by amending the provision according to which the notes of these banks must be accepted at the branch offices of the Reichsbank in cities with a population of not less than 80,000 in such a way as to make it apply to all branch offices of the Reichsbank, and by enacting a further provision to the effect that these notes shall be received in payment of imperial dues as well as of dues of the respective States.

I beg the directors of the Reichsbank to receive my suggestion in a friendly spirit.

I wish to say in conclusion that I assume that the legal-tender quality does not apply to payments made by the Reichsbank.

Mr. ROLAND-LÜCKE. Proceeding from the assumption that exceptional crises and in particular great military events call for exceptional legislative measures, I have previously dealt with the question that is now before us, and in view of the existing conditions in Germany and the world at large I have pronounced the proposed introduction of the legal-tender quality of the notes of the Reichsbank as not only useless but, under certain conditions, dangerous. I hardly think it is necessary for me to rehearse my arguments.

Our chairman sought, however, yesterday to impress upon us the necessity of returning as explicit and clear-cut an answer as possible to the question as to whether it is not imperative, with respect to our financial preparedness to meet a crisis, to make the notes of the Reichsbank a legal tender. We have all been made to feel, as I stated yesterday, that this is a question which, in the first place,



## *B a n k   I n q u i r y   o f   I 9 0 8*

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irrespective of our individual convictions, we are bound to consider. I endeavored at the very end to explain to you the considerations that weighed most with me yesterday. I have a feeling that I may not have succeeded in making my meaning perfectly clear to all of you. I propose to proceed at first from the standpoint of the president of the Reichsbank.

If the law is enacted in the natural course of events, we must bear in mind that when the intention of enacting such a law shall be announced, that will be the moment which will evoke public criticism at home and abroad and will call for some practical measures consequent upon the expression of the public judgment. In view of this, it is necessary for us to distinguish between the effect that will be produced prior to January 1, 1911, and that which will be manifested later. I mention January 1, 1911, because I assume that the law is to go into effect at that date, nothing being provided to the contrary.

Now, I must tell you that if I were asked whether our readiness to meet a crisis up to January 1, 1911, will be promoted by such a legislative enactment I should reply that I am still decidedly of opinion that the result would be just the reverse, because the restlessness of criticism, the consideration of what is back of it and what may be back of it, and the speculation regarding the probable effect of the measure will cause many prudent people, the moment there was any evidence of uneasiness, to resort at once to corresponding action, so that, as far as the Reichsbank is concerned, the result will be just the contrary of what was contemplated.



## *National Monetary Commission*

But we are bound also to consider the future. Will the situation, apart from the question of any immediate danger, be improved by a measure of this kind? It has been my endeavor throughout my life to utter in the case of important questions a clear and straight "yes" or "no". I must confess that in this case, in spite of my best efforts, I have not succeeded in getting the scales to declare for *pro* or for *contra*. They continue to oscillate, and you must allow me to explain to you the cause of that oscillation, in doing which I shall try to be as concise as possible. It is well in such weighty matters that we should not have any false notions regarding the nature of the misgivings of one or another.

The Reichsbank asks with reason: "How are we going to protect our gold reserve in order to meet crises and, in particular, the contingency of war?" The longer we can protect it, the greater will be the protection that we can afford to our economic activities. The Reichsbank consequently asks further: "What are the influences that are calculated to endanger the gold in the Reichsbank at a time when a crisis is imminent, and what are the influences that tend toward an active manifestation of a desire to take gold out of the Reichsbank?"

I believe that these influences can be evoked by a feeling of mistrust, which may assert itself in three different ways—it may be in a single way, or it may be in two ways, or in all three at the same time.

One kind of mistrust, which, for the sake of convenience, we shall call "A," is that which is apt to be manifested abroad when people begin to believe in the likelihood that Germany will be involved in war—this is said



## *B a n k   I n q u i r y   o f   1 9 0 8*

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of course, with reference only to great European wars. Now, will the circumstance that the notes of the Reichsbank are a legal tender have the effect of diminishing or preventing such mistrust? By no means; for the outside world, if it thinks that Germany is going to war and that perhaps she may even get the worst of it, will try as quickly as possible to save whatever it can of its credit balances in Germany; in other words, it will do its best to get gold as fast as it can from Germany.

In our country there are two other kinds of mistrust, representing two distinct factors that we have to reckon with, which I shall designate as "B" and "C." Let us first consider B. There will be people who in such a situation will have their fears and doubts as to whether the war will be over soon and end in a victory for Germany. Those who are apprehensive in regard to the outcome, be they private individuals who, as prudent heads of families, are anxious to provide for every emergency, or business men who have large liabilities, for the meeting of which they must make provision if they wish to act like responsible persons, will try, as far as their means allow, to accumulate some sort of a reserve. They will say to themselves that such a reserve must consist of gold and nothing else, and furthermore, of gold stored up in a place which, no matter what anyone else may want, can be made accessible at any moment; that is to say, they will take the gold out of the Reichsbank whether the bank notes are legal tender or not. Even those whose apprehensions regarding the immediate future are coupled with faith in the ultimate triumph of Germany will act likewise. And now for the kind of mistrust which I have designated as C. There are people who would ordinarily



## *National Monetary Commission*

not feel like making a run on the Reichsbank for gold but who reason in this way: "Suppose the Reichsbank does fail to live up to its obligations and no longer redeems its notes in gold, you are still in duty bound to meet with gold payments the liabilities contracted abroad, as well as any you may have contracted at home with the stipulation that payment shall be made in gold, and consequently you must have gold. Therefore go and get the gold and do not mind whether the bank notes are legal tender or not." But a large body will consist of those who have simply obligations to pay without any reference to the kind of tender. In the absence of the legal tender quality of the notes of the Reichsbank we shall in the event of war have to reckon on the fact that these people will ask for gold, as they must expect to have demands made upon them for payments in gold; while if we have such a thing as the legal tender quality of the bank notes, it is natural to assume that this widespread desire to obtain gold will not assert itself, since everybody is compelled to accept bank notes in payment.

If we allow a very great amount of weight to this last consideration, we can not help coming to the conclusion that the law relative to the Reichsbank would in such cases have a salutary effect. It all depends on how numerous a body of people it is who on the outbreak of war reason in this way: "Since the notes of the Reichsbank are a legal tender, this legal-tender quality and the obligation to redeem the notes are enough to make it unnecessary for me to provide a direct security in the way of a gold reserve." I must confess that I place little



## *B a n k   I n q u i r y   o f   1 9 0 8*

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reliance on the beneficial effects produced by such a state of mind and do not believe that the gain for the Reichsbank will be very great.

The likelihood still remains that the Reichsbank, perhaps by reason of the widespread feeling of uneasiness which the law for some time to come will be capable of exciting and which will become most acute at a time of severe political stress, will in troublesome times be weakened instead of strengthened.

I must say, however, that I am not so presumptuous as to say to anyone who is entirely deserving of confidence if he finds that some measure or another is materially conducive to his efficiency: "No; I shall not furnish you with that." I believe, therefore, that the entire responsibility should and can be allowed to rest with the board of directors of the Reichsbank, whose final vote ought to be decisive in the matter.

This is the way, then, that I should express my vote. As in my answer to the question before us I can not afford to leave out of consideration the possibility of extraordinary crises and great wars, with which Germany may be threatened, I am willing to let the matter of laying aside my objections and misgivings in regard to the utility and necessity of the immediate investment of the notes of the Reichsbank with the quality of a legal tender depend upon the decision of the board of directors, who are doing their best to protect the bank's stock of gold. The directors have undoubtedly weighed all the arguments in favor of and against the law, and we may expect them to declare their own views regarding the matter.



## *National Monetary Commission*

If we were not taking into account the matter of crises and war, I should once more raise my voice, and that in a most decided tone of warning, against the introduction of this measure, which is not called for at all at the present moment.

Two other questions have come under discussion which I should also like to answer now. I should consider it a good thing if we could do away with our imperial treasury notes, and I believe that such a step would produce a favorable impression. But as the reform of our imperial financial system appears to me to be of paramount importance, and as I should not like by any means to complicate matters on account of my concern in regard to these 120,000,000 marks and add to the great difficulties that are in the way of this reform by introducing a fresh subject of controversy, I shall be perfectly willing to hold my desires in this direction in abeyance.

As to the suggestion of Herr Schinckel, which, I am sensible, merits very careful consideration, that the bank notes be made redeemable without any limitation at all the offices of the Reichsbank—of course this is intended to apply to the main offices only—I am of opinion, after closer consideration, and just because we are taking such circumstances as crises into account—though I am keenly alive to Herr Schinckel's feelings in the matter—that it will have to be rejected. When we begin to deal with the matter with reference to the ability of the Reichsbank to protect its gold in such cases, we are constrained to say that the proposition is altogether untenable. It would not do for us to facilitate the efforts that would



## *B a n k   I n q u i r y   o f   1 9 0 8*

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probably be made to take away gold from Germany as fast as possible by affording the means of getting gold in the easiest, quickest, and most ruthless way on our borders and at our seaports.

I believe that we have still to consider the question of what will happen if people should demand gold during a panic and be told that they can not get it. I must say, gentlemen, that the thing does not appear to me so terrible. In regard to this matter I have had some little experience of my own, on the occasion of the so-called "black week" of 1893 in New York, during part of which I had the advantage of being on the spot, my time being spent in the offices of the few banking firms which at that time attended to the foreign business of New York. I was present when Americans came to the window and presented sight drafts drawn in foreign countries, that read "Payable in United States gold dollars." The bankers on whom the drafts were drawn replied to the question whether they acknowledged the drafts and were obliged to pay them with an unconditional "Yes." The holders of the drafts demanded their gold. The bankers, among whom one whose cash in hand amounted all told to about \$20,000 (in silver and gold) was supposed at the moment to be better off than all the others in this respect, answered in the coolest manner: "There is no gold. You see, the gold is all stowed away in the safes, which in the last few days people have been cramming with gold and bank notes." "Yes, that is very well," the holder of a draft says, "but I have a right to demand gold; I must have gold, for I have got to pay in gold myself."



## *National Monetary Commission*

"But, my dear sir, there is none." "Well, then, let me have bank notes." "There are none of those to be had, either. I'll tell you what we can do for you. We will let you have \$500, and the remaining \$9,500 we shall have transferred to your account in your bank. Of course you have your own bank." "That is all right, but I can't get any gold at my bank either." "Well, what can I do for you?" During those days, gentlemen, I watched the various kinds of people in the office of one banker or another and I can assure you that I did not notice the slightest thing in the way of anybody's saying: "Well, then, I shall have to go to court about it" or "I see I shall have to take measures to compel you," and that all of them, without exception, after being reasoned with more or less, all of which was done in the quietest way, despite the general panic, resigned themselves with good grace to the inevitable. That is the reason why I have to warn you against proceeding at this very moment to devise means which you think will make it sure that every panic-stricken person at a time of a financial crisis shall get his gold on the spot. Just let the man, if he happens to come suddenly with a demand for gold, say, in Aachen or in Hamburg or in Bremen, be made quietly to understand that he must be prepared to receive an answer like this from the Reichsbank: "You see, we shall have to get the gold first; you will have to wait two or three days." However desirable an immediate payment on demand might be in itself, in order to prevent the spread of a feeling of uneasiness, still I think it would be well if the obligations of the Reichsbank in such cases were to remain only such as they are at



## *Bank Inquiry of 1908*

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present. If there were no such thing as the paragraph in question in the laws relating to the Reichsbank I should, of course, not dream of insisting on its enactment at this time, but inasmuch as the bank actually has that paragraph I should consider it a great mistake to alter the regulation by which the Reichsbank in case of emergency is not obliged to redeem its bank notes at any other place than Berlin.

Doctor LEXIS. I also wish to express myself in favor of making the notes of the Reichsbank a legal tender, although I formerly had some doubts as to whether this was an opportune moment, misgivings which, in common with the other members, I have now dismissed, and I therefore urge the enactment of such a provision. It will have to be declared in unequivocal terms, as Herr Fischel urged yesterday, just as in the case of the Bank of England, that the bank is absolutely bound to redeem its notes in gold, and this declaration will have to be made in a twofold manner; firstly, by declaring the notes a legal tender as long as the bank continues to redeem them in gold, and, secondly, by expressly prescribing the obligation of the bank to redeem its notes in gold at the particular place where such a provision is at present lacking, to wit, in paragraph 18 of the act relating to the Reichsbank. Paragraph 18 reads: "The bank is bound to redeem its notes at any time at its main office in current German money." It would be well, as there is no apprehension any longer in regard to payments in silver, to declare here distinctly that it is bound to redeem its notes in gold on demand [Exclamations of "Quite right"] and simply



## *National Monetary Commission*

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to drop the expression "current German money." Formerly, indeed, there was more meaning in this passage, at the time when we still had talers, which were current money and a legal tender to any amount. Nevertheless, this paragraph should by all means be changed, and the notes should be explicitly declared redeemable in gold in all cases.

As regards the results of the enactment of a provision making the notes of the Reichsbank a legal tender, I shall not at this moment discuss Herr Roland-Lücke's grounds for apprehension, but I wish to say that one of the chief reasons why I am in favor of this measure is precisely that the public ought gradually to become actually accustomed to regard the bank notes as beyond a doubt a legal tender. It may be quite correct to argue that in reality the notes are a legal tender now, but the fact remains that if an acute crisis should at some time or another be actually at hand, the public would soon awake to the knowledge that the notes are not a legal tender. There are plenty of people who know it, and the knowledge would spread rapidly from one to another. We have become fully aware of this by experience. It is therefore of great importance just in the case of a crisis that the legal-tender quality shall already have become actually established and matter of common knowledge, and if this were so some of Herr Roland-Lücke's doubts and fears will prove to have been baseless. At all events such apprehensions would be much more justified if, at a time like that, the legal-tender quality did not actually exist and the public found this out, which it certainly would do. In that case a number of people would undoubtedly feel prompted to



## *Bank Inquiry of 1908*

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hoard gold. That is sure to happen. It happened in France immediately after the outbreak of the war; gold disappeared at once from circulation; so did silver. Such a hoarding of gold would undoubtedly also take place in Germany and it is important in such a case that bank notes shall continue to be available for payments by force of law; otherwise all creditors might demand gold from their debtors. With the bank notes circulating as a legal tender, the situation would, in any case, be rendered less serious than it would otherwise have been.

And now as to the question: "Would the redemption of the bank notes have to be suspended in time of war?" It is at all events probable that the legal-tender quality of the notes will have the effect of putting off the necessity of stopping specie payments. Everything, of course, depends on the result of the military operations. If the war turned out like that of 1870, which was at once carried into the enemy's country, we should not have any trouble. If we take the case of France, however, I am not ready to believe with Herr Fischel that if at the outbreak of hostilities the bank notes in that country had been a legal tender, the necessity of suspending their redemption might perhaps have been averted. The suspension of specie payments would have been rendered inevitable by the fact that the Bank of France was compelled to grant the State a credit of 1,500,000,000 francs, of which credit the government actually availed itself to the extent of 1,350,000,000 francs.

As an illustration of how even a disastrous war may be carried on without recourse being had to forced circulation we may point, as Herr Fischel has done, to the recent



## *National Monetary Commission*

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experience of Russia. As a matter of fact, Russia stood this test of endurance in a remarkable manner. She managed to get through without resort to forced currency. During the entire continuance of the war the premium on gold remained very slight—in the neighborhood of 2 per cent. Of course, the conditions were very different from those in the case of a European struggle. In Russia the expenditures for the conduct of the war could be made gradually. There was no necessity of making enormous payments at any one time. The troops could be sent to the front gradually. The forward movement was a slow one. In the meanwhile the Government could secure support, on the strength of its credit, in western Europe. Besides, Russia did not dispatch more than a few hundred thousand men to the Far East; I believe the number at no time exceeded 300,000.

With reference to the imperial treasury notes, a circumstance that has to be considered is that in case of war, without a resort to forced circulation, the issue of bank notes would have to be increased and more small notes would have to be issued, and it is this aspect of the matter alone that enables me to believe in some measure in the efficacy of the treasury notes. We should need them in such an emergency, in which case it would be preferable for the public to have already had them and become accustomed to them, as this would make it easier to add to the volume of paper currency (if this should prove necessary) by the issue of an additional amount of notes of the Reichsbank. But I do not think it would be of any advantage to raise the treasury notes to a higher



## *B a n k   I n q u i r y   o f   1 9 0 8*

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level as a tender at this moment. In fact, the treasury notes are in a way accorded a superiority over the bank notes, as they are a legal tender in the payment of public dues, which the bank notes are not. Indeed, it is explicitly declared in the act relating to the Reichsbank that no law shall be enacted by the States investing bank notes, even the notes of the Reichsbank, with the quality of a legal tender in the payment of public dues." In regard to the matter of indemnifying the private banks of issue, I believe that such indemnity might well take the shape of an abrogation of this provision, which would leave the individual States of the Empire free to enact regulations making the notes of the private banks of issue a legal tender in the case of payments made into the state treasury, a quality which they do not possess at present.

Doctor WEBER. The broad standpoint, gentlemen, which our president introduced into the discussion yesterday and with reference to which, as a basis, the expressions of opinion that we have heard to-day, as well as the day before, have mostly been framed, renders it extremely difficult to adopt a different view in regard to the question of making the bank notes a legal tender from that held by most of the members who have spoken thus far. I should not like to appear so presumptuous as to dissent from the opinion expressed by our president and the majority of the speakers. But I believe that what Herr Roland-Lücke has stated merits the most serious consideration, particularly in view of the fact which he pointed out and on which he laid stress in the brief remarks which he made



## *National Monetary Commission*

yesterday with reference to the order of the day, that before the close of this year or at the beginning of next year the bill relative to the Reichsbank will be submitted to us. This gives rise to the apprehension that, inasmuch as a whole year will have to elapse before the bill can be enacted into a law, it is just possible that timorous people, at home and abroad, will try to avail themselves of this interval to convert their cash resources and their assets in the way of sums due them into gold. Proceeding from this point of view, one of the members of this commission made a proposition yesterday which has been excluded from the discussion, but which, in view of the apprehension to which I have referred, may have been deserving of consideration. Neither do I consider it out of the question that at some time, under certain circumstances, the outside world may again resort to the means which President Kaempf discussed in detail yesterday. He rightly pointed out that already in the spring of this year serious efforts were made in foreign countries wantonly to assail the credit of Germany, and it is not at all impossible that the proposed measure decreeing the legal tender quality of bank notes, even if, by reason of the like state of the law in France and England, there be no new departure in it as far as those countries are concerned, will be exploited by our rivals in order to create ill feeling toward Germany. These considerations may have weight also with respect to those aspects of the case that President Havenstein has emphasized, as well as the one on which Herr Roland-Lücke has dwelt, whose speculation regarding what might happen in a crisis if the notes were made a legal tender,



## *B a n k   I n q u i r y   o f   1 9 0 8*

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are very stimulating indeed. My esteemed colleague, Herr Fischel, is, it is true, of a different opinion. He holds—and Geheimrat Lexis expressed himself to the same effect—that the investment of the bank notes with the quality of a legal tender may have the effect of enabling Germany in case of war, or at a time when trouble seems to be brewing or the financial situation has become critical, to escape the necessity of a resort to forced currency, just as had been the case in Russia during the Japanese war. Now, it seems to me that the factors which shaped the money market in Russia were of a very different nature from those which can determine the financial currents in Germany. To begin with, the mobilization of the troops in Germany would have to take place on a much larger scale and much more rapidly than in Russia, so that we should need much larger sums of money, and, in the second place, the commercial relations existing between Russia and other countries are very different from those which Germany has with the outside world, because the business activity of Russia and her participation in the world's commerce are not of that wide-reaching and intensive character which Germany's commercial activity manifests, and because in any case the demands that would be made on Germany in critical times would be of a different kind and on a larger scale than those which Russia probably had to face in those momentous days.

I should not like to have you infer from all this, gentlemen, that I am of such an anxious disposition as to say that we should hesitate under whatsoever circumstances to establish formally by legislative enactment a status in



## *National Monetary Commission*

Germany which is practically a legally constituted one at the present day. I do not share that opinion which has found expression now and then in the newspapers and in various disquisitions, that we should try to avoid under all circumstances exposing ourselves to the criticisms of the outside world.

I am all the less apprehensive because, in spite of the proposed financial reforms, which will involve the burden of new imperial taxes on a large scale, our financial situation to-day is, on the whole, such a secure one that we can easily stand such criticism. We can point to the monetary laws in England and France, in which the provision in question has long been embodied without anybody's ever expressing a doubt as to the soundness of the respective banks. As it is, we are able, in spite of the critical days of 1907 and 1908, to point to much more favorable constellations as we gaze into the horoscope that tells of Germany's economic future.

Gentlemen, I regard the framing of the bank act as affording us the only opportunity, and that the right one, of introducing into our legal code the formal sanction of the existing condition. The enactment of a special measure would naturally create widespread uneasiness and add greatly to any feeling of mistrust that may already exist, which would be rendered all the more intense by the fact that in the enactment of a special law of this kind we should be obliged, in stating the reasons in the bill, to refer to existing conditions in a way that would not be necessary in the case of the bank act.

But if this thing, gentlemen, is to be introduced into our legal code, if we are to make our bank notes a legal



## *B a n k   I n q u i r y   o f   1 9 0 8*

tender, I am of opinion that the small bank notes should be invested with the same quality as the large ones. The assumption that there is nothing in this legislation relative to legal tender to imply that we are tampering in any way with our gold standard, pure and simple, I regard as a matter of course. Nor do I agree with Oberberggrat Wachler that the Reichsbank ought to be compelled to redeem its notes in gold at all its main branches. I believe he is mistaken if he thinks that the bank notes have now to be redeemed in gold at all the branch offices. The Reichsbank is obliged at present to redeem them at any time and up to any amount only in Berlin. I should hesitate all the more in this matter because I know by practical experience that at some places, as on the Saxon-Bohemian boundary and on the Silesian frontier, a pretty brisk business in gold is at certain times carried on, which would be encouraged, certainly not to the advantage of the Imperial Government, if we should by any legal enactment compel the redemption of the notes in gold without any hindrance or limitation at such places, say, as Dresden or Górlitz or Breslau. Just at a time when our financial situation happened to reach a critical stage, there would be a rush to these places and to our seaports on the part of those engaged in this kind of business, and it will have been made much easier for people to get away with our gold than if they were forced to wait several days and obtain the gold from Berlin at increased expense.

In the question sheet the question relative to legal tender is contained in Question IV under the interrogatory as to whether a measure of the kind in question would tend to augment the stock of gold. I am of opinion that it would



## *National Monetary Commission*

not. I see absolutely no reason for believing that the legalizing of an actually existing situation will effect any change. At the present time—the speakers have all dwelt on this fact—the bank notes are actually recognized as a legal tender without anybody's giving the least thought to the matter, and I am sure that a legislative enactment explicitly declaring them to be a legal tender will have no effect whatever upon the amount of gold in the vaults of the Reichsbank. I am by all means of the opinion, set forth by Herr Schinckel, that payments by the Reichsbank should be made in gold. We find in reading the printed opinions of the experts that some among them are under the impression that if we have a legal provision making it compulsory for the Reichsbank to make gold payments, or what amounts to gold payments, just as is the case with the Bank of England, it might perhaps be expedient to enact a provision compelling the postal department, the government establishments connected with transportation, and those charged with the disbursement of public funds, to pay gold whenever gold is demanded. I should, of course, consider this a very dangerous thing to do. It would absolutely go counter to the very step which we are taking in making bank notes a legal tender. We should be deprived of this very advantage that in certain emergencies, as our president has pointed out, the officers charged with the keeping of public funds might be ordered—and in this the governments of the individual States would be asked to cooperate—to send on their supplies of gold to the Reichsbank, in order to erect a barrier against a violent withdrawal of the precious metal.



## *B a n k   I n q u i r y   o f   1 9 0 8*

As regards the 20-mark notes, I am in favor of inserting a special provision in the act, making them likewise redeemable in gold. I thought originally, that, inasmuch as the bank act declares that the notes are redeemable in gold in Berlin, one had a right to infer that the 20-mark notes were also redeemable in gold, in spite of the clause in the coinage laws making fractional coin a legal tender up to 20 marks. I discussed the matter, however, yesterday with one of the members present and found out from him that I was laboring under a misapprehension. I am now persuaded that we have to insert a special clause in regard to the 20-mark notes, even if I consider the whole matter one of little importance on account of the comparatively small volume of exchanges effected by these notes.

And now, gentlemen, as to the imperial treasury notes. My neighbor to the right, Doctor Wachler, spoke of these treasury notes as being his favorite paper money. I regret that I can not agree with him. It may be a fine thing to own a lot of them, but there is one point to which I should like to call your attention, which has not been discussed thus far. It is this: If we make bank notes a legal tender we, in a sense, depreciate the treasury notes—this is undeniable—and yet we make use of these treasury notes, which are not legal tender, as part of our reserve for the protection of our bank notes, which are legal tender. If I have been opposed all along to these treasury notes, I must say that my antipathy has been increased by this circumstance, with which we shall have to reckon if we make bank notes a legal tender. If we propose to the Government or to the Reichstag that the imperial



## *National Monetary Commission*

revenues be increased by 500,000,000 marks, we shall hardly be in a position to issue a loan in order to take up the treasury notes, whose suppression is intended to strengthen and not to weaken the loan market; and yet there is no other way of getting rid of them than by the issue of a loan.

Permit me, gentlemen, to say a few words concerning the private banks of issue. I feel sure, to begin with, that what I have to say on this subject will jar with the opinions entertained by some of the members of this commission. The matter has already been touched upon in our discussions and therefore I think I am entitled to say a few words in regard to it, as I happen to represent a country which has a splendidly managed private bank of issue, the Sächsische Bank of Dresden. I am perfectly aware, gentlemen, that the matter of making the notes of the private banks of issue a legal tender is a thing not to be entertained, nor even discussed. But, on the other hand, we can not afford to overlook the fact in regard to the notes of the private banks, any more than in the case of the treasury notes, that they undergo in a sense a depreciation in so far as their position would be rendered still more emphatically than it is to-day a secondary one by the side of the notes of the Reichsbank if these were made a legal tender. I fully realize that we can not under any circumstances allow the notes of the private banks to stand precisely on the same level with those of the Reichsbank. It would amount to giving them the right to acquire domicile in every part of the German Empire, which can not be permitted. But I wish to submit to you, gentle-



## *B a n k   I n q u i r y   o f   1 9 0 8*

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men, a little scheme of my own, which I think is perhaps practicable and which is not likely to encounter any opposition on the part of the management of the Reichsbank. I propose to introduce a slight modification in the existing situation by making the notes of the private banks of issue in the individual States of the Empire redeemable without restriction at the offices of the Reichsbank existing in the State in which the private bank is located. I should also like to suggest a further slight concession. Suppose I happen to be traveling by rail, say, from Dresden to Breslau, and, when I get to Görlitz, which is a station belonging in common to the Saxon and Prussian railway systems, I ask for a ticket at the Prussian ticket office and hand the agent a bill of the Sächsische Bank, he has a right to hand this Saxon bank note straightway back to me. The present arrangement occasions needless vexation. I have been living there long enough and know the situation pretty thoroughly.

Perhaps the whole thing could be arranged in a satisfactory way, consistently with the prevention of any attempt to domicile these notes where they do not belong, by the framing of a regulation, not through the regular legislative channels but by the common action of the individual governments, that at least at these frontier offices, and at the railway ticket offices in general, and perhaps also at the post-offices, the notes of the Saxon bank and the other private banks of issue shall be accepted. I am saying this with the leave of the president of the Reichsbank. This matter is not altogether pragmatic to the subject we are considering, but it has been



## *National Monetary Commission*

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brought up by the private banks of issue, and, even if it be not so very important, I think it would be well worth while for us to discuss it.

In regard to the probable effect in the country of making the bank notes a legal tender, Herr Roland-Lücke has called our attention to two very serious aspects of the case. I must say that I am not altogether without fear, either, lest, after we have enacted this regulation it may become a common thing, especially in the case of important documents and long-term contracts, to introduce the gold-payment clause, and that not in the way to which we have hitherto been accustomed. The common people, as represented by the small merchant away off in one of our provinces, is singularly mistrustful, and we are all aware that not only in our own country but elsewhere, as, for example, in France (as was manifested in 1870-71), the people began to hoard gold on the slightest occasion, although there may in reality not be the least reason for it. Whether there is any way, and what means there may be, of counteracting this tendency, and whether the status which the notes of the Reichsbank have already acquired or the attitude which the Reichstag is likely to assume toward the whole question will have the effect of preventing any feeling of uneasiness among the people, all this still appears to me unsettled. But in order to provide against any trouble that might arise should the law in question be enacted, from frequent cases of disagreement between the parties to a contract as to the nature of the tender in the payment that is to be made, it might perhaps be well to consider whether it would not be advisable to



## *B a n k   I n q u i r y   o f   1 9 0 8*

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introduce a provision in our bank act similar to the clause relating to this subject which is to be found in the Austrian bank act of 1899, article 86, of the new statute. This would have the effect of preventing anyone, if the bank notes are legal tender, from demanding gold in the absence of an express stipulation providing for payment in gold. It may be worth while to try to find some remedy at the outset for this possible drawback.

I have still to speak of one other matter, gentlemen, which the experts have touched upon. A gentleman who is quite an authority in these things has expressed the fear that the investment of the bank notes with the quality of a legal tender may have the effect of sending up the rate of interest again in Germany. I must say that I do not share this apprehension in the least. This matter of legal tender can not possibly affect the rate of interest in any manner in the German Empire, and I do not see the need of any precautionary measures whatsoever in this regard.

I will conclude by saying that I do not by any means dissent from the broad proposition on which our president has based his utterances, and that I am likewise of opinion that we ought in the last resort to abide by the views of the Government, just as we have repeatedly done in Parliament, as, for example, this spring on the occasion of the laws relating to the coinage, but that I can not altogether lay aside my misgivings, such as I have felt all along, so that I have decided to make my definitive formal expression of opinion, as Herr Roland-Lücke has done, depend upon the decision of the Reichsbank management and the Imperial Government.



## *National Monetary Commission*

Mr. SCHINCKEL. Our esteemed colleague, Freiherr von Gamp, has certainly a right, gentlemen, to differ with me in his opinion, and, indeed, with other members of this body, as he frequently does. I regret to say, however, that I do not think he is justified in charging, on the strength of my remarks yesterday, that local patriotism was back of the views which I had expressed in this assembly, and in asserting that this was the case on an occasion where such considerations were especially out of place. I believe, on the contrary, that it is my duty to express my opinions with absolute frankness in this distinguished body, altogether unmindful of such assaults.

I am too deeply interested, gentlemen, in the matter I brought up yesterday to allow it to be disposed of in the manner in which Freiherr von Gamp thought he would dispose of it. When I expressed myself in favor of making the bank notes redeemable not only at Berlin but all over Germany, at least at the main branch offices of the Reichsbank, I was not doing it in my own interest nor in that of Hamburg, but I did it in the interest of Germany as a whole, and above all, in that of the value, or the valuation, of the notes of the Reichsbank.

I was very far removed, indeed, from any such motive as that imputed to me by Freiherr von Gamp, as though it were self-evident, the desire to make the most of the change for arbitrage purposes. Gentlemen, if we banks had not considered it entirely beneath us last fall to send gold abroad through the channels of the arbitrage business, the slight expense of bringing it from Berlin to Hamburg would not have been in the way. Neither can I place myself on



## *B a n k   I n q u i r y   o f   1 9 0 8*

the standpoint of Herr Roland-Lücke, that the only thing we have to consider just now is the matter of crises, and in particular, the contingency of war. I trust, and I think it very likely, that we shall have to reckon on a period of tranquillity, which being the case, I will ask you to turn your attention once more for a brief period to what I have to say.

It is not true, gentlemen, as affirmed by Freiherr von Gamp yesterday, that making the bank notes a legal tender will not alter anything. And that is not what I said. All that I said was to the effect that the propensity of the public to hoard gold is not affected by the circumstance in question; in this respect nothing is changed. But no one will deny that, as things are at present, anybody who expects to receive a sum of money at any place in Germany besides Berlin has a claim to being paid the sum in question in gold. Henceforth, however, he will only have a claim to being paid in paper unless the Reichsbank finds ways and means of enabling a person to exchange the legally paid bank notes on the spot for gold. If the Reichsbank failed to do this, then throughout Germany outside of Berlin there would be a strange depreciation of the standard currency of the Empire. [“Quite true.”] If, then, what I propose can not be done, I must call your attention to the danger that would ensue from the circumstance that the banks located outside of Berlin would necessarily be compelled to try to get hold of the gold in order to supply the needs of their locality, for if the Reichsbank can not provide gold to the amount that the needs of trade may at any time demand, it will become the business of the local banks



## *National Monetary Commission*

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to do it. I should regard such a situation as extremely deplorable, involving a danger which Herr Fischel pointed out yesterday. Dealings in gold could no longer be carried on outside of Berlin in the same easy manner as under the existing law, and in spite of everything a more or less concealed premium on gold might in certain cases be present.

You will see from these few words, gentlemen, that the matter before us is one which, in my judgment, involves serious difficulties. I therefore once more submit to your careful consideration my proposition to the effect that the Reichsbank under the new régime of legal-tender paper shall assume the obligation of redeeming its bank notes in gold at its main branches at least, and I hope I shall be supported in this endeavor. In any case, in view of the responsibility imposed upon us by our chairman in the matter of our reply to this question, I can not but reiterate my misgivings.

The CHAIRMAN. Freiherr von Gamp is entitled to the floor in order to reply to this interlocutory.

Freiherr VON GAMP-MASSAUNEN. I believe, of course, that every member of this commission has a right to give local considerations due weight in connection with a proposed measure. I did not think it was fitting, however—and I claim the privilege of making such criticism—to bring local interests into play in connection with such an important question. The local interests may be legitimate, but I hold that in a question like this the broad general aspects of the case demand consideration above everything, and I must adhere to this belief in



## *B a n k   I n q u i r y   o f   1 9 0 8*

spite of the assertions of Herr Schinckel. I have made no reproaches, but this is my opinion, such as I have now reiterated it.

Neither did I speak with reference to arbitrage—I would ask you to consult the stenographic report—in a sense implying that Herr Schinckel was advocating this measure mainly on the score of the advantage that would result to the arbitrage business. All I said was that this measure, as a matter of fact, would help the arbitrage business considerably by throwing upon the Reichsbank the expense which the banks outside of Berlin have to incur at present in the carriage of their gold.

I will say in conclusion that I have affirmed, and justly so, that the situation with which Herr Schinckel says we are confronted exists already; that is to say, that the local banks are already laboring under the disadvantage in question. If therefore the local banks in the interest of their respective places—and I can not see why I should begrudge them such action—are obliged to keep a considerable stock of gold, this condition by no means implies a change in the situation to the disadvantage of the large cities outside of Berlin, whether the bank notes are legal tender or not. On the contrary, these very places will profit greatly, for, if the bank notes are a legal tender, the liabilities of the great banks can in a large measure be settled by means of bank notes, whereas gold is required at present. I am therefore compelled to adhere to my opinion.

Doctor STRÖLL. You will not take it ill of me, perhaps, gentlemen, as a director of a private bank of issue, if I



## *National Monetary Commission*

declare that this matter of making the notes of the Reichsbank a legal tender does not particularly appeal to me. But you may rest assured that I shall not endeavor to emphasize this position any further than is absolutely necessary. I must first of all gladly and frankly acknowledge that what the president of the Reichsbank said yesterday will amply suffice to raise our discussion regarding this matter to a higher level.

I think it is a good plan to discuss the question with reference to two distinct aspects; that is to say, to make two separate questions of it, in the way pointed out by Geheimrat Riesser, one regarding the effect in our own country, the other regarding the effect abroad. The probable effect in Germany is, gentlemen, extremely hard to predict. It is quite possible that the great majority of the people will take the position that all that has taken place is that a legal sanction has been given to a situation preexisting in fact. But of course there are other possibilities, too, none of which we can afford to ignore. There are certain apprehensions and doubts that we dare not suppress. It is possible that the preference for gold will only be increased by this measure and that a result may ensue which the Reichsbank does not at all contemplate. It is conceivable that the gold clause will have a chance to celebrate its unwished-for resurrection, as was the case when we were threatened with bimetalism. It is not impossible that there will be some sort of concealed premium and a hoarding of gold, and it is furthermore not impossible, as Herr Schinckel has pointed out, that the price of bills will vary in places outside of



## *B a n k   I n q u i r y   o f   1 9 0 8*

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Berlin. These are valid objections. The juridical argument for making the notes of the Reichsbank a legal tender, based on the theoretical assumption that a creditor may, as things are now, sometimes try to get the better of a debtor, does not amount to anything in my opinion. I endeavored repeatedly in the course of the hearings of the experts to obtain definite answers and information from the individual experts in regard to such cases, and I scarcely ever succeeded in getting a precise answer [exclamations of "Quite true"], nor do I think that the other gentlemen here would have fared differently. [Movement of approval.]

Indeed, I have been told, gentlemen, merely in private conversation, it is true, that only a solitary instance of the kind could be adduced, and for this it was necessary to go back to 1876—that is to say, a whole generation—where a Bavarian countryman of mine in the sale of a house in Munich refused to accept notes of the Reichsbank. At that time we dated our letters 1876; now we write 1908. If I could come across a Bavarian to-day who says he will not take the blue bills, I should have him arrested, gentlemen, and exhibited at the coming October festival. [Burst of laughter.]

We think a great deal of our north German countrymen, and we are especially fond of them when they come laden with blue bills. It never enters into anyone's head not to take them. [Laughter.]

There is no doubt, gentlemen, that the notes of the Reichsbank circulate, as a rule, without the least hindrance, and how popular these notes have become was



## *National Monetary Commission*

evinced on the occasion of the introduction of the small notes of the Reichsbank. You have seen, gentlemen, how utterly mistaken we all were. We fancied that these notes would be very unpopular, that no one would like to take them, and that their circulation would remain very limited. Exactly the opposite happened. ["Very true!"] In north Germany the small bank note is already very popular, and people are taking more and more to it in south Germany also, and all this—as I have previously pointed out, particularly at the hearings of the experts—without any legal compulsion, simply through the great credit which the Reichsbank commands and the popularity which, as far as I can judge, it enjoys at the present time in every corner of Germany. [Movement of approval.]

In regard to the probable effect produced abroad, I must likewise say that it is extremely difficult to make any predictions. I am personally under the impression that there will be no lack of malicious remarks and expressions of mistrust. ["Very true!"]

I believe the outside world will not be quite so ready to abide by our contention that this matter of legal tender has long since been a fact in other countries. Foreigners will point to certain differences that exist between us and the outside world. They will say, "You see, our notes have already passed under the Caudine yoke of periodical forced circulation, while yours have not yet got beyond their virgin state." And they will say, "Such rich countries as England or France can indulge in a measure of this kind, but Germany, with its less firmly established credit, had better not try." All such arguments are



## *B a n k   I n q u i r y   o f   1 9 0 8*

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possible. Perhaps the foreigners will say: "You must remember that our country is a unit, while yours is a federal state; there is less centralization in yours. With us everything is more or less centralized in the great cities; you have a number of economic and political centers." In short, all sorts of arguments of this nature will be dished up. They may perhaps not be of a very impartial character. But when have our commercial rivals and our adversaries ever been impartial? We can not count on that. ["Very true!"]

One thing foreigners are sure to do, and that is to blacken us in one way or another, and just at this moment, when the financial reform is about to be carried out in the Empire, the mistrust of the outside world, especially if the work should drag, will not be easily allayed altogether. On the other hand, Germany may very properly, from a just feeling of national pride, pay no attention to what the outside world thinks of us and say: "Our situation is being strengthened; we are in better shape than we were a year ago, and we have not resorted to this measure when our financial troubles were at their worst, but only after we had overcome the main difficulties." Germany might well reply in this manner.

And now a word in regard to serious economic and political crises. All crises have this in common, that they excite mistrust, that mistrust produces a panic, and that, as a result of the panic, there is a great and sudden demand for currency, which has to be met if we are to make head against the panic. In this regard the experience of the United States in 1907 has been particularly instructive.



## *National Monetary Commission*

And how about this matter of legal tender, gentlemen, in such a situation? Is the legal-tender quality of the bank notes going to help us then? In regard to this question I take pretty much the same position as that so ably represented by Herr Roland-Lücke, one in which we dissent in principle—several of us who have already spoken—from the opinions expressed by the president of the Reichsbank. If I understood him rightly, the president asserted yesterday that all that was needed in order to prevent crises was to let people have legal money, which legal money in future would be the bank notes of the Reichsbank. But here is the rub. For should there be a great panic—it may easily happen; this has been pointed out before—the people will not be content with the promise to pay with the paper token, but will ask for the solid, actual gold, and that in such a case, in spite of this quality of a legal tender with which the notes have been invested, the Reichsbank will not be protected against inordinate demands. Two distinct cases may present themselves. War may suddenly be at hand overnight, and it may be that for weeks and months people will move about in a dull leaden atmosphere of uncertainty until the individual conviction will grow apace that the final decision can come only through the arbitrament of arms. We must try to picture to ourselves what is likely to take place in this interval. It may happen, indeed, that the legal-tender quality of the notes will suffice to protect the bank—that is to say, the gold in its vaults—from something like pillage. It may happen, however, that it will not suffice. In this case the Reichsbank might be obliged



## *B a n k   I n q u i r y   o f   1 9 0 8*

to resort to extraordinary precautionary measures in order to protect the national gold treasure. And this is the only point in regard to which I do not altogether agree with Herr Schinckel, with whom I am otherwise completely in accord. For I, myself, apart from the considerations to which I am now referring, should be decidedly in favor of making the notes of the Reichsbank redeemable at all its principal offices. But let us suppose a situation to exist such as the one I have just imagined, and let us assume a condition like that to which Herr Roland-Lücke referred—a traffic in gold at frontier towns, etc. Then you will find, if legal means have been provided for making the notes of the Reichsbank redeemable in gold at the principal offices, that in one way or another the outside world will manage to lay hands upon the German stocks of gold. The Reichsbank will not be protected in that case from pillage, and if, after some weeks and months, a crisis should come on, we shall have a Reichsbank stripped of its resources in spite of this thing of legal tender. I have on previous occasions expressed my views relative to this matter and have even written on the subject. I, for my part, was originally of the opinion—the matter of legal tender did not enter at that time so much into public discussion, it having only recently been injected into our counsels—that it would be impossible to get through a great war without a resort to forced currency, and I hold that view still. I do not believe that we shall get through a European war without forced currency, and on this account I am of opinion that the preliminary stage of paper money circulating



## *National Monetary Commission*

as a legal tender, even if it be advantageous in a measure with respect to the preservation of our gold, can not be relied on as a means of affording absolute security. People say that it is a difficult matter to introduce forced circulation, as it takes days and weeks to do it, for under our system of government there is no such thing as enacting a measure by imperial decree. I must say, gentlemen, that if I were a statesman at the helm, this fact would trouble me mighty little. I should simply decree forced circulation overnight; the Bundesrat might meet after that and later on the Reichstag, and let them grant indemnity. *Inter arma silent leges.* Unless this is done quickly, the Reichsbank will of course be exposed to every attack. And we can not afford at such times to lean too much on patriotism. I believe, in fact, that there will be some here and there who will seek to get hold of that precious article, gold, in the anticipation that they will later on be enabled to traffic in it, inasmuch as circumstances might bring about a premium on gold. This much, gentlemen, is at any rate certain: The Reichsbank's gold must be reserved for emergencies, sequestered and kept for national purposes, and this is all the more imperative, in my opinion, because the stock of gold in the Bank is not as large, for example, as that with which France went into the war of 1870. And in spite of its large supply, France could not avoid resorting to forced currency. I personally do not believe that we should try to wage a future war with irredeemable paper money of the Government, as some maintain. I believe, on the contrary, that our main support ought to be the Reichsbank and that we must wage war with irredeemable, or



## *B a n k   I n q u i r y   o f   1 9 0 8*

temporarily irredeemable, bank notes; that is to say, with paper money based on actual resources and not with paper money behind which there is no security. This is a fundamental difference [exclamations of "Quite true"], an enormously important difference with respect to our money standard, as well as with respect to the way in which we shall view the oft difficult situation in which we shall find ourselves and the possibility of our afterwards escaping from it. I do not think it is necessary, gentlemen, before this body of specialists, to proceed to an analysis of this vast difference, but I should be glad to do so if need be.

My esteemed vis-a-vis, Herr Fischel, expressed the opinion, among other things, that we might possibly escape the necessity of resorting to forced circulation even in serious crises. Others have spoken to the same effect. I do not consider Herr Fischel's view a correct one, and I do not believe that we can infer anything positive from the example of Russia. For, as far as I can see, all that Russia lost in the Japanese war was a couple of battles. We can not actually say that Russia was conquered. Financially it was not Russia who was conquered, but Japan. This is my firm conviction, and it was on this account, as we are all aware, that Japan was forced to accept terms of peace relatively so favorable to Russia. [Denial.] Our situation, gentlemen, would have been an altogether different one, a much more difficult and complicated one.

The most weighty arguments, gentlemen, have been adduced *pro* and *contra* in this matter of making the notes of the Reichsbank a legal tender. If a measure



## *National Monetary Commission*

to that effect is to be enacted, then I should suggest, in the way of a guaranty, that when money is paid out of the bank the recipient shall in every case have the right to say whether he wants it in coin or in paper. There still remains the important question to consider, the one on which Herr Schinckel has laid stress, as to whether the Reichsbank should be obliged to redeem its notes in gold at all of its offices. This is a difficult matter to deal with. If we should happen to be in a situation similar to that in 1864 and 1866, and the Reichsbank were obliged to keep on redeeming its notes everywhere during the trying weeks before the outbreak of hostilities, when there was as yet no forced circulation, there would immediately be a diminution of our national stock of gold in the Reichsbank. Now, it seems to me that we might perhaps adopt a different course. As against legislative action, let us have administrative action. If we could obtain some sort of guaranty from the Reichsbank that in normal times the notes will be redeemed at all its branches with the minimum of delay and friction, I should, for my part, no longer have any misgivings in regard to the matter on which Herr Schinckel has laid stress, and should be willing to forego the stipulation relative to redemption outside of Berlin, in order that our policy of sparing the Reichsbank's gold reserve may not be thwarted.

How it ever entered the mind of Oberbergrat Wachler to use the word "vexation" as a fit way of characterizing the act of an individual who would like to have gold in exchange for notes of the Reichsbank completely



## *B a n k   I n q u i r y   o f   1 9 0 8*

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baffles my comprehension. For there can be nothing vexatious in a person's claiming what is his due, and we have heard from the lips of the most competent authority, the president of the Reichsbank himself, that the right to have one's paper money redeemed by the Reichsbank is a thing that, as a matter of course, is not to be tampered with. If I choose to exercise my right, how can I be said to be vexing anybody? I can not for a moment understand how Oberbergrat Wachler has come to this queer notion. That this is just the right moment, if it is to be done at all, to introduce the legal-tender quality of the bank notes there can not, in my opinion, be the faintest doubt.

The president of the Reichsbank has justly contended that any special law to this effect would only be calculated to excite the mistrust of the outside world, which we must by all means try to avoid, and I say, therefore, that such a measure should not be enacted either through an imperial decree later on nor afterwards through special legislation, but that now, when we are shaping the supplementary bank act, is just the right moment. I am decidedly of opinion that, if we are to have this thing at all, we ought not to miss the present fit and altogether favorable opportunity.

As regards the status of the imperial treasury notes, it is natural that there should be a diversity of opinion. For my part I am not fond of this token money, and my opinion is that the Reichsbank has been storing up these treasury notes not merely on account of monetary considerations, but also by reason of the unpopularity of this



## *National Monetary Commission*

token currency. Just how we shall get rid of it later on is not as yet clear to me, for until the financial reform shall have brought about a more favorable situation in this country we can not think of eliminating the treasury notes. But one thing I wish to say to you, gentlemen, and that is, that as long as we have the imperial treasury notes—we have got them and there is no telling when we shall get rid of them—we are bound, for the sake of appearances and out of respect for the authority that is back of them, to invest these treasury notes with the quality of a legal tender. An obligation of the Imperial Government—and a treasury note is such—even if it is not based on tangible security (no one in Germany believes any longer in the myth of the *Julisturm*), can not be allowed to circulate on a lower plane as regards credit than an obligation of the Reichsbank. I think we ought to avoid this out of consideration for the authority which they represent.

And now permit me to say just a word—I shall not detain you long—in regard to the notes of the private banks. Their legal status is the same as that of the notes of the Reichsbank, but they have long been to a certain extent disqualified by the side of the latter by the regulation which prohibits their being accepted in the North German States in the payment of government dues and at railway offices. In the arrangement that was made this had to be agreed to. But if the notes of the Reichsbank were to be made a legal tender, then the notes of the private banks would be disqualified within the narrow bounds of their own country, where they have hitherto



## *B a n k   I n q u i r y   o f   1 9 0 8*

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been on a level with the notes of the Reichsbank and were to remain on a level in future. This would be quite a blow to the private banks of issue. I think it is going to be a very difficult matter to settle, and I am grateful at all events to the speakers who have expressed themselves in such appreciative terms in regard to the private banks of issue. The managers of the Reichsbank are no less complimentary, I must acknowledge. I mean, however, to press my views in regard to indemnity to be offered to the private banks of issue in the way Doctor Weber, Herr Peter, and others are demanding it. The nature of the compensation is, I believe, not a matter to be discussed at the present moment, the subject being excluded from the order of the day.

To sum up, I may define my position—which is that of some of the speakers who have preceded me—as follows: It should be left to the discretion of the managers of the Reichsbank, who are so well qualified to judge, to decide whether it is necessary to introduce the legal-tender quality of the bank notes, to determine whether the considerations of expediency that seem emphatically to demand it should be permitted to outweigh certain objections that exist on the score of principle. I am convinced, along with the other gentlemen, that in this difficult and weighty question our economic tribunal of last resort, the management of the Reichsbank, will come to a correct decision.

Mr. MOMMSEN. Permit me, gentlemen, to begin with a brief observation. The president of the Reichsbank sought yesterday to impress upon us the great responsibility resting upon us in the matter of our reply to the



## *National Monetary Commission*

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question which he is now placing before us in a form so entirely different from that in which it was submitted in the spring on the occasion of the hearings of the experts, and here I am compelled to say, however highly I appreciate the utterances of the gentlemen who have preceded me, that it is not altogether the right thing to deliver an opinion which, as Herr Roland-Lücke has well expressed it, in a way represents a seesaw. It is very difficult, I admit, in a case like this to weigh the pros and cons, but I do not believe that we can solve this problem by saying: "I am, indeed, against it; perhaps I am after all for it; let the president of the Reichsbank take the responsibility of deciding." I am not anxious to relieve myself of this responsibility, and I say frankly that if in the spring I was opposed to making the notes of the Reichsbank a legal tender, the reason was not because the situation at the time was less favorable than it is at present, but because I was actuated by broad considerations, which, of course, continue to exist to-day. It goes without saying that those who are intent upon instituting this legal-tender quality can properly be called upon to have regard for the matter of opportuneness in enacting their measure, and I can understand perfectly why those who believe in principle that the notes ought to be a legal tender were not in favor of making them such in the spring, but are in favor of it now. But I must say, gentlemen, that the whole question has a different complexion for me. I am willing to admit absolutely, gentlemen, that the situation in question—the condition of bank notes as a legal tender—virtually exists in Germany to-day. Now, one



## *B a n k   I n q u i r y   o f   1 9 0 8*

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individual may come and say: "Very well; the condition is practically such, so let us give to it the sanction of the law. Nothing will happen; everything will remain just as it was." Another will reason in this way, and logically, too: "Suppose the experts are all agreed that this condition practically exists now, and suppose we legalize it at one stroke, we can depend upon it that everyone who has not so carefully weighed the considerations that enter into the question, who gropes about—shall I say—still more in the dark in regard to this vexed problem than do a good many among ourselves, will fancy that he discerns in this change in the law some special intent; and it is certainly preeminently true in matters pertaining to the coinage and the monetary standard that no change should be made in existing conditions unless those who are in favor of a change are convinced that there is an absolute necessity for it."

Now, gentlemen, we are all agreed that the written opinions of the experts are not convincing in regard to this necessity, not even in regard to the semblance of such a necessity. I admit that the form in which the question was put had something to do with this. I am using this word "something" by way of a rejoinder to Geheimrat Riesser. For just as the question relative to the possibility of strengthening the stock of gold in the Reichsbank was not entirely excluded from our discussions, so did it enter into the opinions delivered by the experts, and they soon came to the unanimous conclusion that it would not be increased. The question of the usefulness and necessity of the legal-tender provision was then discussed in a general



## *National Monetary Commission*

way, and in regard to this Doctor Ströll (I believe it was Doctor Ströll) has quite correctly observed that not one of the experts, after reiterated questioning on the part of the members of the commission, was able to adduce a specific instance where notes of the Reichsbank had not been accepted, and the very cases that were mentioned—I believe it was a Berlin banker who spoke of one instance or another—had nothing whatever to do with the question, gentlemen. For we shall certainly all be agreed on this, that whether we have the legal-tender provision or not, the demand for gold and its peremptory transfer from the coffers of the Reichsbank into those of private individuals, together with the hoarding of gold—all this may come at any time under certain circumstances.

It is my opinion, as I have stated before, that the provision in question will practically not effect any change. Whosoever there is at the present time who has no faith in the bank notes as they are—not a legal tender nominally, but a legal tender in fact—and demands gold instead, will continue to do so in future. But, as things are now—and this, in my judgment, is an important point in the consideration of this matter—the individual in question expresses his lack of faith to his debtor, and it will frequently happen—the experience of business men will support my assertion—that the two parties, in trying to come to terms, recognizing that gold is in general something rather difficult to procure, will at least arrive at the conviction that the notes of the Reichsbank, even if they are not a legal tender, are as good as gold. In future, however, gentlemen, if the bank note is a legal tender, the creditor will be obliged to accept it, and



## *B a n k   I n q u i r y   o f   1 9 0 8*

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if he has no faith in it he will no longer try to compel his debtor—as against him he is powerless—but he will go to the bank, which is the only place where he has a right to demand gold. And I am forced to ask whether in a time of general uneasiness that may happen to come the investment of the bank notes with the legal-tender quality might not produce a result just the contrary of that which we are intent on achieving; whether, instead of there being more gold in the Reichsbank, there will not in general be an increased outflow when a lack of confidence prevails.

It would be wise, gentlemen, to consider the measure under discussion not merely with reference to normal conditions, but in particular with reference to the contingency of severe crises. It is altogether uncertain, as you see, whether at such times the legal-tender quality of the bank notes, coupled with their absolute redeemability in gold, will affect the status of the Reichsbank favorably or not. Facts may bear out the one assumption or the other, but in my judgment just these doubts, which do not admit of an absolute solution one way or the other, ought by no means to be permitted to determine us to make any change in regard to the existing condition, which has maintained itself through thirty years of good times and of hard times—and indeed we have lived through some very poor years.

The question of the gold clause has been brought up in our discussions, gentlemen, and I believe Doctor Weber asserted that it would be practicable to devise some provision which would prevent the gold clause or render it ineffective. I am not at all sure that such an invasion of private rights could be justified, purely and simply, or



## *National Monetary Commission*

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that a majority of the chambers of commerce and similar bodies would be ready to pass resolutions indorsing any action of this kind. Freiherr von Gamp assumed, it is true, that there would be no difficulty in reaching an agreement in regard to this matter in the Reichstag, and I do not consider this impossible myself. One thing, however, is certain, gentlemen, and that is, that when we have made the notes of the Reichsbank a legal tender there will be many attorneys in the German Empire who, in spite of instructions emanating from the ministry, will be prompted by a vague feeling of uneasiness to ask themselves this practical question: "Am I not going to guard the interests of my client more effectually if I insist on payment in gold?" You can not blame the attorneys for this any more than you can blame a banker who, in view of an impending financial crisis, is intent on securing an increased supply of gold. His action, gentlemen, is not governed by considerations of personal interest, but he is in duty bound to execute the commission intrusted to him by another—that is to say, his client—to the best of his ability, and he ought to be satisfied with nothing less than the fullest measure of security that can possibly be obtained for a client. These are factors, I think, that have to be taken into account, and you know, gentlemen, that when the gold clause has become an ordinary feature in legal contracts it will, as a matter of course, affect the circulation of the bank notes and the stock of gold in the vaults of the Reichsbank.

There is one aspect of the subject which we are considering, gentlemen, that I should like to dwell upon. If at



## *B a n k   I n q u i r y   o f   1 9 0 8*

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the time of the introduction in the Reichstag of the bill relative to small bank notes anyone had had any inkling that the question of making the notes of the Reichsbank a legal tender would have to be considered before long or, indeed, at any time in the future, there would, perhaps, have been much more opposition to the introduction of these small bank notes. This much is perfectly clear, gentlemen, that if we are to introduce this legal-tender quality of the bank notes, then the small notes, now that we have got them, must be included or else we must get rid of them. I am convinced that it is utterly impossible to do away with them and I should regard a measure to that effect as entirely misdirected on the ground of the very considerations that led to their introduction. This has been my view from the outset. I consider these small notes—and I say it boldly—of much more importance to us than this matter of legal tender.

In order that I may not trespass too much upon your time, gentlemen, I shall refrain from touching upon the many little details that pass through one's mind in connection with this matter. It has been my purpose to present once more the objections to the introduction of the measure under discussion, in spite of my being perfectly aware that a decided change has taken place in the attitude of this body toward the question even in these last few months. There is one aspect of the case, however, upon which I wish to lay stress and which, I think, is a very interesting one. I do not propose to dwell here upon my personal views regarding the private banks of issue. It is very evident, however, that the moment we make



## *National Monetary Commission*

any change whatever in the regulations relative to the notes of the Reichsbank the private banks of issue will come, of course—and I understand their position perfectly from the standpoint of their own interests—with all manner of claims for indemnity. And the moment we institute any change in these matters we can naturally anticipate the same sort of action on the part of the places that are at present discriminated against in the German Empire—discriminated against because they are at a disadvantage with respect to Berlin in regard to the redeemability of the bank notes—which, perhaps, are not satisfied with the existing situation, but which have resigned themselves to it and which, if no change is made, will without doubt continue to put up with it. They, too, will come with their pretensions. I must candidly confess, my standpoint being what it is, I secretly hope that this matter of indemnifying the private banks of issue on the one hand, and the local institutions on the other, may have the effect of causing the whole proposition to come to naught.

I do not propose to enter into any discussion regarding the private banks of issue. The kind of indemnity that Doctor Weber has suggested is quite practicable indeed, but I am not ready to believe that all the representatives of the private banks of issue are so modest in their pretensions as these gentlemen seated here around the table. I have reminiscences, in fact, of former Reichstag days to the effect that some pretty stiff demands were made—a matter referred to in to-day's debate—as, for example, in the direction of compelling the authorities of the north Ger-



## *B a n k   I n q u i r y   o f   1 9 0 8*

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man States to accept the notes of the private banks of issue when tendered in payment of government dues, which would entitle these notes to a privilege not enjoyed by those of the Reichsbank, and it is probable, of course, that these demands will grow.

In regard to the proposition to make the notes of the Reichsbank, in case they are made a legal tender, redeemable in gold at the main branch offices, I must admit that consistency requires that if we are to make the notes a legal tender we must devise much ampler means for their redemption. But I hold, on the other hand, that if we are really intent upon achieving the object which is the aim of this whole provision—to strengthen our Reichsbank for facing a crisis—then we can not afford to go so far as to keep a supply of gold at all the main branches sufficient for redeeming the notes. The only alternative would be (if the measure under discussion is adopted) to enact a provision making the redemption of the notes obligatory but allowing the Reichsbank a suitable interval of time—as brief a one, of course, as possible. In this way, I say, we shall at least be making it the duty of the bank to redeem without at the same time encouraging the withdrawal of gold at the places in question.

The suggestion has been made, gentlemen—I believe it was by Professor Lexis—to amend article 18 of the coinage laws so as to make the notes redeemable in gold instead of current German money. I can not see any difference. What is current German money is set down in the coinage laws. Above 20 marks it is gold, and there is no doubt in my mind that the 20-mark note can legally be



## *National Monetary Commission*

redeemed in silver also. I consider this no misfortune, but there is this to be said, that as long as this provision exists in regard to current German money we ought not for a moment to consider the question of raising the silver limit above 20 marks, so that it may not be rendered possible to redeem larger notes in silver.

Now, as to the imperial treasury notes, I can not see, gentlemen, that they have anything to do with this matter, and I must say that I was surprised to see Doctor Ströll—I believe it was Doctor Ströll—come forward with the proposition that if the notes of the Reichsbank are to be made a legal tender the imperial treasury notes be likewise invested with that quality. I can not see any reason for this, for there is an immense difference between a bank note secured by the gold in the bank and a treasury note which represents merely a promise to pay, even if it be on the part of the Imperial German Government. In my opinion there is no reason whatever for conferring upon these treasury notes of the German Empire the quality of a legal tender.

As regards the treasury notes of small denominations, I must say quite plainly that we can not afford to spare them from our circulation. ["Very true."] I must confess that the 10-mark treasury notes have not been quite as popular as we anticipated. This is largely due to the fact—at least I am pretty sure of it—of their horrible appearance. ["Very true."] And if we had only made these 10-mark treasury notes nicer to look at and handle, we should probably have succeeded much better with them. The 5-mark treasury notes are not much handsomer, but



## *B a n k   I n q u i r y   o f   1 9 0 8*

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they are a bitter necessity for our business, for, if I am not mistaken, the demand for these 5-mark notes has at all times been a pretty good one.

A VOICE. But we have got the talers.

Mr. MOMMSEN. No, Geheimrat von Gamp; the taler is surely not going to work any better. And you have been doing some pretty mischief with the taler; I can tell you that right now. [Exclamations of approval and of protest.] We are not bound to discuss this any further, but as far as the 5-mark and 10-mark notes are concerned they have nothing to do with the matter. It is absolutely necessary to satisfy the demand for small notes. We can not think of doing away with them, and if we should proceed to get rid—as I trust we shall at one time or another—of the 120,000,000 marks which save us so and so much interest every year we shall have to introduce some other paper money, and in the end we shall have to get down to the 5-mark notes of the Reichsbank, which we are all agreed would not be to the advantage of the Bank.

To sum up, my position with respect to the main question is that I have most decided misgivings, based upon general grounds, as well as upon considerations of an economic nature, in the matter of making the notes of the Reichsbank a legal tender. I should hesitate not merely because of the impression that might be produced abroad—which I do not underestimate, but which, I believe, we may regard as something that can in a measure be counteracted when the measure has once for all been introduced—but because I believe in preserving the old legal



## *National Monetary Commission*

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status which has been found satisfactory for more than a generation.

Count KANITZ. I regard the problem of the financial equipment that shall enable us to face crises and the contingency of war as one of the weightiest of problems. Let us imagine for a moment, gentlemen, that our army is being mobilized, and then proceed to estimate in a general way the financial needs of the situation. We shall find that we shall have to deal not merely with the cost of putting our army in the field and maintaining it, but also with the suppression of those financial ills which even now weigh upon the German Empire. We are laboring now under a deficit of hundreds of millions and this deficit will have to be covered in a time of war also. We have to reckon, moreover, with the fact that the imperial revenues will be very materially reduced, that customs receipts will diminish with the crippling of trade, and that, with the prostration of business, the stamp revenues will decline; that, in short, the main revenues of the Imperial Government, if they continue to flow, will come in much less abundantly. A political organism that rests upon indirect taxes is much worse off in a critical time than one supported by direct taxes.

As for what has been uttered in this discussion regarding the resources of the country and the adequacy of the financial means that would be placed at the disposal of the Government in time of war, I must say that I am rather skeptical about this matter. How was it in 1870? Immediately after the declaration of war the Government put out a loan, the bonds being placed on the market at a very



## *B a n k   I n q u i r y   o f   1 9 0 8*

moderate figure, but the subscriptions turned out so meager that there was no idea of being able to meet the necessities of the Government in this manner. The public kept back in a very cautious spirit and it was not until some victories had been won that the capitalists came forward and placed their money at the disposal of the Government, and indeed they were not slow with their complaints when, as a result of the successful issue of the campaign, the rate at which the bonds were offered was advanced.

We have therefore no assurance, gentlemen, that in the event of war large sums of money would be placed by the country at the disposal of the Government, and we must consequently try to devise some other means of making sure that the money will be forthcoming. But I consider it of still greater importance that the stock of gold in the Reichsbank shall be protected against too heavy a drain, and all the more so because the issue of the war may possibly depend upon the greater or less supply of money. I have therefore been of opinion from the start that we ought to make the bank notes a legal tender. I consider this not merely a desirable but an absolutely necessary means of guarding the gold in the Reichsbank in such a way as to provide the most essential remedy against the premature exhaustion of our resources.

If it be argued that this is merely a matter of legally sanctioning a preëxisting condition and that the bank notes are now universally accepted, I can not regard the contention as altogether substantiated. I am ready to believe that the public will be astonished when the law in question is enacted. People will ask: "By Jove, are not



## *National Monetary Commission*

the bank notes a legal tender already? What does all this mean?" Yes, gentlemen, but there is a possibility that just at a critical time, in case this measure is not adopted, people will come and ask for gold, and the German is not under all circumstances so patient or so sensible as that American who, as one of the speakers related today, accepted the situation, saying, "All right; if there isn't any gold, I suppose I shall have to wait and see how things are going to turn out." I fear that this will not be the case with us here in Germany and that people will naturally be much rather inclined to resort to the means of coercion which the law places at the disposition of the creditor, a way of doing that may lead to the most serious complications.

I am persuaded that this is not merely a matter of sanctioning and legalizing an actually existing condition, but that we have to deal with a new measure which has to be adopted at all hazards.

And as for the assertion made by some of the speakers to the effect that the promulgation of the law in question would result in an uneasy and panicky feeling, I cannot see why there should be anything in the nature of such a panic, for in every country, at least in every country that is on a high plane of civilization, and particularly in France and England, as has been repeatedly pointed out to-day, there is a law of this kind, making bank notes a legal tender, and therefore I can not believe that mistrust and panic will ensue if we resort to such a measure.

The only question to be considered, then, is as to whether this law should not go into effect on January 1, 1911, or



## *Bank Inquiry of 1908*

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whether we should fix an earlier date. I should not consider a special law advisable, as that might lead to some uneasiness. I believe the proper thing would be to insert a paragraph in the bank act to the effect that the bank notes are to be a legal tender from the date of the promulgation of the act. This is a pressing necessity, gentlemen, and we can not afford to wait until January 1, 1911, that is, two years, for no one can tell what is going to happen in the meanwhile. I think we ought to draw up the new bank act speedily and submit it to the Reichstag in order that it may pass it as quickly as possible and that this provision in particular may go into effect at the earliest possible date.

Being nothing more than a layman in the realm of banking, I can not be expected, gentlemen, to enter into a detailed discussion of the matter before us in the way the speakers who have preceded me have done, with whom it would be presumptuous on my part to attempt to argue in this field. I thought, however, that I might be permitted to present the reasons, based upon general considerations of a political nature, that induce me to urge this measure.

I will therefore only say in conclusion, with reference to the private banks of issue, that I recognize the likelihood of our hurting their prestige to some extent and of our inflicting a certain loss upon them if we make the notes of the Reichsbank a legal tender, but that I feel assured that some way will be found of indemnifying them. The loss they will incur will after all be slight, and if Herr Mommsen asserted a moment ago that this sort of indemnity would probably be asked for on a rather ample scale and that, in



## *National Monetary Commission*

fact, no one could tell what dimensions such demands for compensation might reach, all I have to say is that we are not bound to recognize them. When we have once got a law, then we have something to stand upon, and all we have to say to the banks that bring forward their claims for indemnity is, "We offer you so and so much, and if you are not satisfied we can do nothing for you." [Laughter.] It is my opinion, gentlemen, that there can be no fatal objection on this score, neither did Herr Mommsen intend to have the objection which he brought forward regarded as such.

Allow me, gentlemen, to sum up briefly by saying that I trust the proposed measure will be approved, that it will soon be enacted into law, and that it will speedily be put in operation.

Mr. KAEMPF. It is not sufficient, gentlemen, to maintain, as Count Kanitz has done, that it is absolutely necessary, in order to provide for every possible contingency, to make the notes of the Reichsbank a legal tender, but it would have been agreeable to us to have heard from Count Kanitz in what way the legal-tender quality of the bank notes is calculated to protect the bank's stock of gold in the event of an economic crisis. As Count Kanitz has not chosen to enlighten us in regard to this matter, I shall take the trouble to explain very briefly in how far the legal-tender quality of the bank notes tends to affect favorably the stock of gold in the Reichsbank, especially in a time of mistrust and uneasiness, and I am persuaded that it is from this standpoint only that the whole question can be considered and answered.



## *B a n k   I n q u i r y   o f   1 9 0 8*

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The thing that affects the Reichsbank and the monetary situation generally in critical times is the fear which takes hold of people and impels them to try to get hold of gold in place of paper money; that is to say, bank notes. A case is constantly adduced where, according to the statement of the experts, the banks and bankers, as well as other individuals, fearing that the bank notes would not be accepted in payment, provided themselves in time with gold and subjected the Reichsbank to an excessive drain. But the apprehension that the bank notes may sooner or later not be accepted is only part of the anxiety that seizes the people. A further fear is the apprehension that there might be a resort to forced circulation, in which case the bank notes would actually become a depreciated currency. This fear plays a very important rôle in connection with the demands upon the Reichsbank in critical conjunctures.

The question is, then, which part of the general uneasiness is the greater—the fear that the bank notes might become a depreciated currency or the fear that the bank notes, by reason of their not being a legal tender, might occasionally be refused when one has to make a payment? I believe that the first fear is by far the more acute. If this is the case, however, then the investment of the notes of the Reichsbank with the legal-tender quality is not calculated to prevent the mischief arising from the dread of a forced currency, and I have been surprised to see that just those of the gentlemen present who feel sure that in the event of a crisis it would be necessary to decree



## *National Monetary Commission*

forced circulation are so strongly in favor of making the notes of the Reichsbank a legal tender.

If these considerations have led me to conclude that the advantages resulting in case of a crisis from the legal-tender quality of the bank notes are not so great as has been claimed and maintained in our discussions, I have to ask myself in how far the circumstance that the notes are a legal tender may be mischievous in normal times. In regard to this, I am on the whole in accord with the opinion expressed by Herr Roland-Lücke and Herr Momm-  
sen. I hold that, as far as normal times are concerned, the old maxim *quieta non movere* applies in this matter.

The state of the law in Germany in regard to bank notes is, as a matter of fact, something with which the great mass of the people is quite unfamiliar ["Very true"], which indeed is in line with the remarkable ignorance of the German people in regard to questions concerning the coinage, I myself having heard the most fanciful views expressed by persons presumably competent to talk on such matters. Only recently I had to argue with a gentleman who was unwilling to believe that the Reichsbank is obliged to redeem silver fractional currency in gold when the amount presented exceeds the sum of 200 marks. This is explicitly stated in the coinage laws and can not admit of any possible doubt. The same ignorance exists with respect to the bank notes. No one dreams of refusing the notes of the Reichsbank; nobody asks himself whether he is bound to accept the notes in payment. Everybody takes them simply as a matter of course.



## *B a n k   I n q u i r y   o f   1 9 0 8*

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I can not see, therefore, that any advantage would ensue in ordinary times from the fact that the notes of the Reichsbank are a legal tender. On the contrary, it is easily conceivable that the introduction of the legal-tender quality, if it is to take place now, might lead to mischief, although I do not pretend to say that such a result is inevitable. The evil effects that might arise would be due to the circumstance that in the outside world, as well as in our own country, it would become manifest that some sort of an innovation had taken place, and that unfavorable inferences might be drawn hence at home and abroad, which might lead to the appearance of the gold clause and similar things that, in my opinion, ought by all means to be guarded against in the interest of the public welfare.

We are certainly confronted by a very weighty problem—a question of conscience—when in the midst of our public duties we are told: “This measure which is under discussion is absolutely necessary on high grounds of economic policy.” We have seen the same thing in the case of the small bank notes as well as in the case of the raising of the per capita quota of the fractional coins from 15 to 20 marks. The conditions in these two cases were in my judgment less intricate than those which present themselves here. [“Very true.”] Here we have to deal—those of us who believe in making the bank notes a legal tender, as well as those who believe that this would be harmful to business in normal times—with mere possibilities. Those who are in favor of making the notes a legal tender on the ground of the advantage that would result in critical times can not assert\*



## *National Monetary Commission*

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with absolute positiveness that such a measure would in itself be sufficient to avert a crisis, and just as little am I in a position to assert with absolute positiveness that the introduction of such a measure would lead to mischief in normal times. We can only say, on either side, that we presume or that we believe that such and such a thing will happen.

Under these circumstances, I have to say that I concur in the view expressed by Herr Roland-Lücke. I can not conscientiously advocate the introduction of the legal-tender provision, but at the same time I can not make up my mind to oppose the measure when it is urged by those upon whom the responsibility chiefly rests. This being the standpoint which I have adopted, I have to say that I should refrain from opposing the measure only on condition that it is declared anew on this occasion in unequivocal terms and absolutely made certain that there is to be no tampering in any way whatsoever with our gold standard. Above all, we must have a renewed assurance that all notes of the Reichsbank are redeemable in gold. It is also essential that we be assured that every proposition will be rejected aiming at a raising of the payment capacity of silver. And finally we must have a guaranty that nothing will be done that will tend to cause the bank notes to depreciate.

I shall refrain from discussing these points more closely in order not to touch upon questions which it is neither necessary nor desirable to bring up at the present moment. But only on the assumption that the conditions which I have mentioned will be realized could I be



## *B a n k   I n q u i r y   o f   1 9 0 8*

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prevailed upon to go so far as not to oppose the legal-tender proposition.

There are still some subordinate points to be considered, which, however, are of little weight by the side of the main issue.

One of these is contained in the proposition submitted by Herr Schinckel to the effect that the Reichsbank notes shall be made redeemable at other places than Berlin in ampler measure than the law at present provides. According to the existing regulation the notes are redeemable in gold in the larger cities outside of Berlin to the extent that the stock of gold on hand at the particular place permits. Herr Schinckel would like to make this provision broader. I must say that I consider Herr Schinckel's proposition in itself fully justified, but I can not see that this question is in any way affected by the matter of the legal-tender provision. The two questions ought to be considered entirely apart. ["Very true."] At present when the bank notes are not a legal tender, they are redeemed in the way the existing law prescribes. Making the notes a legal tender would not alter the situation at all. I believe, however, that the Reichsbank can very well afford to be so accommodating in its treatment of the places outside of Berlin as to make them feel that they enjoy, so to say, equality before the law. It might become quite a serious matter, and the cities outside of Berlin might be placed in a very disadvantageous position if these things are not managed with the utmost circumspection and in a way best calculated to avoid friction. No one, indeed, has ventured to dispute this.



## *National Monetary Commission*

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• The second point is the question of the private banks of issue. I consider these banks, gentlemen, very important factors in our economic development, as well as in our circulation, and I believe that, since the private banks of issue that survive have so thoroughly demonstrated their usefulness, there is no reason for discriminating against them anew by making the notes of the Reichsbank a legal tender and at the same time withholding that quality from their bank notes; and that, if there is no possibility of placing them on an equality with the Reichsbank in this respect, they will be entitled, and indeed compelled, to demand some equivalent in this regard in the way of indemnity, in order that the banks which still exist may continue to exist.

Coming finally to the question of the imperial treasury notes, I must say that I do not care to waste many words on them. But, since so much has been said on the subject, I suppose I have no right to withhold my opinion. I look upon the treasury notes as simply a blemish in our bank and coinage laws. I beg you just to say to yourselves: "There are in all 120,000,000 marks of imperial treasury notes, of which about one-half is at present in circulation, while the other half is in the vaults of the Reichsbank." I believe the proportion will change in such a way that there will be perhaps 30,000,000 marks in the Reichsbank, which is needed in order to provide the various banking institutions with treasury notes, and 90,000,000 marks in circulation. Now, the status of the 30,000,000 marks will certainly be a very curious one, inasmuch as they are considered a protection for the bank notes, while they them-



## *B a n k   I n q u i r y   o f   1 9 0 8*

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selves, as a matter of fact, have less of a security back of them than the bank notes which they are intended to protect. This is indeed an extraordinary position that is thus assigned to the treasury notes. But here, too, the best counsel would be: "Let this question alone. Let this relic of nearly forty years' standing continue to exist in peace; it is not going to hurt anybody." If you want to get rid of them, you will have to wait until we can again get gold as plentifully as hay without having to borrow it. It will be time then to think of doing away with the imperial treasury notes. It is my opinion that we ought to keep this question out of our discussions. I see no reason why we should break our heads over it.

Gentlemen, I have explained my views to you, views which are at variance in many respects with those that have been expressed here and which differ, I am aware, from those of the president of the Reichsbank. But I believe that we are assembled here in order to express our opinions without any reservation, and I have thought it my duty to act accordingly.

Doctor SCHMIDT. We have heard a remark by one of the speakers to the effect that if the opinions of the experts were by a considerable majority against making the notes of the Reichsbank a legal tender this may perhaps be ascribed in part to the circumstance that the gentlemen at the time were still under the influence of the events of the winter and may possibly therefore not have viewed the question from the same standpoint as we are doing here. There was one expression of opinion on the part of the experts that particularly astonished



## *National Monetary Commission*

me, especially as coming from experts who stand very high in all that relates to financial questions. They are opposed to the measure in question on the ground that nothing would be gained by altering existing conditions, being convinced that, inasmuch as payment in bank notes has become the usage in business, a court could never be found that would regard a payment in bank notes as not fully discharging an obligation. The opinion of these gentlemen means therefore just this: The law indeed does not confer the legal-tender quality on the bank notes, but the business world is so permeated with the notion that they are a legal tender, in other words, the usage has become so universal, that no court would venture to place the written law above the unwritten law. This took the ground from under the theoretical argument to the effect that payment in bank notes in the case of interest on mortgages and of house rents would entail serious hardship on debtors. For me, gentlemen, this is conclusive. If the public consciousness is so pervaded with the idea that the state of the law is such as to recognize the bank notes as a legal tender, then I think it is the duty of the lawgiver to seize the first opportunity to incorporate this view of the law, which is rooted in the public consciousness, into the actual code, or, in other words, to give it legal expression. This opportunity is afforded by the supplementary bank act in connection with which the measure can be enacted without causing any stir. I think it would be a mistake to make a special act of government out of a measure which does nothing more than declare that an actually



## *B a n k   I n q u i r y   o f   1 9 0 8*

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existing situation is invested with the sanction of the law.

The experts base their objections on two grounds. One is the bad impression which a measure of the kind would produce abroad. I can not quite comprehend how the enhanced value of the notes of the Reichsbank, which they certainly acquire by being invested with the quality of a legal tender, could possibly affect our monetary standard, considering that the matter of the redeemability of the notes remains precisely as it was. The outside world has no right to object if Germany invests her bank notes with the same quality with respect to a tender of payment which the notes of the Bank of England and other banks have all along possessed. Against that unfounded mistrust, to which Germany is subjected in many ways and which she has experienced to such an extent in recent times, we are strong enough to protect ourselves, and I believe that our dread of the opinion of the outside world is often exaggerated. Herr Fischel pointed out yesterday that if such an unjustified mistrust should be engendered abroad the Reichsbank would be able to make use of its stock of foreign bills to counteract effectually any hostile movements bearing upon the rate of exchange. That making them a legal tender might cause the notes of the Reichsbank to be less popular in the Empire, with the result that more gold would be drawn into circulation and the Reichsbank thereby weakened, is a gratuitous assumption. Although it may be very difficult to demonstrate numerically just how the legal-tender quality of the bank notes would have a favorable effect upon the stock of gold in the



## *National Monetary Commission*

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Reichsbank, I am nevertheless convinced that such an effect can be looked for.

Even in normal times every intelligent merchant makes it a point to have some sort of a cash reserve, and it is natural that he should lay it up in legal coin and not in Russian or Italian bank notes, or, in other words, make it consist of money that is a legal tender. It may often be the case, therefore, nowadays, when the bank notes are not a legal tender, that such reserves are preferably kept in the shape of gold, as the only legal tender. This evil would disappear if the notes were made a legal tender. We may also assume that debtors who have very strict notions of honesty and employers of labor similarly scrupulous in their dealings feel a sort of repugnance to paying in money that is not a legal tender. I can easily imagine a strictly honest employer giving instructions to his cashier to pay only in legal currency, and such action must, of course, tend to weaken the stock of gold in the Reichsbank, that is to say, to divert gold from the Reichsbank into the channels of circulation.

How the investment of the notes of the Reichsbank with the quality of a legal tender could have injurious results is, after the statements of the experts and the expression of views which we have heard to-day, in reality hard to understand. What has been said here furthermore in relation to the notes of the private banks is to the effect that this very act itself of making the notes of the Reichsbank a legal tender will cause the notes of the private banks, which retain their previous status—that is to say, are not to become a legal tender—to undergo a sort of



## *B a n k   I n q u i r y   o f   1 9 0 8*

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depreciation. From this it is to be inferred that you are all of opinion that if the notes of the Reichsbank are made a legal tender their intrinsic value, their value in circulation, will practically be enhanced, and if this is the case it may of course be assumed that they will be used more extensively and will serve—I am speaking now only of tranquil and normal times—to protect the stock of gold in the Reichsbank.

I believe, therefore, that it is absolutely necessary to convert the actually existing situation into one sanctioned by law, and I would urge most insistently that on this occasion the matter of indemnity be dropped. Herr Fischel spoke yesterday in favor of the enactment of a special clause relative to the small bank notes, specifically the twenty-mark notes, providing for their redemption in gold. The proposition of Professor Lexis would appear to serve precisely the same purpose, in that it provides that in place of the words “in current money” the words “in gold” shall be inserted in the bank act. It would furnish a sort of counterpoise to whatever unfavorable impression the legal tender provision might be calculated to produce if we should declare explicitly in the supplementary bank act that the notes are redeemable not in current German money but in gold.

An extension of the existing obligation to redeem the bank notes appears to me very objectionable and is, I believe, altogether uncalled for. I see no reason for apprehending that the provincial towns will be placed on an inferior level. It has already been pointed out what a drain may actually be imposed upon the Reichsbank



## *National Monetary Commission*

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by the withdrawal of gold in the border towns. As a matter of fact, in the existing state of the law the Reichsbank has at all times been ready to pay out gold or to give gold in exchange for other currency as long as the demands were legitimate. I have never heard anyone complain that his request had not been granted. The apprehensions of Herr Schinckel appear to me quite baseless from a practical standpoint. Various members of this commission have urged the advisability, in declaring the notes of the Reichsbank a legal tender, of wording the clause in precisely the same way as is done in the English bank law, it being declared that the bank notes are a legal tender except in the case of payments out of the bank. At present, if a man in Hamburg or in Frankfort has to get 1,000,000 marks in coin, he is not going to have 1,000,000 marks in advance in his safe in bank notes, but he will have a credit balance in the Reichsbank subject to draft and he will accordingly present a cash check for 1,000,000 marks on the Reichsbank. He is not going to carry the million in bank notes to the Reichsbank and demand gold in exchange, but he will present the check and demand payment, which, in accordance with the provision in question, has to be made in gold. This situation, it is true, might be considered as involving a certain drawback in that the Reichsbank might practically be obliged, perhaps, to maintain in every city in which people have large credit balances a corresponding supply of gold. Still, as regards the legal obligation to redeem the notes in the larger provincial cities, I do not see the need of a provision to that effect. I believe, too, that



## *B a n k   I n q u i r y   o f   1 9 0 8*

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Herr Schinckel will agree with me that the customary way of doing is not to take bank notes and ask to have them exchanged for gold but to go about it by means of a deposit account. I believe therefore that we need not attach any weight to these objections.

The question regarding the private banks of issue will, I trust, be solved to the satisfaction of all along the lines indicated by some of the speakers who have addressed us. I come now to the matter of the oft-abused imperial treasury notes and I am glad to see that Herr Mommsen has also found them quite attractive and has not judged them quite as harshly as they have generally been judged, and that President Kaempf pronounces them merely a blemish in our coinage system. They may be that, but they are in reality a pretty good sort of currency, as long as they are not lying in the Reichsbank, where they hardly belong, to be sure. I believe, however, that the Reichsbank will perhaps succeed in keeping the whole of this 120,000,000 marks in circulation, room being made for them by the withdrawal of a like amount of gold crowns, which are a very expensive currency.

I shall say once more, then, that it is my conviction—I must repeat that I have reference here to normal times merely—that it is in the interest of business to legalize the actually existing situation by making the bank notes a legal tender.

We should not leave out of sight, of course, the considerations on which the president of the Reichsbank dwelt yesterday, considerations which we must regard as decisive in framing our conclusions.



## *National Monetary Commission*

Herr Roland-Lücke expressed a doubt as to whether the investment of the notes of the Reichsbank with the legal tender quality would actually produce the desired results and he spoke of three sources of danger regarding the stock of gold in the Reichsbank in case of an impending crisis. In the first place, he says, there would be this mistrust on the part of the outside world, which, if a crisis appeared to threaten and there was a prospect of political complications, would try to withdraw its loans, credits, etc., from Germany. I admit that this is the case, but I can not see why it should not happen to the same extent whether the bank notes are a legal tender or not. Indeed it might even take place to a much greater extent in the absence of this legal-tender regulation; it is certain that nothing would be gained by not having it. A second source of danger, he says, would arise from the fact that timid people in Germany might have a notion that it is safer to keep twenty-mark pieces in a stocking than to let them lie in the bank. But this would in any case be but an insignificant fraction of the population, one that is hardly worth considering, and these people would do precisely the same thing whether the notes of the Reichsbank were a legal tender or not. In both of these cases then, it appears to me, nothing depends upon whether we declare the notes to be a legal tender or not. In the third place we have to deal with that intelligent class consisting of the managers of the great banks, the heads of the large commercial houses, the big manufacturers, and others, who, when a crisis appears to be impending, find it necessary to provide



## *B a n k   I n q u i r y   o f   1 9 0 8*

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themselves with a stock of currency. Here we should be confronted with the situation which Herr Schinckel, I believe, described yesterday. The actual advent of an acute crisis is usually preceded by a time in which a crisis may be said to be brewing. At such a time the banks will endeavor to prepare themselves by gradually laying in a supply of gold in their vaults for fear of not being able to meet their liabilities by paying in currency that is a legal tender. In case then that the bank notes are not a legal tender, the banks, manufacturers, and big merchants, in short all who have creditors whose demands have to be met, will exert themselves to store up more or less gold, saying to themselves: "Until now I have been able to pay in money that is not a legal tender and for years I have been in the habit of paying my employees and other creditors in such money, but now times are beginning to get critical and they may perhaps come to me and say, 'No, sir; the thing you are giving me is no legal money, you have got to give me legal money.' " And so prudent and rational people will prepare themselves for such a contingency by taking gold out of the Reichsbank—gradually and cautiously—so as to keep clear of a situation where they should be obliged to pay in money that is not a legal tender.

I believe that the objections which Herr Roland-Lücke finds against making the notes of the Reichsbank a legal tender ought to have no weight whatever. The first two factors would present themselves in precisely the same way whether the notes are a legal tender or not, and under the third assumption the legal-tender regulation would,



## *National Monetary Commission*

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according to any rational deduction and the logic of facts, have decidedly the effect of sparing the gold in the Reichsbank, and it has been our main object, I believe, to find means of strengthening the stock of gold in the Reichsbank, as far as possible. We should leave nothing undone in this regard, and in order that we might be financially equipped to face a crisis, we ought to do our best to get as much gold as we can from abroad and from our own midst and store it up in the Reichsbank. I feel sure that we can and ought to reach the point where two billion marks of gold are stowed away in the vaults of the Reichsbank. The main thing will always be to make the stock of gold in the Reichsbank as big as possible so as to be able to meet all demands that may arise.

Mr. SINGER. Herr von Gamp, if I understood him right, expressed the fear that a law making the notes of the Reichsbank a legal tender might jeopardize our gold standard, and he declared that his support of the measure would be contingent on the assurance (I can not recall the precise tenor of his utterance) conveyed in an explicit legal declaration, or in some other way that would render the obligation binding, that no innovation whatever would be made in this regard. I consider this apprehension groundless. I believe, on the contrary, that the stability of the gold standard will only be further assured if the notes of the Reichsbank are made a legal tender, inasmuch as the issue of the notes is based on the gold standard and they are secured by a specific gold reserve set apart for their redemption. It seems to me, therefore, that we may as well dismiss this fear. I find myself in the



## *B a n k   I n q u i r y   o f   1 9 0 8*

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curious situation, one none the less agreeable, however, of being able to subscribe in toto to what Count Kanitz has said, in the same way that I consider the last speaker, Doctor Schmidt, to have shown in an absolutely convincing manner that the measure making the notes of the Reichsbank a legal tender will prove a salutary one.

Let us see, gentlemen, just how the whole matter stands. In my judgment the question is of no importance whatever as far as our domestic situation is concerned, the bank notes being everywhere accepted without hesitation and looked upon as a full-value legal tender. I do not know by experience of a single case where anyone said: "I can not take bank notes, because they are not a legal tender." The assumption that the enactment of the provision in question will tend to make the public lose faith in the redemption of the notes does not appear to me to be borne out in any way by the statements that we have heard respecting the matter. The public and the business world will simply say: "We have always looked upon the notes as a legal tender, and declaring them to be such by legal enactment is not going to alter the situation." Nobody, I am sure, will step forward and declare that he has not been acting right in accepting the bank notes, and it will not enter anyone's head to imagine that the notes are no longer as safe as before; that is to say, that there is no longer the same assurance that they will be redeemed now that their quality as a legal tender—something which they have all along possessed in fact—is established by law. If there are any particularly nervous people who will feel some anxiety in this regard, they will soon be convinced



## *National Monetary Commission*

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by the course of events that their fears are groundless, for the new provision does not affect the matter of the redemption of the bank notes. If anyone, perchance, should feel an irresistible desire to carry his notes to the Reichsbank and ask to have them exchanged for gold, he can do it. He will get gold for them, and it is likely that the very next day, by which time he will undoubtedly have found out that it is easier and more convenient to keep paper money and make payments with it than is the case with the metallic cash, he will reconsider the matter and henceforth take bank notes again whenever he wants a considerable sum of money.

The real importance of the whole question is in connection with the attitude that the outside world is likely to assume toward the proposed measure. A number of the speakers, however (and I believe they are right), have assured us that as regards the unfriendly criticisms and malicious assaults that every now and then are leveled against us in one foreign country or another—and we here sin just as badly with respect to the outside world—we shall continue to be exposed to such attacks, whether we make the bank notes a legal tender or not. I, for my part, do not believe—I do not pretend, of course, to speak as a person specially qualified—that the credit of the German Empire could anywhere be injured by the fact of our having declared the bank notes a legal tender. One might perhaps argue, indeed, that the contrary is likely to take place. It may be that foreigners will conclude that those who have a decisive voice in determining the action of the German people have such confidence in



## *B a n k   I n q u i r y   o f   1 9 0 8*

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the financial strength of the Empire that they proceed quite fearlessly to make the notes of the Reichsbank a legal tender. I actually can not see, gentlemen, why we should be called upon to consider what sort of reception this may be likely to have abroad.

There is one thing I should like to lay stress upon. It would certainly be very strange if we, here, who look upon the Reichsbank as the financial backbone of the Empire, and all of whom have the greatest confidence in the management of the Reichsbank—I am happy to share in this feeling—should have a desire to restrain it in the exercise of its powers. In saying this I assume, of course, that the principle of the gold standard will be strictly adhered to. If the permanence of the gold standard is to be assured, I must say it seems to me rather queer that we should be willing to weaken the trust in the notes of our Reichsbank by declaring that, while we absolutely need the notes and have the utmost faith in them, when it comes to granting them that which ought still further to add to their safeness—the quality of a legal tender—we can not afford to do it. This involves a contradiction which is not based in any way on the facts in the case and which can not be reconciled—pardon me, gentlemen, if I say so—with the enthusiastic expressions of confidence that have been heard in this body. I do not think we ought to allow ourselves to be guided by such apprehensions.

The next question is, What is the most appropriate time for taking the proposed step? I agree fully with the gentlemen who have declared that it would not do to



## *National Monetary Commission*

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make this measure appear like a prime act of the Government, to put it forth as something great and embody it in a special law. I believe that the renewal of the bank charter, which is near at hand, will offer an excellent opportunity for disposing of this matter. The provision in question may be incorporated in the act, and I do not think there will be much fuss over it here or abroad.

While I can declare that I am on the whole in favor of the proposed measure, I should like to say a few words in regard to some of the individual points.

I take it to be a matter of course that we are not to discriminate between our bank notes; I mean to say that we are not going to make the large notes a legal tender and let the small ones remain as they are. This would subject the notes of small denomination to a certain depreciation.

A number of the speakers have urged that the privilege which Berlin enjoys in the matter of the redemption of the bank notes be extended to all the main branches of the Reichsbank. I can readily conceive why there should be a demand of this kind, proceeding from considerations which I should not exactly characterize as local patriotism, but which I should rather say expressed certain local needs, which actually exist and which I regard as quite natural and legitimate. But it seems to me that if we are to accede to this demand the whole enactment will in a large measure be deprived of its purpose; for the object of the provision is that the Reichsbank shall be able at all times to have at its disposal as large a stock of gold as possible—a consummation incompatible with the



## *B a n k   I n q u i r y   o f   1 9 0 8*

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necessity of supplying the various main branches with a large amount of coin, in order that they may wait for some one to come along who would like to have gold in exchange for bank notes. Now, inasmuch as the redeemability of the notes is absolutely assured, the gentlemen who have been urging this change ought to consider it sufficient if the arrangements are such that any demand of this kind will be met within a specified and reasonably short time. After all, even as matters stand now, you can not say that if some one should come outside of Berlin with a 1,000-mark note there would be no way of exchanging it for gold. If we have to deal with large sums, however—and this is the main point—the thing can be so arranged that the managers of the branch offices can let it be known that they must have such and such a supply of gold within so and so many days (say, three, four, or five days)—it is not for me to say how the provision is to be framed—and then the whole matter is very simple indeed. The necessity of satisfying local needs, therefore, does not involve the inference that bank notes may be redeemed on presentation at any one of the disbursing offices of the Reichsbank. The disadvantage to which I have referred arising from the circumstance that the Reichsbank would be prevented from having as large a stock of gold as possible at its disposal would more than outweigh the advantage resulting from the redeemability of the notes at the branches outside of Berlin, and I am therefore of opinion that we can not afford to yield to the demand in question.



## *National Monetary Commission*

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It is hardly worth while wasting words on the question of the imperial treasury notes. One of the speakers remarked that they are a blemish in our coinage system. Now, in my opinion, the people who have to handle these treasury notes themselves will not care so very much about their looks, especially since their issue has proved to be a necessity, and, considering the comparatively small amount of these treasury notes, I do not think we ought to institute any change in this respect.

I have now to touch upon the question of the private banks of issue. In regard to this matter I do not quite agree with the gentlemen who are in favor of according the same privileges to the private banks of issue as to the Reichsbank. [Quite right.]

I am unable to share this view. The Reichsbank exercises its functions—if we consider the matter from a purely practical standpoint—very largely, if not altogether, in the interest of the public, in the interest of the imperial treasury. This can not be said of the private banks of issue. They represent business undertakings, which, as I must unreservedly acknowledge, are splendidly managed, but which can not claim to be regarded as institutions entitled to the advantages of the legislative arrangements that exist for the benefit of institutions connected with the Imperial Government. I see no reason therefore—and I am confirmed in my opinion by what I have heard here—for making the notes of the private banks likewise legal tender. If it is argued that in that case we are bound to provide some sort of indemnity for the private banks of issue, I am not yet prepared to say



## *B a n k   I n q u i r y   o f   1 9 0 8*

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that the situation of these institutions is so distressful as to call for relief. At least, this would first have to be made apparent. Why a change in the status of the notes of the Reichsbank made in the interest of the Imperial Government should be the occasion of making concessions to the private banks of issue likewise, I can not quite comprehend. In the same way, in the case of every law enacted in the Reichstag—and unfortunately this happens only too often—those who believe their interests to be injuriously affected would have a right to come and say, "This is going to hurt us; you will have to indemnify us in some way." I think, therefore, that we might as well drop these discussions regarding indemnity for the private banks of issue. For my part, I have absolutely nothing to discuss.

To sum up. I am of opinion that we ought to agree on a resolution to make the notes of the Reichsbank a legal tender and that we need fear no evil consequences either at home or abroad.

Mr. RAAB. I can not see, for my part either, that I can add anything new to the arguments already advanced. I must say, however, that I always look upon it as a good thing if we proceed to incorporate in our own monetary system the arrangements which those masters of the world's trade and finance, the English, have in theirs. Just as the legal-tender quality of the English and French bank notes has not tended to excite the least suspicion in regard to the gold standard so we need not fear the slightest danger if we do what England and France have done. The safeness and redeemability of the notes of



## *National Monetary Commission*

the German Reichsbank are too well known all over the world and our financial fabric rests on too firm a basis for us to feel any apprehension whatever.

It must be said, however, that the existing provisions of the law render it possible for persons who use tricky methods in business to refuse on occasion to accept our good, trusty bank notes, and thus to cause temporary embarrassment to their fellow-men. We ought to do away with this possibility as speedily as practicable. Our bank notes are regarded as perfectly good money everywhere and there are extremely few people who are aware of the fact that if they wish to behave in an ugly manner, they are not obliged to accept the notes. Many persons will perhaps hear of this for the first time through our discussions, and no one can tell whether the very publication of the proposed amendment does not carry with it a certain incentive to trickery. For this reason I, too, should consider it desirable to have the provision in question passed and put into effect as soon as possible. The proposition to make the notes of the Reichsbank redeemable at the branch offices appears to me altogether sound and practicable, and I must express myself heartily in favor of it.

Mr. FISCHER. You will pardon me, gentlemen, if I once more introduce some of my reflections in this discussion. Let us not forget that we have at the present time about 900,000,000 marks of subsidiary silver currency and that the law permits the raising of the amount by successive steps to 1,250,000,000 marks. Then we have a great quantity of gold in circulation. The amount is smaller, it



## *B a n k   I n q u i r y   o f   1 9 0 8*

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is true, than has hitherto been estimated, but it is, nevertheless, very large, and it may in any case be reckoned to be considerably larger than the total of the bank notes in circulation. We have, besides, the imperial treasury notes in circulation, and then there are the notes of the Reichsbank, which at this moment amount to about 1,500,000,000 marks. All these various forms of currency ought to be qualified to discharge their functions as instruments of exchange; that this is of the utmost importance goes without saying. A considerable part of them, however, at the present day are in reality thus qualified only by reason of the toleration of a condition to which the people have become habituated and of whose want of a legal basis there is a widespread ignorance. Now, I can not look upon it as a matter of no consequence, especially when it comes to troublous times, that one portion of this currency does not in reality possess the quality of a circulating medium of full validity in spite of the fact that its quality rests on the obligation to redeem at any time in gold.

It is evident that the redemption of even a pretty small part of the notes in circulation is calculated to produce a contraction of the currency and that just in times of crisis, when the demands of business are increasingly urgent and when it is necessary to enlarge the volume of currency, the Reichsbank, which we have empowered to issue bank notes, must find it especially difficult to exercise its functions if any doubt arises as to whether the notes will be universally accepted. There might hence be a fear that the money market will give out, a fear that



## *National Monetary Commission*

will make itself felt long before there is any apprehension that a difference may be created between gold and bank notes. But if it becomes necessary to augment the volume of the currency through the agency of the Reichsbank, it is no little disadvantage, in my judgment, that this increase affects exclusively that part of the currency which can not be absolutely considered a circulating medium of full validity. I admit that this is all theory, but even so it is a matter of consequence. The maintenance of our currency up to the full standard—that is the very thing that the Reichsbank is called upon to perform.

It seems there is no getting done with the question that has been brought up as to whether there are not people who at a particular moment—reference was made specifically to this kind of uneasiness—will proceed to hoard up gold. There are various kinds of fear. I admit that the fear of which President Kaempf was speaking is of a more serious nature than that other which consists only of excessive caution, but it is in our interest to suppress the elements of fear where they are capable of being suppressed, even if they seem less important, for the one kind of uneasiness may easily develop into the other and more serious kind. The fear that the bank notes will not be redeemed if the public should lose faith in the stability of the German monetary standard and the anxiety in regard to the political situation is such as to make people begin to hoard up gold—this kind of fear we are unable to suppress. This circumstance, however, should not make us inclined to overlook the other kind



## *B a n k   I n q u i r y   o f   1 9 0 8*

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of uneasiness, which is also of a serious nature even if it be not, as I admit, nearly so portentous as the first. But what is going to take place if at a critical time or at a time of general uneasiness doubts should arise regarding the stability of our monetary standard or a widespread sense of insecurity which would impel people to hoard up gold? You will then see something that is extremely dangerous, a diminution of the volume of our active circulating medium. This very thing will greatly intensify a crisis, and it is capable indeed in itself of producing a crisis even when the conditions in the matter of demands for credit afford no indications of one. But if our currency thus suddenly begins to prove inadequate, we ought to have the means of immediately replacing the portion withdrawn with currency of equal valence. But this circulating medium of equal valence must, in my opinion, be such as possesses the same quality with reference to the discharge of one's liabilities as gold. We are bound to preserve intact the quality of our bank notes, we must render them still better adapted to the purposes of business by making them a legal tender, and we must place them on a higher level with respect to security by providing as large a metallic reserve as possible. It is of great importance at all times for us to have a large stock of gold. [Quite true.]

For my part, I am convinced that, without suppressing the free expression of our opinion in case it is not altogether in accord with that expressed by our chairman, we may safely proceed to declare our assent, uninfluenced by anything that might be considered to partake of the



## *National Monetary Commission*

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nature of a constraint imposed upon our decision. We may rest assured that the managers of the Reichsbank will be as fully conscious of the fact of their being obliged to provide for the redemption of their notes if we make them a legal tender as they would otherwise be. They would be likely, indeed, to realize it even more fully. For this very quality of a legal tender, the quality of serving as a circulating medium of full validity, would cease to exist the moment the Bank for any reason found itself unable to redeem its notes promptly.

In the question sheet we are asked to consider the question whether the investment of the bank notes with the legal-tender quality can have the effect of increasing the stock of gold in the Reichsbank by accessions from the gold circulating in the country.

It is my opinion, gentlemen, that the stock of gold would probably be increased by withdrawals from the currency circulating in the country; that is to say, there would be an increased volume of bank notes covered by an equivalent deposit of gold. For it has come to be a patent fact in Germany—or, shall I say, it has remained a patent fact?—that a mass of payments are being made in gold when there is no necessity for it whatever. This is apparent when we perceive the large flow of gold toward every corner of the country at the quarter days, a movement that would not assume such proportions if the bank notes were a legal tender.

We have been reminded by our chairman that in such times as we experienced last year it would have sufficed to have called upon the officials in charge of government



## *B a n k   I n q u i r y   o f   1 9 0 8*

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offices handling money to transfer their superfluous gold to the Reichsbank in order to have rendered it altogether unlikely that the gold reserve would fall below the one-third mark. What does this gold in the government offices consist of? It consists of two parts. The first is that which is nowadays required only theoretically to be kept on hand in order to meet a possible demand. The second is that which has to be kept for practical reasons in order to provide for payments that have actually to be made in gold. The former is a superfluous stock of gold, and it would be better if it were lying in the vaults of the Reichsbank and there were an equivalent amount of covered bank notes. I should personally be very sorry to see any permanent regulations enacted that might tend to diminish greatly the circulation of gold in the Empire. I believe that what constitutes the strength of Germany is our being able to rely upon the presence of a large supply of gold in the country. I see in this a sort of safeguard against a considerable depreciation of the bank notes even if a crisis should oblige us to have recourse to forced circulation or if the Reichsbank, by reason of its inability to maintain its reserve up to the one-third mark, should be temporarily unable to redeem its notes. For if we wish to prevent the depreciation of the bank notes, it is essential that the volume of currency which the country has and requires—the amount corresponding to the needs of business—be not materially diminished. The moment that gold, by reason of its greater value, ceases to be regarded simply as currency and is held to be something different



## *National Monetary Commission*

from bank notes, there ensues a displacement of the circulating mediums that is equivalent to a contraction of the currency. The only way we can conceive of a premium on gold is if we imagine that a person could get more for a 20-mark piece than for a bank note to the same amount, so that the gold coin would no longer pass freely from hand to hand. The great quantity of 20-mark pieces is therefore more or less of an assurance for us that a premium on them will not so easily arise and that they will not easily be driven out of circulation. But as long as they circulate they will continue to count for just 20 marks.

It has been pointed out by Herr Schinckel, with whom I am very much in accord in this whole question, that there is already a disparity between Berlin and the great cities of Germany with respect to their right to ask for gold. I am convinced, however, that the present situation is much worse for all who are engaged in credit operations in those cities than the future one will be. For as it is now, their obligations are straight-out obligations to pay in gold. These obligations have to be met at the place itself, and if they have hitherto been discharged without any friction by means of payments in banknotes, this has been possible only through a certain forbearance on the part of the creditors. [Quite true!] This is certainly not a very desirable condition. I should myself consider it a great gain if some means were devised of making our stock of gold available at these places as well as in Berlin. There is one thing, however, that I think we have to consider, and that is the practical side of the



## *B a n k   I n q u i r y   o f   1 9 0 8*

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problem. Viewed from a practical standpoint, the splitting up of our stock of gold is not altogether an unobjectionable proceeding. The Reichsbank may, if it is protected up to 80 per cent, be in so strong a position as to feel that it can safely place large amounts of gold at all sorts of places without prejudice to its ability to meet every possible demand at the central station. But if its stock of gold is not so large, it will not be a very simple matter for the Reichsbank to have to speculate whether its notes will not come in for redemption more at one place than at another and whether it may not be necessary therefore to have in readiness for any given amount of notes that may be presented for redemption a supply of gold several times as large. Is it probable, for example, that at the close of last year, when there was such an outflow of gold, it would have been possible to say in advance whether the principal drain would be likely to be at Berlin, or Hamburg, or Bremen, or Cologne, or to have any idea of the amount that would probably be taken away at each place? It would have been no great misfortune if those engaged in the arbitrage business had got their gold, say, at Bremen and saved the cost of carriage; but this only leads me to think that in times like those it is not such an easy matter for the Reichsbank to decide just how much gold shall go to each place and to make sure that it will keep within the one-third limit. Being persuaded of the necessity of lending the most effectual moral support to our gold standard through the maintenance of a system by which bank notes are redeemed in gold at once or as quickly as practicable, I



## *National Monetary Commission*

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will say that I am in favor of arranging matters in such a way that the chance of a person's not being able to get gold at a place outside of Berlin shall be regarded as something removed from the domain of practical realities to that of theoretical possibilities.

There is a question which, I believe, has to be considered in this connection. It has been urged that, in framing the law making the bank notes a legal tender, if we are to have such a provision, it would be well to follow closely the example of the Bank of England and say: The legal-tender quality exists only so long as the bank redeems its notes in gold, and it does not exist with respect to payments out of the Reichsbank itself. Now there is an essential difference between the Bank of England and the Reichsbank. The Bank of England is concentrated, having only four or five branches. The German Reichsbank has, on the other hand, a large number of branches which perform the most important service through the system of deposit accounts and transfers, something which does not exist in the Bank of England. This constitutes, I say, an essential difference. A gold reserve has until now not been considered necessary as a protection for the depositors, and if the deposits should go on increasing the absence of a reserve might be felt. [Quite true.] The ideal that I should have in mind in the case of an imperial bank is that all its notes should be covered, for the reason that an extensive circulation of uncovered bank notes, coupled with the absence of a reserve for deposits, is fraught with more or less danger. It will take some time for us to reach that point, but meanwhile the deposit business of



## *B a n k   I n q u i r y   o f   1 9 0 8*

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the Reichsbank exists, and we have to reckon with this fact in considering the question before us. I am sure we are not anxious to see the deposit business restricted in any way or possibly even abolished [quite true], for it is the very thing that has brought about the consummation so ardently desired by Herr Schinckel that a bill of exchange drawn on Hamburg is as good as one drawn on Berlin. I confess that I should consider some even preferable. Now if we have to consider whether we shall be able to follow the example of the Bank of England in the matter of the new law with respect to every point, I must admit that I should be sorry, for my part, if there were to be no provision declaring that the legal-tender measure does not apply to payments out of the Reichsbank. I should therefore suggest that in order that the bank may not be obliged to scatter its stock of gold in too many places, and that it may be relieved of the necessity, in the opening of deposit accounts, of making special stipulations intended to secure it against the sudden withdrawal of gold from all its branches, a regular clause be introduced to the following effect: That the legal-tender provision does not apply to payments out of the Reichsbank, with this limitation, that in payments made outside of Berlin in connection with deposit accounts the Reichsbank shall act according to what it considers expedient and with reference to the amount of gold in its possession, but be obliged, at the request of the depositor, to procure gold as quickly as possible at its own expense from its central establishment and to pay it out.



## *National Monetary Commission*

I know that the objection will be raised to this proposition that we shall be encouraging the arbitrage business. As I believe, however, in allowing our gold to be freely exported, and as I consider an excessive rate of foreign exchange a greater evil than the loss of gold, I am of opinion that we ought not to be so timid about paying out gold at other places than Berlin. I am aware that this will be like a discrimination in favor of our seaports, which will have a certain monopoly in the gold arbitrage business, but even such a result will not frighten me. Neither do I believe that such a provision as this will hurt the Reichsbank, because of the fact that a person who deposits money must pay in advance of the time when he can get his gold, and is thus put to some slight expense. I regard the restrictive clause relative to the immediate payment of gold (the cost of transportation being defrayed by the Reichsbank) as necessary, otherwise we should practically be constrained to ask ourselves whether it will actually be possible for us to enforce the provision compelling the Reichsbank to pay under all circumstances in something else than its notes, considering that this would involve the obligation of paying depositors any amount they may choose in gold at any place whatsoever. The obligation of the Reichsbank to pay in gold would then be more pressing with respect to its deposits than with respect to its notes. We must not leave out of consideration the fact that the Reichsbank has a definite and ascertained amount of notes in circulation. To provide for their redemption, if our stock of gold is large, is not a difficult matter. We know, as a matter of experience,



## *B a n k   I n q u i r y   o f   1 9 0 8*

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that they are not presented for redemption down to the last note. The total of the deposits is an unlimited amount, and it is in the nature of the circumstances that this total shall go on increasing materially year after year. If it is not our purpose to introduce a provision compelling the Reichsbank in the case of deposits, just as that of bank notes, to maintain a gold reserve amounting to not less than a certain per cent of the total of the deposits—this, in my judgment, would be going too far—then we can not very well, especially considering the fact that the deposits are repeatedly withdrawn (that is to say, they are paid in again, and again taken out), place the deposits on a higher level than the bank notes. The notes are redeemable on presentation in Berlin, but at other places only in so far as it is expedient to redeem them. I should be very glad to see these words “in so far as it is expedient” construed in the broadest sense. But if, with reference to this matter of deposits, we were to adopt without any limitation whatever the provision that the notes are not to be a legal tender in payments out of the bank, we should be placing the bank in the position of having to assume a much greater burden in regard to the deposits, whose volume is unlimited, than in regard to the notes in circulation. I must repeat, however, that I attach the greatest value to this provision, which is contained in the constitution of the Bank of England and which I regard as logical—logical because the fact of our conferring such a privilege on the bank notes involves the inference that this privilege does not extend to those who are liable for the notes. Else the possibility would be afforded of



## *National Monetary Commission*

putting more notes into circulation than would perhaps be desirable. It is therefore necessary, in case we adopt the proposed measure, to put this question to ourselves: How shall we amend it in a practical and consistent manner so as to make it conform to the changed conditions arising from the aims and ends dictated by the peculiar business carried on by the Reichsbank, as compared with that of the Bank of England?

Mr. FISCHER. Even without the earnest and impressive words which our president uttered yesterday afternoon, I should have felt myself impelled, after careful reflection and after close consideration of the points to which my attention was specially drawn in the various opinions of the experts, to express myself in favor of making the bank notes a legal tender at the earliest possible date, as I consider them an effective means of protecting the stock of gold in the Reichsbank at a time of a slight crisis or at the beginning of a serious one and as the introduction of such a measure at a time when calm prevails would cause much less of a disturbance than what would ensue if this had to be done in the midst of a severe crisis. The expressions of our chairman have, however, made it much easier for me to combat the objections raised by Herr Roland-Lücke and I have decided to state my standpoint as follows: Every innovation that we make by means of a legislative measure has its dark sides, as well as its bright ones, and the only question is whether the bright sides materially surpass the dark sides. But if we feel sure that the dark sides are not too important, then we have got to take them into the bargain, and we can not get around that in



## *B a n k   I n q u i r y   o f   1 9 0 8*

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this instance. In any case I am not afraid of their persisting in our own country and I do not believe that their effect with respect to the outside world will be as bad as some appear to imagine. Those people abroad who have a friendly feeling toward us—and there are still some of them left—will have a chance to convince themselves that this measure is not so bad after all, and those who are extremely unfriendly and hostile will hardly become more embittered against us because we have declared our bank notes a legal tender.

There is one point, however, that I should like to press here which may help us perhaps to straighten out matters. The law on which we are now working is not to go into effect until January 1, 1911. If the next few months are to be devoted to the discussion of the supplementary act or the question of the renewal of the act, then a much greater interval of time will elapse between the deliberations in the Reichstag and the date when the new act goes into effect, if the new order of things in its entirety is not to be actualized until January 1, 1911, and there is the danger, it seems to me, that this will afford an opportunity to tricksters and panic-mongers and all sorts of evilly disposed people, whose attention will have been called to the actually existing conditions by the debates in the Reichstag, of practising all kinds of petty cheating and otherwise causing trouble. It is my opinion, therefore, that the thing to do, in case the legal tender provision is embodied in the bank act, is to make it operative not from January 1, 1911, but as immediately as possible after the promulgation of the laws.



## *National Monetary Commission*

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You will pardon me, gentlemen, if I have a word to say in favor of the private banks of issue, as I come from a country, Württemberg, where the banks of issue not only command the greatest respect but exert a powerful influence so that it would be considered a serious matter if such banks were made to suffer and in the end perhaps forced out of business. Not a single member of this commission has uttered a syllable to urge that anything be done in order to render the future position of the private banks of issue less favorable than the existing one, but it is admitted that if the notes of the Reichsbank are made a legal tender it will be in a measure to the prejudice of the private banks of issue, and therefore, of course, not only managers of these banks, but all who are engaged in manufactures, trade, or the small crafts, particularly in Württemberg, are extremely desirous that this shall not take place and that the private banks of issue shall be permitted to continue that useful activity which they have exercised in Württemberg. The gentlemen who are at the head of these banks will, of course, be afforded an opportunity of coming in direct touch with those intrusted with the disposition of these matters and of treating with them regarding the indemnity to which they think they are entitled, and it will then be for the Reichstag to decide what it considers admissible.

But not merely in the interest of these banks of issue, but in the interest of the entire traveling public and of all that goes with the traveling public—and nowadays nearly everybody is to be reckoned in this connection—I consider it desirable that this be made the occasion



## *B a n k   I n q u i r y   o f   1 9 0 8*

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for granting to the notes of the South German and Saxon private banks of issue somewhat enlarged privileges in the matter of entering other parts of the Empire so as to make it no longer possible for a person to go up to the railway ticket office at Berlin or some other place with a pocketful of South German notes and be unable to get a ticket, and to put an end to this dismal state of things in the German Empire by enabling everybody to settle for what he owes, at all the transportation offices at least, with the notes of any one of the private banks of issue.

There is but one thing I have to remark in regard to the imperial treasury notes. It can not be said by any means that the unpopularity which Doctor Ströhl attributes to them extends to every part of South Germany. In Würtemberg, at the instance of a number of large business concerns, who have been complaining of the 5-mark notes, an inquiry was set on foot by the chambers of commerce, which proceeded to obtain information from all sides, and, strange to say, the outcome of this investigation was to the effect that all the small bankers in particular assure us that they simply would not be able to get along without the 5-mark notes, for which there is an immense demand, the individual amounts, of course, not being large, but the number of applicants very great. All in all, the people of South Germany are not so dissatisfied either with the 5-mark or the 10-mark notes in small dealings as some would have us believe.



## *National Monetary Commission*

Mr. GONTARD. I answer General Question IV in the affirmative. The extent to which gold can be taken out of the hands of the people at large depends upon the quantity that happens to be in their possession. The approximate amount of this supply we intend to ascertain in a rough way by means of certain data—those, for instance, which are derived from a knowledge of the quantity of gold consumed in the manufacturing industries. If I have waited till the last hour to ask permission to express my views regarding the legal-tender quality of the bank notes it is because I was anxious to get as much information as possible from you all with respect to this important question, and I can say that I have indeed learned a great deal. I have been particularly interested in what Herr Fischel had to say. I have paid special attention to this question and I have been astonished to find so many conflicting opinions expressed in the course of this inquiry. I have weighed the votes, and not only counted them, and I find that the most divergent views prevail among the banking fraternity as well as in outside circles. The arguments for and against have been clearly set forth in our discussion to-day.

After mature reflection, I can say that I am unreservedly in favor of making the bank notes a legal tender. Neither do I believe that there is any use in trying to attach conditions to the introduction of this legal tender provision. I feel quite sure that Herr Schinckel did not mean in any way to speak *pro domo*, but I do not believe that we can afford to put any such obstacles in the way



## *B a n k   I n q u i r y   o f   1 9 0 8*

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of the Reichsbank. The statements of Herr Fischel and Herr Singer have had the effect, I trust, of dispelling Herr Schinckel's misgivings.

There is one thing, however, for which I should like to put in a word on this occasion. It would be a great satisfaction to me if the Sächsische Notenbank should not only be preserved as it is but even strengthened as far as possible. Just how this is to be done is not for me to say, as I assume that the Reichsbank and the Imperial Government can best decide. I should be willing, therefore, to defer to their judgment.

As a Saxon, I have been somewhat hurt by some remarks dropped by Count Kanitz and Herr Singer. Let me remind the gentleman—not Herr Singer, but Count Kanitz, who was as much of an admirer of Bismarck as myself—that it was Bismarck who made it a point to spare the legitimate peculiarities of the individual States as far as possible. He expressed this on every occasion, and it is with a legitimate peculiarity that we have to deal here, even if it be one in the domain of economics.

I am in favor of doing away with the imperial treasury notes as soon as the finances of the Empire admit of it.

Freiherr VON CETTO-REICHERTSHAUSEN. Nowhere in the course of these debates have I felt the responsibility attaching to my vote so much as in regard to this question, and I have no doubt that this has been the case with some of the other gentlemen who have been present at our discussions, especially as the question has assumed



## *National Monetary Commission*

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a somewhat different complexion through the introductory remarks of the president of the Reichsbank from that which it had at first. I am not in a position, gentlemen, nor do I feel that I have the knowledge, after the weighty utterances of men specially qualified in this field, to enter once more into the technical details of this question, and all the more so since the divergent opinions that we have heard have made it evident what different aspects there are to the question. I hardly believe, indeed, that those who have expressed themselves in favor of or against the measure at issue have been altogether unwilling to admit the force of the arguments on the other side.

In what concerns the actual situation, to begin with, there is one point that is certain—and no one here has disputed the fact—and that is, that the existing state of things is in reality not altered by our declaring the bank notes a legal tender, inasmuch as the public at large has hitherto unhesitatingly accepted the notes of the Reichsbank when tendered in payments, even at a time of crisis. I can not help asking myself, however, what sort of an impression is likely to be created among the masses if this quality of a tender is formally established by law, and I have put this question to myself with reference especially to the rural population. Everyone knows that the people out in the country like to be paid in hard cash, preferring it to bank notes, and I believe Herr Fischel was right in calling our attention to the fact that numerous payments are at present made in gold that could just as well be made in paper. This applies particularly to conditions in the rural districts, and it appears to me not unlikely that



## *B a n k   I n q u i r y   o f   1 9 0 8*

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if the notes are declared a legal tender in a manner calculated to cause a stir, people might begin to suspect that we were contemplating a transition to a paper standard, such as was effected at one time in our neighbor country, Austria. Don't forget, gentlemen, what a fascination gold possesses for some people. I know by experience that in some cases the owner of a certain piece of property, or of an estate, was induced to part with it only when the purchase money was planked down before his very eyes in gold pieces. This is a point, therefore, which I should like to submit to your consideration, one which may perhaps serve as an argument against, or create some doubts concerning, the expediency of making the bank notes a legal tender.

But as against this point, gentlemen, and various other considerations that have been brought up in the course of these discussions, there are, in my opinion, weighty arguments on the opposite side. The task that has been imposed upon us is to answer the question submitted to this body in terms having reference to the possibility of protecting the stock of gold in the Reichsbank. Now, this stock of gold can continue more or less uniform only in times of tranquility, while in critical times it becomes fluctuating. But it is altogether essential that the stock of gold in the Reichsbank shall go on increasing continually and regularly, and, considering how necessary this is, it appears to me that it would be of the greatest advantage to frame a measure calculated to strengthen permanently the stock of gold in the Reichsbank. In forming a judgment regarding this question, there is a factor that should



## *National Monetary Commission*

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not be lost sight of. It is evident that much may depend upon whether a political crisis comes on suddenly or whether it has been brewing for a long time without occasioning any particular economic depression, and in this connection the fact has to be taken into account that such a depression is not necessarily caused by the fear of war, but may result from all manner of economic happenings. In case the political crisis has been preceded by a prolonged economic depression, the Reichsbank will naturally have a much smaller stock of gold in its possession than it would have had under the other assumption. In the latter case we can easily imagine that the Reichsbank, equipped with a considerable stock of gold, would be able to face the crisis.

This alone to my mind makes it necessary to institute measures tending, as far as possible, to insure the permanent presence of a sufficiently large stock of gold in the Reichsbank.

The question still remains whether the means that we propose to adopt toward this end by answering the interrogatory regarding the legal-tender provision in the affirmative will suffice to attain this object. A consideration of the proposed measure from this standpoint would make it seem somewhat doubtful whether this will altogether prove a suitable expedient for strengthening the stock of gold in the Reichsbank. But there are certain other factors, which appear to me decisive, that impel me to vote in favor of declaring the bank notes a legal tender on the occasion of the promulgation of the new bank act, and I agree with Count Kanitz that it



## *Bank Inquiry of 1908*

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would be well to declare the provision in question operative, not from the date when the bank act goes into effect, which is still some years from now, but from the date of the promulgation of the act.

I should like to say a few words in regard to the relation of the Reichsbank to the private banks of issue. In this matter I agree with the views expressed by the gentlemen from the South German States, in which there are private banks of issue. I believe that these private banks of issue, and in particular our Bayerische Notenbank, have been of the greatest service with respect to the needs of credit in the individual States and that they are deserving, therefore, of all the consideration that we can afford to give them. I am willing to admit that the status of the private banks of issue relatively to the Reichsbank, as legally established, precludes the investment of their notes with the quality of a legal tender, but Doctor Ströhl has already referred to the possibility of an indemnity, something that might in a measure be an equivalent, and I must also call attention to the fact, repeatedly adverted to in to-day's discussion, that we consider it a great hardship in the individual States that our bank notes, which are based on such excellent security and whose intrinsic soundness no one thinks of questioning, the moment we cross our boundaries are refused by the public authorities. [Quite true.] I should therefore particularly request the president of the Reichsbank to take this matter into consideration and to try to see whether a change is not practicable.



## *National Monetary Commission*

Considering the late hour, gentlemen, I believe you will not be sorry if I break off at this point with the restatement of my opinion that the existing situation and the grounds to which I have referred render it absolutely necessary to make the notes of the Reichsbank a legal tender.

Doctor RIESSER. I should once more like to sum up briefly my opinion regarding this matter of legal tender—apropos of various remarks that have been made in the course of to-day's discussion—in the following theses:

1. In normal times the presentation of a great part of the notes at the Reichsbank for redemption is an exception, and not the rule, independently of whether they are a legal tender or not.

2. At a time of crisis, however, the presentation of a great part of the notes at the Reichsbank for redemption easily can and frequently will, at least temporarily, become the regular thing, while the legal-tender quality would at such times make it an exception.

Doctor WACHLER (personal remark). I wish to say briefly that Doctor Ströll misunderstood my meaning altogether if he assumed that I credited the Reichsbank with acting in a vexatious manner. All I said was that I should almost consider it a vexatious proceeding with respect to the Reichsbank if creditors should refuse to accept bank notes from their debtors on the ground that not every branch of the Reichsbank would be able to redeem them at once in gold.

Count KANTZ (personal remark). I regret that Herr Gontard has so completely misunderstood me. I did



## *B a n k   I n q u i r y   o f   1 9 0 8*

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not in any way intend to speak disparagingly of the private banks of issue, for I am perfectly aware what an important position some of the private banks of issue hold, and especially the Saxon bank of issue, in which Herr Gontard is particularly interested. The Saxon bank of issue, with its capital of 30,000,000 marks and a surplus of over 7,000,000 marks, is by far the largest bank of issue in Germany after the Reichsbank. Next in order come the Baden and Württemberg banks of issue, each with a capital of 9,000,000 marks, and then follows the Bavarian bank, with a capital of 7,000,000 marks. I certainly appreciate the importance of the private banks of issue, and I should like to see their useful activity continue unimpaired. I sincerely regret for my part that the proposed measure making the notes of the Reichsbank a legal tender must, in the nature of the case, be more or less to the disadvantage of the private note-banks. The meaning my expressions were meant to convey was that we should not allow ourselves to be so far influenced by considerations with respect to the indemnity the private banks of issue might demand as to make it appear that there was danger that the whole measure might be dropped. This is not the way I look at the matter. I am in favor of immediately declaring the notes of the Reichsbank absolutely a full legal tender, after which we can come to an understanding with the private banks of issue.

Mr. GONTARD. I wish to express my thanks to Count Kanitz.

The CHAIRMAN. We have heard the last speaker on the list. Geheimrat Wagner has asked to be permitted to take



## *National Monetary Commission*

the floor in order to make a brief remark, and I have given him my consent on the assumption that we shall continue the discussion of this point to-morrow. I shall therefore reserve to myself the privilege of letting him have the floor to-morrow. We shall continue the discussion of Question IV, A, to-morrow morning at 11.30, and shall then proceed to Question IV, B. I declare the meeting adjourned.

(Close of session 5.30 p. m.)



SATURDAY, OCTOBER 17, 1908—10.30 a. m.

Chairman, the president of the Reichsbank direktorium Wirkliche Geheimer Rat HAVENSTEIN. I reserved to myself the privilege yesterday, gentlemen, of promising the floor to Geheimrat Wagner, who desires to say something more relative to Question IV, A, of which, aside from this, disposed.

Doctor WAGNER. I left rather early yesterday, thinking to return while the commission was still in session. When I got back, however, it was already over. I am grateful to our president for having reserved for me the privilege of speaking again to-day.

After listening to the discussion of Question IV, and in particular of the question as to whether the notes of the Reichsbank should be declared a legal tender, it has become more evident to me than before that if we are going to enact this admittedly far-reaching provision investing the notes of the Reichsbank with the quality of a legal tender, the guaranties, which, although not altogether lacking, are inadequate, will have to be made more effectual. I agree in this respect with what has been repeatedly asserted by the gentlemen who have had practical experience in these matters, and especially with what the representative from Hamburg has said. I am also of opinion that we must absolutely assure the redemption of the bank notes in the strictest sense and that we must introduce into the law more explicit declarations regarding the various points in question. There is already



## *National Monetary Commission*

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a provision relative to this matter in the existing law, but to my mind it does not go quite far enough. It seems to me, furthermore, that just when we are enacting a regulation which many suppose is apt to impress the popular mind here and there as something peculiar—I may say that I do not share this apprehension—we ought to do our best from the outset to allay any possible apprehension that may arise regarding the significance of the legal tender quality by inserting a distinct declaration in an appropriate place in the bank act to the effect that the notes of the Reichsbank, as well as those of the private banks, are strictly redeemable in German gold coin. The same thing must be explicitly stated at various places in the bank act. If we do this right now, we shall dispel all doubts as to whether our action in declaring the notes a legal tender was not based on entirely different considerations.

With this object in view, I have made a brief study of the law relating to the Reichsbank. There are various passages that have to be considered. I shall not call attention to all of them at this moment, but only to the most relevant ones.

The act of 1875 relating to the Reichsbank reads as follows (paragraph 2):

The acceptance of bank notes “is not obligatory” in the case of payments that, according to the law, are to be made in money.

It will now have to read:

“ \* \* \* is obligatory ‘only in the case of the notes of the Reichsbank, which are at all times redeemable in German gold coin,’ ”



## *B a n k   I n q u i r y   o f   1 9 0 8*

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to which must be added, "except in the case of payments made by the Reichsbank itself," in accordance with the provision of the English law.

The following point would furthermore have to be introduced into the act—I have discussed the matter with several of the gentlemen here and have not been able to convince myself that the insertion of this point would be superfluous—

"and in the case of those payments which the private banks of issue have to make in the redemption of their notes." The absence of such a provision would in my opinion lead to the inference that the notes of the Reichsbank are to be a legal tender, therefore, unless an exception is provided for by statute, even in the case of the notes of the private banks presented for redemption. It is urged, however, that there is a special provision covering this point in the law. But it seems to me that this is implicitly rendered nugatory by the present broader provision making the notes of the Reichsbank a legal tender. At best it is a doubtful point. In regard to the private banks of issue it may indeed still be an open question whether they ought not to be allowed to redeem their notes in the notes of the Reichsbank. The subject is one that invites discussion, and various arguments may be adduced for the affirmative. But one result of such a provision, if it were adopted, is evident. The private banks of issue would thereafter keep no stock of gold or only a very inconsiderable one. As far as I am informed the Bavarian bank has about 30,000,000 marks in gold and the three others have also about 30,000,000 marks. All this gold might in that



## *National Monetary Commission*

case be for the most part replaced by notes of the Reichsbank, and the result might be that it might flow into the Reichsbank, so that the gold supply of Germany would be concentrated in that institution even more than now. This would have its advantages, but, on the other hand, it would appear to be very undesirable to relieve the private banks of issue of the obligation to redeem their notes themselves in gold coin. If such a provision, however, is not contemplated I should recommend, in case the notes of the Reichsbank are declared a legal tender, that an explicit declaration be made to the effect that this quality will not inhere in the notes of the Reichsbank in the case of the redemption of its own notes by any private bank. This will have the effect at least of removing all ambiguity.

Another effect would be—I think I ought to mention this, as the connection is indisputable—that it would help us to spread the belief that we mean to redeem our bank notes in gold and that we are able to do it. This matter goes hand in hand with the view that we have in fact absolutely instituted the gold standard pure and simple. To say the truth, I have my doubts as to whether we have actually achieved this. As long as we have over a billion marks of silver money, which is not covered by a special gold reserve, and as long as there is such a large amount of imperial treasury notes, of which the same may be said, our gold standard has not merely to bear the mark of a corporal blemish, as Herr Kaempf has asserted, but is afflicted with a deep-reaching organic defect. It is all the more important, therefore, as a matter of appearance,



## *B a n k   I n q u i r y   o f   1 9 0 8*

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just when we are attaching so much weight to the impression produced abroad, that we should frame our provisions relative to the protection of the notes of the Reichsbank in such an explicit manner that everyone shall recognize the ability and the duty of the Reichsbank to pay in gold and to redeem its notes in gold—in coined German gold, in gold bullion, in foreign gold coins. And it might perhaps be well if we could have a clause, which, instead of 1,392 marks, shall read “up to the sum of 1,395 marks,” or so much more than before, if we are going now to do away with the hitherto existing seigniorage. But this reckoning as part of the one-third required in the case of the reserve against bank-note circulation, not merely silver money, but also imperial treasury notes, as we are doing at present, will, of course, cease absolutely to have any *raison d'être* if the notes of the Reichsbank are declared a legal tender. What we have to do, in my opinion, is to drop the provisions regarding this from paragraph 9. There can be no objection to our doing it for, as it is, the Reichsbank can not redeem its notes in imperial silver money, nor, in fact, any longer in the silver talers, which have almost entirely been withdrawn from circulation. I am fully in accord with what President Havenstein in particular maintained again yesterday, to the effect that we must do our best not to permit the utterly untenable view regarding this point entertained by Doctor Arendt—whom I otherwise consider one of the foremost authorities in this field—to assert itself, or, in other words, that we must shrink from relieving ourselves from our obligations by a resort to such sophistry (this is the only name I can find



## *National Monetary Commission*

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for it) as regarding the redemption of each individual bank note an independent transaction in the eye of the law. It is our duty to spread the conviction everywhere that the bank notes are at all times redeemable in gold only, and consequently to omit from the provisions relative to the reserve the admissibility of any other kind of covering for the bank notes than gold. This may occasionally be somewhat of a hardship for the Reichsbank, but at least there will be nothing inconsistent about it.

We have still to consider a point, gentlemen, to which Herr Fischel again adverted with perfect justice yesterday. When the Reichsbank was founded no one could have imagined that we should have such enormous deposits constantly subject to withdrawal. This is evident from the fact that when it came to making provision for the contingency of interest-bearing deposits—a question that will presently engage our attention—the law of 1875 fixed the maximum amount of such deposits at the total of the paid-in capital and surplus of the Reichsbank, which total is now in the neighborhood of 250,000,000 marks. No one on the occasion of the discussions in the seventies thought of this peculiar outcome that, as a matter of fact, the cash reserve of the Reichsbank serves as a covering not merely for the outstanding bank notes, but also for the deposits, the paying off of depositors in bank notes meaning, of course, so much more bank notes in circulation. Such being the case, the natural inference ought to be that the provision relative to the cash reserve, making one-third the minimum ratio—whether it ought to be just one-third



## *B a n k   I n q u i r y   o f   1 9 0 8*

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may be questioned, but this is irrespective of the precise ratio—should be extended to the deposits. This would be all the more logical inasmuch as the total of the deposits—this is evidenced by the statistics—fluctuates absolutely and relatively much more than the amount of the bank notes, besides which the deposits are to a much greater extent concentrated in the hands of single individuals, so that we have to face the possibility of the withdrawal of much larger sums at one time. But if we do not propose to go so far, we must be all the more willing to concede—inasmuch as in reality, even if not with reference to normal conditions, the reserve of the Reichsbank, which is the most liquid of all coverings, has to serve as a protection, not merely for the bank notes, but also for the deposits—that it is necessary, at least, to introduce a declaration to this effect: That as long as the regulations relative to a reserve made up of cash and liquid resources apply to the notes of the bank only, the one-third cash covering must at all times consist of gold.

This would necessarily lead to changes in some of the other provisions, particularly in paragraph 17, and also in paragraph 18. In this connection, I should like to call your attention to what seems to me to be at least an accidental omission in the text of the law. The way it stands is this:

“The Reichsbank is obliged (a) at its main office in Berlin, immediately on presentation, (b) at its branches, in so far as their cash and monetary needs permit, to redeem its notes for any holder who applies in current German money.”



## *National Monetary Commission*

We should now have to say, "In German gold coin." This would be consistent and would be in keeping with what we propose to do and what I have been advocating. The law reads, "at its branches, in so far as their cash and monetary needs permit." Here we miss—this is the omission—the expression "immediately." For, if we look carefully at the wording of the whole thing, we see that the word "immediately" is introduced only under the rubric (a) in connection with the redemption of the bank notes at the main office, while it is lacking where the branches are mentioned, and here the word must by all means be inserted.

I think we ought to accept the suggestion that has been made, and which I feel bound to support, to the effect that the law shall read "immediately" also under the second rubric, where the branches come in, and then go on to say, "but, at the furthest, within a reasonable time." We might say, "twice twenty-four hours," or we might adopt the wording of the provision in the law relating to the Reichsbank (sec. 44, No. 4), which is still in force, relative to the obligations of the private banks of issue—of which there were many more at the time of the enactment of the law—"at the places where redemption is obligatory, Berlin and Frankfort, the notes of the private banks are redeemable, at the latest, on the day after the day on which they are presented" (that is to say, we have to wait only a day). If that strikes us as going too far, we might make it "within forty-eight hours" or "within two days," or something of the sort, in which case we should be doing justice to the claims,



## *B a n k   I n q u i r y   o f   1 9 0 8*

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practically involved in this matter, in behalf of the interests of such places as Bremen, Hamburg, and Cologne. Having adopted such strict regulations, which are nothing new with respect to what we have hitherto assumed, we can safely say that the investment of the notes of the Reichsbank with the quality of a legal tender is something altogether unobjectionable. We shall proclaim *urbi et orbi*: "We are redeeming our bank notes, not in 'current money,' but in gold, and we bind ourselves to do it."

I shall conclude with an observation which I have already made, which is, that we can never afford to lose sight of the fact that we are obliged now and in future to face political crises no longer on the basis of the silver standard, but on that of the gold standard. This renders the situation more difficult. That is all the more reason for our exerting ourselves to the utmost to avoid being drawn by the mere conditions of our gold standard into a position that will render it more difficult for the Reichsbank to keep up its cash payments. Once more, therefore: Strengthen the Reichsbank as far as practicable and let us have a redemption fund in gold for the imperial treasury notes and silver currency. I am not quite as optimistic as Herr Fischel, to whose utterances concerning Russia I can not help reverting. It is certainly remarkable that Russia should have succeeded in preserving her monetary standard in her last great political crisis. But if the political disturbances a year or two ago had gone a little further, she, too, would have



## *National Monetary Commission*

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been reduced to the necessity of suspending the redemption of her bank notes. We in our country are now placed in a more difficult situation than before. This has come to stay, and it is due to the gold standard, for whose preservation we ought to take special measures along the lines which I have indicated.

To sum up, then, I will say: I am of opinion that at every place where the expression "current German money"—for the sake of redemption and covering—occurs in the bank laws we should now say "German gold coins, gold bullion, and foreign gold coins, the coinage price of bullion being 1,395 marks," and that there should be a statutory provision, in case we are not willing to have the private banks redeem their notes in those of the Reichsbank, making it absolutely obligatory for all such banks to redeem in German gold coins. Then no one could think otherwise than that as long as this legislation continues to exist and is in force the Reichsbank and the private banks of issue are obliged even in critical times to redeem their notes in German gold coins, even if the notes of the Reichsbank are a legal tender. This should go into the laws as clear-cut as possible, together with the time limit in the case of the branch offices.

The CHAIRMAN. I will now request the members of the commission to prepare their opinions regarding Questions IV, B and C. I declared yesterday that I, for my part, was perfectly willing to accede to the desire of the gentlemen who are still waiting that we should get through, if possible, to-day. Whether it is possible will



## *B a n k   I n q u i r y   o f   1 9 0 8*

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depend, of course, on the members. I am ready, therefore, to go on working to-day, with a noonday recess, say, from 2 to 4 o'clock, until 8 o'clock. I am prepared, moreover, in case we should not get through in spite of that, to let those of the members that are waiting who can not come on Monday have the floor to-day still, in order that they may take up Point V as soon as we have disposed of Point IV, so that on Monday we should have only the remaining members, which will make it possible for us to have the opinions of all the members on that day.

Herr Gontard has the floor in accordance with the order of the day.

Mr. GONTARD. Gentlemen, I am one of those who are perfectly willing to stay here the whole of next week, if it is necessary. I shall, however, take the liberty of making a suggestion that may perhaps help us to abridge our discussions. I do not believe that there will any longer be any essential differences of opinion among us in regard to Questions IV and V. Now, there are a number of gentlemen in this commission who, for various reasons, have not had the floor during these discussions. Whether it is desirable that our views should all appear in print here is a question which I, as far as I am concerned, should answer in the negative. But I believe there are quite a number of gentlemen who would like to have their views regarding individual points in printed form. I have been thinking, therefore, that it might perhaps be well to allow those of the members who desire it to hand in a written opinion later on, to appear as a supplement



## *National Monetary Commission*

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to the report of our discussions, the managers of the Reichsbank being privileged, of course, to do as much striking out as they wish.

The CHAIRMAN. If some one or other of the members of this commission is unable to attend, there is no objection, as far as I can see, to such a proceeding, but otherwise I hardly think it would work. The character of the discussions of this commission, we must remember, ought to be such as will give us the benefit of oral expressions of opinion, which will make it possible for the members of the commission, as well as for those who represent the Government, to correct their judgments through the means afforded by the debates. I am of opinion, therefore, that what Herr Gontard has suggested should serve only for an emergency, in such cases only where members are unable to be present at the discussions.

Mr. SCHINCKEL. I shall try, gentlemen, to be as brief as possible. In regard to Question IV, B, I do not think it ought to be answered in the affirmative at once without reservation. I should not consider it desirable that the stock of cash in the Reichsbank should be strengthened by means of the withdrawal of 50-mark and 20-mark notes from circulation, but to my mind we have a right to expect, after its notes have been declared a legal tender, that the Reichsbank, always under the assumption that it will provide ungrudgingly all the gold that the needs of business require, will place at the disposal of business as many 50-mark and 20-mark notes as may be wanted.

In regard to point C, "by diminishing the need of circulating media through extension and intensification of the



## *B a n k   I n q u i r y   o f   1 9 0 8*

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deposit-and-transfer (*giro*) check and clearing system," I can dispatch it in a few words, as I have been urging this course for years in my speeches and writings. It is hardly necessary for me to say that I regard the system of exchanges by means of deposits, transfers, and drafts as much more important than the system of payments by means of checks, and the Reichsbank ought therefore to do its best above everything else to extend even more than it has done hitherto that system of deposits and transfers in the German Empire which it has instituted in such a creditable manner. You will rightly infer from this that I should not like to see the Reichsbank putting up the figure of the minimum amount of noninterest-bearing deposits. Such a step will not expand the system of payments by means of deposit accounts, but, on the contrary, will restrict it. I understand perfectly that it is natural for the Reichsbank to exact a certain compensation for its trouble. I do not indeed mean to find any fault with the policy which the Reichsbank has hitherto pursued in the matter of fixing the minimum amount of deposits. It may perhaps have appeared rather tightly drawn in a way, as several of the experts have maintained. Judging from my personal experience, however, I have certainly no right to complain. What I know, gentlemen, is, that when the deposit system will have attained the dimensions for which I am praying, everybody will be able to afford to keep a balance as large as that on which the Reichsbank has hitherto insisted as a minimum in order to pay it for its trouble. I am, however, decidedly opposed to increasing this amount, for the effect would



## *National Monetary Commission*

simply be, as one of the experts has pointed out, to lead the private bankers to take hold of a branch of business—the transfer of funds from one locality to another by means of drafts—which, in my opinion, ought to belong by all means to the Reichsbank and of which the private banks ought to keep clear as far as possible.

I come now to point 2, the acceptance on the part of the Reichsbank of interest-bearing deposits. This is the one point in the whole question which may possibly still evoke divergent expressions of opinion. I hardly think, however, after the talks that we have had in this commission the last few days, the proposition will be entertained of imposing a fresh burden upon the Reichsbank in the way of such deposits. It ought to be our sole endeavor, gentlemen, to improve the condition of the Reichsbank. One way of doing this is to strengthen the asset side of the Bank's finances. Just the contrary would happen if we were to add fresh items to the liabilities column, for which, as we have seen, it is wisely provided that there shall be a cover on the opposite side, and we have seen, moreover, that as long as it is our purpose to maintain the gold standard, this latter item must be made up more or less of gold. I have not the same apprehensions regarding the deposits subject to draft as I have with respect to interest-bearing deposits. The former I know are not going to decrease at all even in a time of crisis. It will in a way be almost impossible for them to diminish, for no one who is carrying on an active business can get along without some kind of credit balance in the Reichsbank. As a matter of actual experience, a large



## *Bank Inquiry of 1908*

part of the total deposits in the Reichsbank are, so to say, on the road, being in process of transfer from one locality to another, and therefore are quite incapable of being withdrawn from the Bank. And for my part I am sure that everyone at a time of crisis, and just at such a time, is more anxious to increase the balance which he has subject to draft at the Reichsbank than to decrease it. I therefore regard the danger to the Reichsbank arising from the mass of deposits subject to draft as extremely slight and the need of a cover for their protection equally slight. It would be altogether different if the Reichsbank were to go into the business of taking deposits on which it paid interest. The interest-bearing deposits would remain in the Reichsbank only so long as the increased security, which of course attaches to them in the eyes of the public, is in keeping with the rate of interest which the Reichsbank is willing to pay. But when in a time of crisis—it is by no means necessary to think of a war, as this applies to a purely economic crisis—the rate of interest even at very safe banks that receive deposits rises so far above what the Reichsbank is disposed or is able to allow, the interest-bearing deposits will, in the natural order of things, be withdrawn from the Reichsbank at the most inopportune moment.

I should also like to dispel an illusion under which Herr Raab seems to have been laboring, if I understood him correctly. He seemed to think it would be a good idea if the Reichsbank were to accept deposits also from our German brethren in foreign countries—that is what I understood him to say—and establish a branch abroad.

Mr. RAAB. No.



## *National Monetary Commission*

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Mr. SCHINCKEL. It is utterly out of the question, gentlemen, for the Reichsbank to go out of Germany in quest of business, quite apart from the fact that it would be unsuccessful. Indeed, it could not obtain a concession anywhere in the New World. I do not see, therefore, that we need pay any heed to such a suggestion. But even as regards the mere matter of receiving deposits from our countrymen living abroad, I do not believe that anything could come of that either. Our German brethren live in countries where they have altogether different notions in regard to interest and also entirely different notions respecting the security of investments. They do not appreciate the advantage of having their deposits at the Reichsbank sufficiently to be satisfied with the rate of interest—so very low according to their notions and the standards of the New World—that the Reichsbank would be able to allow. We ought, therefore, not to regard this as inducement for making a fundamental change in the organization of the Reichsbank. I am convinced that the system of interest-bearing deposits would not result in any advantage for the Reichsbank and that instead of improving its position, it will make it all the more complicated. I can not express this better than by saying: The introduction of interest-bearing deposits would mean the imposition of a needless burden upon the Reichsbank.

Now, as to the matter of the purchase of checks. Of course, if the managers of the Reichsbank feel like going into the business of buying checks, I should certainly be in favor of legally empowering them to do so. But, indeed, I can not imagine of what use the buying up of



## *Bank Inquiry of 1908*

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checks would be to the bank. I am a believer in the system of transfers by means of deposits and drafts, and in my eyes, in spite of the laws regarding it, the check remains a pitiable instrument of exchange, and every bank manager would be glad if, instead of seeing these things fluttering into the bank by the ten thousand and hundred thousand, he were never to catch sight of a single one of them. But we have them once for all, and if the Reichsbank thinks it would be a good thing to buy them also, I have no objections on the score of principle, and I shall object just as little in the case of domestic checks as in that of checks on foreign places. If this whole matter of the purchase of checks is thought of with reference to checks on foreign countries only, then, of course, the Reichsbank ought to be allowed to consult its own interest.

The CHAIRMAN. Pursuant to a request that has been made to me, gentlemen, I wish to say, with reference to the question of the small bank notes, that the further experience of the Reichsbank in the course of the summer shows that these notes are gradually obtaining a firm hold in our circulation. It was found that the amount of small notes in circulation on June 30 was 273,800,000 marks and on September 30, 279,600,000 marks, so that the sum of 300,000,000 marks, representing the maximum amount at present emissible under the law—which, not reckoning some 9,000,000 or 10,000,000 marks that naturally had to remain as a sort of reserve in the various offices of the bank, was completely absorbed in the circulation on December 31, 1907—was almost entirely taken up at the other quarter days.



## *National Monetary Commission*

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I have also been asked whether it is not possible to give more definite figures in regard to the displacement of gold by small bank notes. This is impracticable, gentlemen. I made an attempt to furnish an approximate estimate to this commission in the spring, comparing the amount of notes in circulation on December 31, 1906, with the amount on December 31, 1907, and proceeding on the assumption that the fifty-mark notes have displaced the larger bank notes and also the larger treasury notes, and that the smaller notes, to the extent that this has not been done by the reflux of the treasury notes of over twenty marks, have displaced the gold and I arrived at this result—one, however, which, in the nature of the case, could only be submitted with all possible reservation—that it was safe to assume that in the year 1907 approximately 80,000,000 marks of gold had been displaced by the small notes and gone into the vaults of the Reichsbank. But I repeat that I wished it clearly understood at the time that this conclusion was offered with every reservation, for there are factors that can be adduced in favor of a higher as well as of a lower estimate. On the side of a lower estimate—as Doctor Arendt has already pointed out—we have the experience that our bank-note circulation is all the time increasing, which might lead to the conclusion that the accession of about 80,000,000 marks of small notes to the circulation ought, perhaps, to be regarded wholly or in part as expressing the natural increase in the bank-note circulation and not the displacement of that amount of gold.



## *Bank Inquiry of 1908*

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But on the other hand, gentlemen, there is in favor of a higher estimate the plausible assumption that the decrease in the thousand-mark notes, the amount of which had at the time in question fallen off by 62,400,000 marks, was not owing to their having been displaced by the small notes, but was due to changed conditions, especially with reference to the development of the system of deposits and transfers, and experience has shown that in the last two years the number of 1,000-mark notes has materially diminished. But if we assume that these two factors—the natural increase in the bank-note circulation on the one hand, and, on the other, the displacement of the 1,000-mark notes, not by the small notes, but through the increasing use of bank accounts and transfers—will in a rough way counterbalance each other, then my estimate, with the above reservation, would again be correct, all the more so because I have been taking only the two dates December 31, 1906, and December 31, 1907. On December 31, 1906, there were, however, already, in round numbers, 100,000,000 marks of small notes in circulation. These I preferred to leave out of account in my calculation and sought to obtain a result entirely with reference to the indication afforded by the accession of 200,000,000 marks to the circulation in 1907, and for this reason I consider it very probable that my figure of 80,000,000 marks for the gold displaced was rather too low than too high. To give absolutely correct figures and to go on making comparisons from year to year is a practical impossibility. The fact is, however, that our small notes have in a constantly increasing measure



## *National Monetary Commission*

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become part of our currency, and that an amount equal to that of the maximum issue under the existing law—300,000,000 marks—is almost entirely absorbed in our circulation.

Mr. KAEMPF. I agree fully, gentlemen, with what the president of the Reichsbank has said regarding the small notes. Whosoever has busied himself with the practical details of our monetary circulation will admit that the public has accepted the small bank notes, at first, it is true, with hesitation and even with reluctance, but afterwards more and more willingly, and that it has firmly held on to them. The fear expressed at the time of the introduction of the small notes, that we should come down to a paper basis, has by no means been realized. It is hard to conceive, indeed, how it could have been realized, considering that a 20-mark bank note is nothing else than a part of a 1,000-mark bank note, and if a 1,000-mark note does not make us fancy that we are coming down to a basis of paper money there is no reason why we should feel differently in the case of a 20-mark note. I believe, however, that additional efforts should be made, or, if they are being made, that they should be rendered more effective, toward enhancing the popularity of the small notes and making the public eager to hold on to them. When I reflect that in former years at the quarter days no less than from 150,000,000 to 180,000,000 marks of gold flowed out of the Reichsbank into the country's circulation, only to return after the lapse of two or three weeks again into the Reichsbank, and when I perceive that even at the present time, in spite of the fact that things have



## *B a n k   I n q u i r y   o f   1 9 0 8*

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apparently improved by reason of the small notes, about 120,000,000 marks of gold are regularly withdrawn from the Reichsbank about the 1st of October, in order to satisfy the demand for currency in the Empire, I can not help asking why these 120,000,000 or 150,000,000 marks of gold can not remain in the Reichsbank these two or three weeks and the public accustom itself to getting along with the small bank notes during this interval and making use of them to satisfy the needs of circulation.

I believe a great deal could be done, especially if the imperial authorities were to cooperate through the various fiscal offices, toward making the small notes enter into the circulation more than they have done hitherto, although I am aware that something has already been accomplished in this direction. I look upon the issue of small notes, gentlemen, and their permanent retention in the circulation as something calculated to be of the utmost importance at a time of crisis. [Quite true!] I am persuaded, therefore, that it is a mistake to persist in not going beyond the sum of 300,000,000 marks in the issue of small notes, the amount agreed upon with the Reichstag. I believe that the more the public gets accustomed to these small notes in calm and peaceful times the easier it will be to meet the demand for currency in critical times in this very way, the issue of bank notes of small denominations.

If, as I have said, the issue of small bank notes on as large a scale as possible is an excellent means of averting serious trouble in times of crisis, still more is this the case with the spread, expansion and vivification of the



## *National Monetary Commission*

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system of payments by means of transfers, drafts, and checks. When the public has once become accustomed to this method of making payments, it will not be eager to wean itself from it even in critical times. On the contrary, the more the public has accustomed itself to drafts and checks, the more it will make use of such a mechanism of exchange when a crisis is at hand. We ought consequently to do everything within our power to make the system of payments by means of drafts and checks still more general than it is at present. One way of doing this is to have the matter constantly agitated before the general public. Such an agitation was started a year and a half ago and it was attended with excellent results, but we are far from having accomplished what ought to be accomplished in this direction. Even at the present day a great part of the public, including those engaged in business, do not know how to go about making use of drafts and checks, and it is therefore of the utmost importance that all who have a hand in this machinery of exchange—chambers of commerce, banks, and private bankers—should exert themselves to the utmost to enlighten the public still further and that they should try to remove every complication, each little obstacle, anything that looks like an objection; in short, everything that might be in the way of the attainment of the desired aim. I agree entirely with Herr Schinckel when he says that the system of payments by means of drafts is superior to that by means of checks. But it is impossible, gentlemen, to introduce the system of payments by draft everywhere. There are very great difficulties connected with



## *B a n k   I n q u i r y   o f   1 9 0 8*

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it, especially in the smaller cities. Even when it comes to such a place as Berlin, great obstacles are encountered, it having been found impracticable to make such excellent arrangements as exist in Hamburg. And so we shall have to do both things, encourage the system of payments by draft and remove all obstacles that hinder the use of checks. The use of checks, it is true, has been attended with all sorts of abuses, springing from conditions inherent in men's habits and inclinations. I refer to the habit of the German of trying to get petty advantages for his individual self out of this institution, which should be an institution existing for the benefit of the general public. The mechanism of exchange by means of checks suffers from the fact that people believe it enables them to earn a few days' interest. For this reason checks are made out that are not meant to be redeemed at as early a date as possible but which are intended to operate in such a way as to cause their redemption to be deferred as far as possible. Checks are set afloat that are compelled to return to the place where they were made out, or else become lodged in Berlin, whence inquiries have first to be sent out by the bank to the provinces to make sure that they are all right, which means another four or five days. In short, this has the effect of producing a certain distaste for the whole system of payment by check.

Under these circumstances the question as to whether the Reichsbank ought to go into the business of buying checks is altogether a proper one. I can not see any reason why the Reichsbank should not buy checks if they offer the same security as bills. Of course a check has no



## *National Monetary Commission*

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acceptance on it, consequently the security as regards the acceptor is wanting. But if, in addition to the drawer of the check, there are various indorsements on it and these indorsements collectively offer the same security as a bill of exchange that has been accepted, there is no reason why the Reichsbank should not buy such checks, and if it should buy them, the objections to the present system of payments by check would largely disappear. If a person, with the loss of a few days' interest, can sell his check to the Reichsbank several days before the expiration of the time within which it is to be presented, he will be very glad to do it. But there are other ways of making the system of payments by check more popular through the agency of the Reichsbank. It was pointed out by the experts that the cashing of checks for the depositors of the Reichsbank might be greatly facilitated and that in this way, there being a loss merely of a couple of days' interest, the objections raised at present in regard to the circulation of checks drawn on secondary places would be effectually met. I believe, these circumstances being taken into account, that on the whole I can say I am in accord with the views expressed by Herr Schinckel.

I can say this especially in regard to the question of the taking of interest-bearing deposits by the Reichsbank. Herr Schinckel, gentlemen, has shown us what a difference there is between ordinary deposits and interest-bearing deposits. The ordinary deposits are not in the nature of a credit balance which a person has at the Reichsbank because he is especially anxious to have the Reichsbank his debtor. These deposits are intended to serve as a basis



## *B a n k   I n q u i r y   o f   1 9 0 8*

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for business transactions with the Reichsbank and in particular for those of the nature of transfers of money. Nor could the public—that is to say, the business world—get along without these exchange transactions in connection with the Reichsbank at a time of crisis. On the contrary—and here I agree fully with Herr Schinckel—at a time of crisis the business world will have to be all the more careful not to clog this copious spring, the Reichsbank. And, therefore, in the event of a crisis the ordinary deposits will by no means be exposed to the kind of assault to which interest-bearing deposits are likely to be subjected. But there is a point to be considered apart from this. The Reichsbank is not preeminently a credit institution either with respect to its assets or its liabilities. Its main function is to regulate the circulation in the country. If the Reichsbank is going to take interest-bearing deposits—that is to say, if it is going to receive credit—it is necessarily compelled to give credit, for interest-bearing deposits must, of course, be put out at interest. The Reichsbank is bound to get back the interest and the only way it can do it is by means of a credit transaction. And the necessity of restraint with respect to such transactions on the part of the Reichsbank was manifested in a striking way in the course of the past year, and we have heard from the lips of the president of the Reichsbank himself what strenuous efforts have been made, not only formerly, but just at this very time, to prevent the Bank as far as possible from becoming a credit institution instead of remaining what it is and what it ought to be with respect to the public welfare—the regulator of the monetary exchanges and the circulation in the country.



## *National Monetary Commission*

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I will close my remarks by saying that in order that the Reichsbank may be enabled to have at its command at all times immediately available resources sufficient to meet all demands, we can not be too energetic, not only in encouraging the habitual use of small notes but also in developing and expanding the system of payments by means of transfers, drafts, and checks.

The CHAIRMAN. I should like to make just one remark, gentlemen. The Direktorium of the Reichsbank has already more than once taken up this matter of the buying of checks in a thoroughgoing manner, and we have come to the conclusion that a number of arguments may be advanced both for and against the purchase of these checks, that even if the necessary powers should be conferred upon us by a legal provision, the practical details would require the most careful consideration, and that it is not yet quite certain that the purchase of checks would offer any material advantage as compared with readier and quicker methods of cashing them. I desire to say that I share the conviction of Herr Schinckel that the system of payment by means of transfers and drafts is superior to that by check and that its extension is more imperative than that of the other. But there is one argument, on the other hand, gentlemen, which I am going to single out from among the many that might be advanced in favor of the buying of checks, and I will request you to give us your opinion regarding it. I should like to ask whether it is not likely that a stimulus would be afforded to the business of effecting payments by means of deposits and drafts if the Reichsbank were



## *B a n k   I n q u i r y   o f   1 9 0 8*

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to restrict the purchase of checks to its depositors, making it a condition in the case of cash checks that the discountant has a credit balance in a deposit account and in the case of an account check that both the discountant and the drawee have deposit accounts. Does it not seem in your opinion that the deposit and draft business would thereby receive an additional impulse—that is to say, that there would be an increased number of deposit accounts?

Mr. PETER. I desire to say, gentlemen, that I am in accord with the view expressed by the member who has just had the floor, President Kaempf, relative to the increased issue of the fifty and twenty mark notes of the Reichsbank. I had the impression that the present maximum of 300,000,000 marks would suffice, for it has been my experience in Baden that the public does not take to these notes very readily. I trust, however, that those who have this matter in hand will succeed in getting the public accustomed to them, and I am not opposed on principle to extending the issue beyond the 300,000,000 marks in case of need. I consider this a means of strengthening the stock of gold in the Reichsbank, although it is a minor expedient, I admit. The more effective means in my eyes is the extension of the system of payments by means of deposits, transfers, and drafts. Our real salvation, gentlemen, would be in casting off the expensive method of paying in gold and bank notes—one attended with more or less danger to those concerned—in favor of the method of payments by means of drafts, in which money plays no part, such as exists



## *National Monetary Commission*

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in England and America and such as here in Germany has worked so eminently well in the case of Hamburg. There is no doubt whatever that the need for currency can be very materially lessened by increasing the range and efficiency of the system of deposits, checks, and clearings, and it can not be denied that the efforts that have been made on every hand for the popularization of the method of payment by check and draft have already borne considerable fruit. State and municipal governments, for example, are offering their officials an opportunity of having their salaries placed to the account of some monetary institution. I would ask leave in this connection to mention a point to which I am particularly anxious to call your attention and in regard to which I shall have to go counter to the statements of some of the experts and members of this commission. I want to tell you, gentlemen, that even artisans and those having small industrial establishments have learned to know and appreciate the advantages of checks and drafts. It is the cooperative institutions that have made it their task to get this large class to participate in the benefits of this system of exchange.

You will be able to see how far they have succeeded, gentlemen, from a few figures which I am going to submit to you, taken from the annual of the union of the various cooperative institutions of the German Empire. According to this yearbook only 327 cooperative institutions have made reports concerning the volume of check transactions. During the past year 636,000,000 marks were paid in and 618,000,000 marks paid out.



## *B a n k   I n q u i r y   o f   1 9 0 8*

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The number of check accounts in these 327 cooperative institutions was 44,657. The increase during the year in the amount paid in and the amount paid out was in each case over 100,000,000 marks. I must add that there are a number of such institutions which make no reports concerning the volume of check transactions, owing to the fact that such transactions are entered as current-account business. The figures would be swelled very considerably if the business transacted in these institutions could be reckoned in.

I considered it my duty, gentlemen, to submit these figures to you in order to show you how this kind of business, transacted by people of little means, comes, through the intermediary of the cooperative institutions, within the range of the activity of the Reichsbank and how those engaged in the handicrafts and petty industrial operations possess in the cooperative institutions an agency admirably adapted to their needs in the matter in question. I feel confident that the introduction of the system of postal checks, which is to provide a mechanism of exchange for the modest spheres of business activity, will produce good results that will become more and more manifest as time goes on and which would be still more pronounced if the charges could be lowered. That the interests of the cooperative and savings institutions would be seriously affected by the system of postal checks I do not believe, but even if this should be the case, they would still not fail to recognize the service that such a system would render to the public.



## *National Monetary Commission*

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I should lay special stress upon the following suggestions from among those made by the experts:

1. All banking houses should use every means in their power to compel all their customers to have current accounts with the banking houses.

2. The Government's authorities should make it their business, possibly by offering inducements, to encourage the custom among officials of having their salaries placed to their account in their bank.

3. Every banker and, if possible, every private business man—I include all those engaged in industrial operations—should have his banking connections inscribed on his letter paper, billheads, etc.

Banks, bankers, and cooperative institutions are often in the habit at present of impressing upon their customers in special pamphlets and leaflets the advantages of the method of payment by check and transfer, and we may confidently expect that in course of time the desired result will be realized.

In regard to the establishment of an imperial clearing system, I can say that I am favorably impressed with the idea, but I am convinced that the difficulties to be encountered would be so great that it would be well not to undertake anything at the present moment.

I believe, gentlemen, that in the system of payment by transfer managed by the Reichsbank we have an ideal institution, an institution which does not exist in such a state of perfection in any other country. [Quite true.]

The more bank accounts there are—the more people are in the habit of availing themselves of the agency of



## *Bank Inquiry of 1908*

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monetary institutions—the easier it will be to extend the benefits of the deposit-and-transfer system of payments in connection with the Reichsbank to the entire domain of business. Then there will no longer be any necessity of instituting a special clearing system for the Empire; we shall have one. But if we should undertake to raise the minimum amount of noninterest-bearing deposits in the Reichsbank, this would, in my opinion, curtail the volume of exchanges effected by means of deposits and transfers, and thus lead to a result the contrary of that which we desire. The last general raising of the minimum amount of noninterest-bearing deposits, which created much dissatisfaction, appears to me to afford the bank a sufficient compensation for its trouble. I am opposed, therefore, to making the minimum any larger.

I am likewise opposed to the taking of interest-bearing deposits by the Reichsbank. I do not believe that the resources of the Reichsbank would thereby be strengthened, as the deposits would be withdrawn from other credit institutions, which in their turn would be obliged to have recourse to the Reichsbank in order to satisfy the demands for credit made on them. But the principal reason for my opposition is the harm that would be done to the savings and cooperative institutions, which would in consequence find it difficult to satisfy the local demand for credit on the scale on which it is done at present. By a wise conduct of the deposit business, the cooperative associations which manage their affairs on the basis of self-help—I lay stress upon the term self-help, for I am



## *National Monetary Commission*

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speaking of those institutions that decline to avail themselves of cheap government credit—are enabled to satisfy the demands for credit on the part of their members at a low rate of interest. It is, indeed, a source of gratification to every one interested in the lot of the people to know that the members of the cooperative associations—and these members are recruited mainly from the industrial classes and the rural population—did not suffer so very much from the financial stringency of the past year, not having been obliged to pay such high rates of interest as those who had a large capital invested in trade or industry. And these people of the middle class, whose elevation, gentlemen, you have at heart, would be seriously affected if the Reichsbank, with the weight of its reputation as a place of deposit, were to enter into competition with the cooperative institutions, for, as one of the experts, Herr Crüger, counsel for such institutions, has affirmed, there are cooperative institutions in which individual deposits up to a very large sum, certainly tens of thousands of marks, are by no means a rarity. I agree moreover with those who believe that the Reichsbank ought not to be at all anxious to add to its weighty duties, as regulator of the circulation, the burdens of a regular deposit and credit bank. For we can not shut our eyes to the fact, gentlemen, that there are times—such times as we ourselves have already experienced—when deposits may be a burden and become a source of loss.

I declared myself already on the occasion of the hearing of the experts in favor of empowering the Reichsbank to buy checks, and I will now answer in an unqualified



## *B a n k   I n q u i r y   o f   1 9 0 8*

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affirmative the interrogatory respecting this point. In order to promote the system of payments by means of deposits and drafts, I should restrict the discounting to transactions with those having relations—I am referring to deposit accounts subject to draft—with the Reichsbank and to those checks which have at least four days to run before the expiration of the time within which they have to be presented. Owing to the fact that the check is brought to the Reichsbank and the amount of it placed to the account of the depositor, its further circulation—a source of legitimate vexation—is avoided, as likewise the equally undesirable cash payment. In regard to this matter I agree altogether with Herr Schinckel, when he asserts that the method of payment by check, as it exists at present, is a source of constant vexation. [Hear, hear! Quite true!] I find that occasionally, in place of the drafts of the Reichsbank, which are in such favor, people receive checks that are payable at small places and which consequently have to be sent there, so that the person receiving the check is put to expense by reason of the correspondence that has to be carried on, and loses money besides in the way of interest. This makes him indignant and impels him to go to his bank or cooperative institution with baseless charges. The improper use of checks hinders the extension of the system of payment by means of them. I should like to see checks used as a cover in the same way as short-time bills, as I naturally take it for granted that the Reichsbank will take in only those checks whose indorsements afford adequate security. Checks with nothing but a single signature would, of course, not



## *National Monetary Commission*

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be available, as one or two of the experts imagined they might be. I am unreservedly in favor of the discounting of checks with the limitations to which I have referred, and would merely suggest, with reference to the discount charges, that it might be well to fix a minimum of four days as the time to be reckoned and to make the minimum corresponding charge 30 pfennigs in the case of checks for less than 100 marks and 50 pfennigs in the case of larger amounts. If, in addition to this, the Reichsbank could do something in the way of facilitating the cashing of checks, the business world would be very grateful.

Doctor RIESSER. An increased issue of 50 and 20 mark notes, gentlemen, which, together with the legal tender provision relative to the notes of the Reichsbank, I regard as a preparation for crises and troublous times, is something which, in spite of the objections adduced yesterday, I should declare to be imperative, on the assumption, however, that, as heretofore, no attempt will be made to force these notes of small denomination upon the circulation, a proceeding, indeed, that could not succeed in the long run. In so far, however, as it is practicable without such compulsion to get small notes to circulate—and, in spite of the predictions to the contrary, we have succeeded in a pretty short time in issuing them almost to the full amount of 300,000,000 marks—such a step will undoubtedly serve in a measure to displace the gold that is needlessly used in business in the payment of wages and salaries and to cause this gold to go to the place where it will render three times the service, the Reichsbank.



## *B a n k   I n q u i r y   o f   1 9 0 8*

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I desire to state distinctly, in order not to exaggerate, that this displacement of gold will take place to a certain extent only, inasmuch as the 50-mark notes will displace in part the 100-mark notes and imperial treasury notes and not gold, while the 20-mark notes will not only discharge this function in part or else take the place of the small treasury notes, but will in great measure take the place of the double crowns hitherto used, especially in the retail trade and in the payment of salaries and wages. If the issue is kept within the assigned limits, the apprehension expressed by some of the experts that in times of crisis the volume of small notes might lead to a premium on gold, or, in other words, a depreciation of our currency, will certainly not be realized. Within these limits, too, the increase in the stock of gold in the Reichsbank will be a permanent one, as experience tells us that the small notes remain in circulation longer than the large ones. The objection has been raised in regard to the small notes that we have been going to greater lengths than France, whose smallest denomination is 50 francs, amounts to nothing, either, as we find by actual experience that the 20-mark notes are circulating much more extensively than the 50-mark notes. On December 31, 1907, the amount of 20-mark notes in circulation was no less than 115,300,000 marks, as against 86,800,000 marks for the 50-mark notes.

I must say for myself that I can not share in the apprehensions of those who imagine that the increased volume of small bank notes, which one of the experts has constantly been dubbing "paper money" without any



## *National Monetary Commission*

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reason, will lead to a flooding of the circulation with paper and even a displacement of the gold standard by a paper standard. There would indeed appear to be little ground for such an anticipation when we consider the statement made to us that all the other kinds of currency had decreased in the year ending December 31, 1907, by about 116,000,000 marks; the 1,000-mark notes by 62,400,000 marks, the 100-mark notes by 29,500,000 marks, and the imperial treasury notes in circulation by 24,000,000 marks, so that on December 31, 1907, the increase in the volume of paper currency, after deducting the amount of this decrease in the other kinds of notes, was only 86,000,000 marks, and on April 30, 1908, it was no more than 45,300,000 marks.

With the above-mentioned reservation that no pressure is to be exercised that might tend to drive gold from the channels of trade or to weaken the by no means inconsiderable reserve of gold in the possession of the banks, which we absolutely need as a security in a time of crisis, I am in favor of increasing the issue of 50 and 20 mark notes in such a way that the additional volume will be gradually injected into the circulation *pari passu* with the demand, and I believe that there ought to be no limitation of the total amount or of the amount of the notes of any given denomination. I assume, of course, that arrangements will be made so that all notes that come back to the Reichsbank in poor or insanitary condition will be replaced by fresh ones, and I am in favor of making it obligatory for the Reichsbank to redeem the 20-mark notes also in gold.



## *B a n k   I n q u i r y   o f   1 9 0 8*

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As regards the necessity of restricting the need for hard cash by the extension of the system of payments by means of checks, drafts, and transfers, I have already expressed my views on this subject in print so frequently and in such detail that I may be permitted to refer to my publications.<sup>a</sup> It would, on the whole, be a futile assumption to suppose that our public at large can be trained to the use of this mechanism of exchange otherwise than by a patient course of enlightenment, which may take generations, by means of publications, oral teachings, and example. I will not deny, of course, that something may perhaps be accomplished in a modest way by holding forth in certain cases the prospect of gain resulting from the employment of these methods of payment in place of the use of hard cash. I may remind you in this connection of the suggestions of one of our experts, Michalowsky.

I should, however, like to place before you somewhat more in detail the suggestion which I submitted some time ago to the direktorium of the Reichsbank and again just now to the experts relative to a system of check clearings. We have at present, as the gentleman who had the floor before me pointed out, in our system of payment by check a state of affairs which is in extreme measure working counter to the general adoption of this method of payment, so essential as a stepping stone to the system of drafts and transfers. Nowadays every banker is compelled to send a number of checks that are daily indorsed over to him

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<sup>a</sup> See especially "Scheckverkehr und Scheckgesetz" in No. IV of the publications of the *Mitteuropäischer Wirtschaftsverein* for 1907 and "Die Wirtschaftlichen Ziele und Vorteile des Scheck und Postscheckverkehrs" in the *Deutsche Revue* for January, 1908.



## *National Monetary Commission*

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by people doing business with him to the drawees—country bankers—in all sorts of little places for redemption, which results in great inconvenience, much correspondence, loss of time, and occasionally the losing of interest, and which may interfere—as was shown by the gentleman who has just spoken—with the presentation of a check within the brief prescribed time. It is therefore necessary to devise some means which will serve, on the one hand, to remove these complications in the way of the popularization of the use of checks and, on the other hand, will accomplish that all-important object, the removal from the domain of payments of a large part of the metallic cash held fast in it and the transfer of this cash to the domain of credit. These two aims can, in my opinion, be attained only by means of some arrangement which, on the one hand, will relieve the banker of the necessity of sending his various checks to little bits of places all over the country and which will, on the other hand, make it unnecessary to redeem these checks in cash. Such an arrangement is the system of check clearings which I have proposed.

As there are various practically almost insuperable obstacles in the way of a general imperial clearing house for checks, which would be the best solution from a purely theoretical standpoint only, I propose that in each province, in connection with the already existing provincial clearing house for bank accounts, a clearing house shall be established for checks. The membership of such a clearing house would in the nature of things have to be small, comprising mainly a limited



## *B a n k   I n q u i r y   o f   1 9 0 8*

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number of banks and bankers belonging to the place where the clearing house is located, who would at the same time be empowered to act for all the bankers in the province. It would, moreover, be very important that the bankers represented in this clearing house, but who are not members of it, as well as their representatives, who are members, should have connections with the Reichsbank in the way of deposit accounts, which at present—a fact not sufficiently recognized by one of the experts—is very often not the case. When such clearing houses for checks shall have been instituted, the merchant, manufacturer, or whoever he may be, will send the checks which he receives drawn on all sorts of little places, with his indorsement upon them, to his banker, who will send each day's accumulation of these checks in an envelope to his representative at the provincial clearing house for checks. A further innovation will gradually be effected in that checks drawn by a banker's customers will be made payable directly by the representative of the banker at the provincial clearing house. In this way not only will the machinery of check transactions be improved, and consequently popularized and extended—which, by itself, as Herr Schinckel has quite properly remarked, would not be of any particular importance—but what is vastly more necessary, the system of payments by means of deposits and bank-account transfers would be made still more effective. The bankers, who would all be connected with the general system of deposit-account transfers, would then have



## *National Monetary Commission*

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this great advantage guaranteed to them that the balance against them at any particular time, made out at the clearing house, representing the difference between the total amount of the checks drawn on them (including those drawn on them as representatives of other bankers) and the total of the checks payable to them, will not have to be paid in cash, but will be liquidated by debiting their account with the amount of the balance and placing it to the credit of the clearing house and then crediting the accounts of other members of the clearing house with the amount and debiting the account of the clearing house with it. I am convinced that the difficulties in the way of the permanent establishment of such a system of clearings can gradually be overcome by the cooperation of those who would be benefited by it, just as has been the case in England, and I have no doubt in regard to the result, because I feel sure that we have here a means of perfecting our whole mechanism of exchange which in the long run will not be neglected.

I should, on the other hand, be just as little in favor of raising the minimum amount of the balance in non-interest-bearing deposits in the Reichsbank as of the idea of taking interest-bearing deposits, a matter that, indeed, can hardly be dissociated from the former question. For if the Reichsbank were to accept interest-bearing deposits, the inevitable result would be that the banks and bankers would at once transfer to it, in order to get the interest, whatever sums they had in their possession in the way of deposits over and above the prescribed minimum.



## *B a n k   I n q u i r y   o f   1 9 0 8*

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I should oppose a further increase in the minimum amount of noninterest-bearing deposits for the following reasons: The raising of the minimum balance thus far has already had the effect in a number of cases, as the experts have informed us, of inducing depositors to make remittances in cash, in so far as the expense connected therewith was less than the loss of interest on the minimum amount of deposits, and there is certainly danger that a further raising of the minimum balance will impel an increased number to do likewise. In addition to this, a raising of the minimum would be an obstacle in the way of the democratization of the hitherto plutocratic system of deposits and bank-account transfers—I say plutocratic, because hitherto, apart from business connected with the Government, it is mainly the representatives of the great manufacturing interests and the wholesale merchants who have been associated with this system of deposits and payments; or, in other words, it would be a hindrance to the urgently needed extension of the benefits of the bank-account method of payments to other pursuits, just when we are in a position, fortunately, to look forward to such an extension by getting the middle classes and people in the humbler walks of life, whether engaged in agriculture, trade, or manufactures, habituated to making payments by check or draft or through the post-office. That would certainly be a queer economic saltation, very much like an Echternach dancing procession. I am aware that the raising of the minimum balance is urged by many persons on the ground that it is calculated to increase the resources of the Reichsbank and therefore



## *National Monetary Commission*

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to strengthen its position. For my part, I do not believe that the raising of the minimum would have this result except at those times when the Reichsbank itself would hardly be anxious to get such an accession, that is to say, when money was plenty. For, leaving such exceptional times out of account, the additional sum required for the increased minimum balance would have to be provided by drawing upon the means at the disposal of the Reichsbank itself for discounting bills and making loans, so that part of what the Reichsbank would gain in one direction it would lose in the other, which reminds us again of the Echternach procession.

Before quitting the floor, I should like to remind you that the obligations of the Reichsbank in the matter of its deposits are part of its demand liabilities, as much so as its notes, and that these obligations, just as will be the case with the bank notes if they are declared a legal tender, will at all times have to be met by the Reichsbank by payment in gold, and this without there being any provision regarding a one-third reserve such as exists with respect to the notes. It seems to me illogical to make this incongruity more striking by increasing the amount of the minimum balance. I should be inclined, therefore, if I were disposed to allow purely theoretical considerations or broad economic ones to have a determining weight in forming my judgment, to agree with those of the experts who, in behalf of the general utilization by the public of the mechanism of payments afforded by the system of deposits, are in favor of doing away altogether with the feature of a minimum balance. I realize, how-



## *B a n k   I n q u i r y   o f   1 9 0 8*

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ever, that the practical objections to this can not be overridden, as I am aware that the Reichsbank is entitled to a reasonable compensation for its trouble and the expenses involved in the management of the deposit and transfer business.

On the other hand, I am opposed on principle to the taking of interest-bearing deposits by the Reichsbank, which, as a matter of fact, would in itself not improve the condition of the Bank, but would render it less favorable. It is not a mere coincidence that the leading central banks of issue, after long and mature consideration and discussion, have again and again kept aloof from taking interest-bearing deposits. There is no doubt that if the Reichsbank is going to allow a high rate of interest on such deposits—with a low rate of interest, this kind of deposit business would exist only on paper—it will be obliged to resort to operations of every kind in order to make good the losses with which it would be threatened on account of the high rate of interest which it was allowing. It would be forced into the position of having to extend its credit business, which would be particularly mischievous if, as might happen, it would have to be resorted to even at the very time that the Reichsbank was endeavoring to counteract the excessive demand for credit throughout the country by putting up its discount rate.

We must not forget also that if the Reichsbank, by dint of allowing a higher rate of interest, should succeed in getting a large volume of deposits, this could only take place, as has already been mentioned, mainly at the



## *National Monetary Commission*

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expense of other institutions—private banks, savings and cooperative institutions, etc.—where such deposits at present accumulate. The result would not only be that these institutions would be obliged to take again from the Reichsbank the sums that are thus prevented from going into their coffers, but that, in so far as this can not be done, the various industries which at present are assisted and have to be assisted on such a large scale by the private banks may, in part at least, be compelled to forego this aid.

And finally it should be said that the serving of notice on the Reichsbank of the withdrawal of large amounts of interest-bearing deposits at a time of crisis might greatly embarrass the managers or deprive them of that cool judgment and power of calm deliberation so badly needed at such times, and such withdrawals might easily have the effect of endangering at an unfavorable moment the one-third reserve required for the protection of the bank notes.

I have still to say a word in regard to the purchase of checks by the Reichsbank. I can not see any material advantage in this buying of checks, which would actually be the imposition of a burden on the Bank instead of something tending to improve its condition, except possibly in so far as the purchase of foreign checks is concerned, although, even if it be merely in behalf of the popularization of the system of payment by check, I should not be disposed to object on principle. In this connection I will say that the view expressed by some of the experts that the purchase of checks might be a substitute



## *B a n k   I n q u i r y   o f   1 9 0 8*

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for the system of clearing houses for checks that I have been advocating is altogether untenable. I should make it a condition, however—and it goes without saying—that in the purchase of checks the same precautions shall be observed at least as in the purchase of bills, especially as the former are without acceptance, so that it would be preposterous—let me say here—to entertain the idea, brought forward by some of the experts, of reckoning the checks in the cash reserve of the Bank. I am of opinion, on the contrary, that it is worth while considering seriously, as the president of the Reichsbank has already intimated, whether the purchase of checks should not be restricted to those who are customers of the Bank in the matter of deposits or of loans, so that a cover shall be furnished by the balance in the deposit account or by the security given by the borrower. Of course the whole proposition would resolve itself into a merely academic one unless the Reichsbank made it a point to offer such inducements to the holders of checks as would cause a large volume of these instruments to be brought to it.

Mr. MOMMSEN. I shall be brief, gentlemen, in order not to have to repeat what has already been said. You have heard from the president himself the figures relative to the small notes. I am glad to see that even during a period when there was on the whole but a light demand upon the money market the small notes have practically held their own; and if the management gave its voluntary assurance to the Reichstag that it would not issue more than 300,000,000 marks—there is no legal provision, but merely a private understanding—this took place mainly under



## *National Monetary Commission*

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the impression, which was shared by the management of the Bank, that it would not be possible for a long time to come to get a larger amount into circulation. It turned out otherwise; both the Reichstag and the experts were simply mistaken. [Laughter.] As a matter of fact, the figure of 300,000,000 marks was reached in a comparatively short time, and I am sure, gentlemen, that if we had the statistics we should find that the parties in the Reichstag that are opposed to the small notes are quite ready to take the actual needs of the situation into account and that on the assumption, once more emphasized by Geheimrat Riesser, that no pressure will ever be exercised to get the notes into circulation, there can be no objection to our transcending the limit of 300,000,000 marks. I think this would do a good deal toward bettering the condition of the Reichsbank, inasmuch as the money represented by the small notes in circulation must, in the last analysis, be regarded wholly or in part as an addition to the resources of the Bank.

As regards the further question, gentlemen, that relative to the extension and development of the system of payments by means of deposits, checks, and transfers, there can be no two opinions as to the necessity of what is proposed. As to the manner and time of doing it, very divergent views have been expressed. I, too, am of opinion that we are in fact rather too impatient in regard to this matter. Things do not go as quickly as all that. [Quite correct.] It will probably take a good many years, perhaps decades [quite true], before we can educate the public sufficiently, and if everything does not move so smoothly as some have



## *B a n k   I n q u i r y   o f   1 9 0 8*

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anticipated that is no reason why we should consider the steps we have taken altogether futile. Let us wait and see how they are going to work. I really do not see the need of resorting to any special measures. I agree with Geheimrat Riesser in regard to the necessity of a clearing system for checks, and I am convinced that ways and means will be found of allaying the opposition that still exists and which, it is quite clear, comes especially from the provincial clearing houses, or in great part, at least, from the provincial clearing houses. If these had not declined to join the Berlin clearing house, the system would, at least nominally, be in existence to-day. Whether this would practically be such an extraordinary gain, that is a different question. But in this matter also, I am sure the Reichsbank will in the end devise some means of uniting the various establishments into a single system. Whether there is to be one clearing center or several is a question that may have to be left to the future. I myself do not approve at all of the nine or twelve clearing places in connection with the postal check system. It would have been much better to have had but a single one. [Quite true.] But as long as we can not have the single clearing place let us be content to have several, as in the case of the postal check.

It is not necessary for me to add anything to what has already been said with respect to interest-bearing deposits. I concur fully in the views expressed by Geheimrat Riesser and other gentlemen. I consider such a course absolutely impracticable. It would be a dangerous departure from the sound principles on which the Reichsbank is constituted.



## *National Monetary Commission*

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Now, as to this matter of the buying of checks, I must honestly confess that I can not begin to understand—and I have not yet been able to make it out from the opinions of the experts—what possible advantage we can see in it for the Reichsbank. That no business man, in the way business is now carried on, will be willing to have five—or who knows how many—days' interest deducted from his checks in order to have them cashed by the Reichsbank, goes without saying. He has plenty of places where he can have his checks cashed without this loss of interest. I am willing to admit, of course, that when it comes to the smaller towns the matter may have a somewhat different aspect, and on this account, if the idea is to benefit the small places, I should not have any serious objection to making a trial. I do not believe, for my part, that anything will come of it. There is another question, however, the one our president brought up to-day, as to whether the purchase of checks could not be made to serve the purpose of extending the deposit-and-transfer system of payments. Now it seems to me altogether practicable to have an arrangement by which depositors would have the privilege of bringing checks and having the amounts simply credited in their deposit account. But then this would in reality no longer be a purchasing of checks. It would be a way of having a sum of money placed to one's account, a transaction of a kind that occurs in the banking business, and I should consider it a great advantage if the thing could be introduced. It would probably be attended with very good results.



## *B a n k   I n q u i r y   o f   1 9 0 8*

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Then too, gentlemen, we are always told that the checks must have the necessary indorsements, just as is the case with drafts. Such checks, according to our legal regulations, have ten days to run. When a check is set afloat there is but one signature on it, that of the drawer. If the drawer is an individual, he will not answer the purpose at all as regards the Reichsbank, for it is necessary that there should be one or two signatures of firms on the check. Well, how many days do you suppose it will take to get these indorsements on the check? You know that this sort of thing is not done in twenty-four hours. I believe that all this would mean a good deal of inconvenience in practice. However, if the Reichsbank could devise some way of putting the scheme into operation, this question would after all not be so very serious, and it might perhaps be worth while to make a practical test. Still, I must say once more that I can not see how the whole thing can possibly pay with respect to the considerations urged, and, as for the encouragement afforded to the use of checks, I believe there is nothing in it.

Count KANTZ: When the act of February 20, 1906, was before the Reichstag the debate in the full house was, at the desire of the members of the Bundesrat, restricted as far as practicable. The most important discussions took place in the committee of which I was a member. On that occasion the argument in favor of the issue of small notes was put by Count Posadowsky simply as follows: "We must have more gold in the Reichsbank. It is absolutely necessary for us in behalf of our financial



## *National Monetary Commission*

preparedness to get more gold to flow into the Reichsbank, and in order to replace this gold we must have not merely hundred-mark and thousand-mark notes, but also smaller denominations. Indeed, we can not get along without them in business." The Reichstag recognized the force of this argument and the law was enacted. But in spite of this, gentlemen, these small notes are not popular. [Dissent.] It is not merely on account of their mean appearance that people prefer to take gold. It is easier to count gold, while the notes are apt to stick together. In a word, I do not believe that the small notes are popular. Not long ago I happened to meet a commanding general on the street who had just received his salary in these small notes. He was quite angry and said: "I sent my orderly to the disbursing office to get the money and asked expressly for hundred-mark notes and gold. [Hear, hear.] They gave him small notes, and when the orderly refused to take them he was told, 'Then you'll get nothing.'" [Hear, hear, and laughter.] That's what I call a friendly reception given to the bank notes by the public. [Laughter.] The president of the Reichsbank has just stated that a short time ago at some particular date—I believe it was July—there were 278,300,000 marks of these small notes in circulation and a little later, 279,600,000 marks. I beg to take the liberty of pointing out that at the close of 1907 the amount in circulation in these small denominations was 290,443,300 marks; that is to say, a still larger sum, which shows that the circulation of these notes has quite recently rather diminished than increased.



## *B a n k   I n q u i r y   o f   1 9 0 8*

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I personally am not concerned as to whether the bank notes are pretty or whether the public cares for them or not. They are a necessity, once for all, with respect to the attainment of a particular object. I am, therefore, by no means opposed to their becoming part of our circulation. But I know of one instance, at least, where the means employed to introduce them to the public was of a rather peculiar kind. It had the effect, of course, of taking out a quantity of gold from the country and causing it to go into the Reichsbank. For my part, I say, I have nothing against it. I mention it merely to explain why there is, as a matter of fact, so large an amount of these small notes in circulation. I would not infer from this, however, that this kind of currency is very popular.

If, as Herr Kaempf remarked a little while ago, a very considerable amount of gold is regularly withdrawn from the Reichsbank at the quarter days—120,000,000 to 150,000,000 marks—this is bound, I believe from its very nature, if not to come to an end entirely, to come down to much smaller proportions as soon as the bank notes have been made a legal tender. [Quite true.] I assume that this disagreeable phenomenon will thereafter ultimately disappear of its own accord.

And now, gentlemen, I should like to say something in regard to the matter of checks. I had in reality proposed to myself to deliver a little discourse on the system of payment by means of checks. I have gone over all the material that served as a basis for the discussion of the parliamentary bill relative to checks, as well as



## *National Monetary Commission*

the speeches which Herr Kaempf, in particular, delivered on the occasion of the debates in the Reichstag. In consideration, however, of our economic situation and in view of the fact that you, gentlemen, understand the matter better than I do, I shall refrain from doing what I had intended and would merely remark briefly that if, through our legislation, we have placed the check on a level with the other instruments of exchange, we ought not to let it receive poorer treatment at the hands of the Reichsbank than the bill, the guaranty of absolute safety being of course assumed, as in the case of the bill. I am personally, therefore, not at all averse to seeing the check play a still greater part in our business transactions than it does at present.

In what concerns interest-bearing deposits, I am in accord with the views expressed by Herr Mommsen and Geheimrat Riesser. I do not believe that the Reichsbank ought to go into the business of taking such interest-bearing deposits.

I will close my remarks at this point, gentlemen, in order not to engross your time any further.

Doctor SCHMIDT. We are pretty well agreed, gentlemen, that our paramount aim should be the strengthening of the stock of gold in the Reichsbank, and that the Reichsbank can add greatly to its resources by drawing upon the gold that is in circulation in the country admits of no doubt in my opinion. The statement has been repeatedly heard here that the estimates of the quantity of gold in circulation in the country are too high. It is not an easy matter to frame an estimate that would



## *B a n k   I n q u i r y   o f   1 9 0 8*

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not be liable to criticism. I should, however, like to refer to one aspect of the gold situation which has hitherto not received sufficient attention in these estimates; I mean the crowns. The estimate of four billion marks of gold in the country does not take account of the quantity consumed in the industrial arts or of the quantity that is lost through the traffic carried on along the frontier, which does not figure in the statistics. Neither in the one case, gentlemen, nor the other does the crown count for anything. In the statistics of exports from the German Empire you will not find any large quantity of crowns nor will you see crowns going out of the country to an amount worth mentioning through the channels of the border traffic. While the quantity used in the industries will prove to have been altogether inconsiderable, manufacturers have preferred to use the 20-mark piece, which is less worn, so that I believe we can safely assume that nearly the entire amount of crowns coined is still in circulation. We have consequently 700,000,000 marks, and you are all aware that there is a general demand for them in business, that the crowns are not at all conspicuous in the circulation by the side of the double crowns, and that they represent but a small fraction of the total gold supply.

If you were to take a look in your own pocketbooks, gentlemen, or in any of the depositories of public funds, you would find that the stock of crowns is in fact an exceedingly small one. I infer from this that pretty much the whole amount of 700,000,000 marks is still on hand and in our circulation. I believe, in spite of what Count Kanitz



## *National Monetary Commission*

has to say, that we have, as a matter of fact, at this very moment (admitting that the situation may perhaps have improved somewhat) a superabundance of gold in circulation. I suppose it has happened to some of you, gentlemen, as it has to me, that postal drafts for 500 or 600 marks were paid by the postal messenger altogether in gold. [A voice: This is no longer so.] Some one mentioned the fact also that members of the Reichstag had received their pay in gold. [Dissent.] I believe, moreover, that managers of lotteries and others prefer to pay in gold, and we have just heard that an official of high rank complained of the absence of gold coins in the money paid him when he received his salary. Of course, it would not do to strip our currency of gold and to have altogether too much paper in circulation. But it would be of the greatest advantage if a larger volume of paper money would force its way into the circulation. I see no reason whatsoever why this should not take place, but, of course, we shall have to get the public and the business world accustomed to it. I am of opinion also that there should be no pressure used; it would not do to force this thing upon business. But as we can not introduce any innovation without first educating the public, it is necessary to get business and people in general gradually habituated to the use of small notes in ordinary everyday transactions, and our officials as well. The arrangement already suggested here in regard to this matter appears to me thoroughly practical. The trouble is that we are not accustomed to the small notes. We have no sort of wallet in which we can conveniently carry these small



## *B a n k   I n q u i r y   o f   1 9 0 8*

bank notes, being generally obliged to fold them and stick them into our pocketbooks, which crumples them up and makes them unsightly. It would perhaps have been better if the small bank notes, as well as the treasury notes, had not been made quite so big, so that they might have been carried about more conveniently in a small wallet. I am going to suggest whether it might not be practicable for the Reichsbank to introduce some sort of standard pocketbook for small notes or to induce some firm to undertake the manufacture of such a pocketbook for paper money, one which might be adorned perhaps with the imperial eagle, so that the public might take more readily to these small notes. We should all endeavor, each in his own little sphere of activity and as far as his personal efforts can go, to restrict as far as possible the use of gold in petty transactions, for the gold coins that are stowed away in the pockets of the 60,000,000 Germans or in their tills are of less service to the public at large than if these same millions were lying quietly in the vaults of the Reichsbank. We must do our best to get the superfluous gold that is in circulation into the Reichsbank. As has already been said, it is best by all means to pursue a middle course in this matter. We must not allow gold to disappear altogether from circulation, but it is essential that small paper money be made more and more to take the place of gold in ordinary business. The public has got to be trained, and if everyone were to exert himself we should achieve something.

I will take the liberty, in this connection, of adducing some figures out of my personal experience. I have



## *National Monetary Commission*

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devoted special attention for years to these matters, with the steady aim of promoting the use of small notes in the payment of wages. You will probably all recollect that in the reports of the chambers of commerce in the Rhine Province and Westphalia there used to be an everlasting complaint in regard to the crowns. They kept dinning into our ears: "We haven't enough crowns; there are not enough of them coined. They have got to be coined on a larger scale. Business is clamoring for crowns and they are not to be had." This complaint was formerly not altogether groundless, for there was in reality a lack of small bank notes and, for a time also, of silver that might have taken the place of the crowns, but at present there is no foundation for it, as there is a plentiful supply of small bank notes and imperial treasury notes, and there will soon be an abundance of silver coin also. A cashier, it is true, finds that it is much easier to dispose of a crown than of two 5-mark pieces or of a 10-mark treasury note. But for the purposes of ordinary business the crown is a most expensive instrument of payment by reason of its becoming worn so soon, which in the end may result in serious inconvenience to business. It is the crowns, then, that ought to be withdrawn from circulation in order to strengthen the stock of gold in the Reichsbank. It might, perhaps, be a good plan for the Reichsbank gradually to store away the crowns that come in and not pay them out again. This would be all the more expedient, as, with the proposed increase in the silver coinage, room would have to be made for the new silver money. The



## *B a n k   I n q u i r y   o f   1 9 0 8*

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best way of doing this is by slowly and gradually withdrawing the crowns from circulation and replacing them with silver, which will make an excellent substitute, as our laboring men everywhere unquestionably take hard cash rather than paper money. [Hear, hear.]

In the payment of wages hard cash is, indeed, somewhat handier than paper. All the same, large amounts of small notes can be made use of in the payment of wages in the place of double crowns, so that it is practicable by increasing the quantity of small notes to add very materially to the stock of gold in the Reichsbank. I should like to mention one or two cases. One day this week—I believe it was Tuesday—the payment was made at the steel works of the rebates in connection with the company's stores, together with a considerable sum in wages, so that the sum of 2,000,000 marks had to be paid out in a single day in about 35,000 separate amounts. The officials who were to act as paymasters allowed me to see the slips on which were put down the sums of money that they needed. They had asked for 1,500,000 marks in gold and the rest in silver and notes. By enlisting the services of the head cashier I got the various paymasters to overhaul their slips so as to cut down the sums required in gold. At the close of the negotiations it appeared that, instead of 1,500,000 marks in gold, which had originally been asked for, 500,000 marks sufficed. So just a few marks more than 500,000 marks was paid out in gold and close to 1,000,000 marks in small bank notes and 10-mark treasury notes. It was found practicable, therefore, to replace about 1,000,000



## *National Monetary Commission*

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marks in gold with small notes and allow that amount to remain in the vaults of the Reichsbank. Before the introduction of the 50-mark bank notes the 50-mark imperial treasury notes were in great favor. They could never be procured, however, in sufficiently great quantities, as there were not enough of them. A remedy was fortunately provided in the supplementary bank act through the issue of 50-mark bank notes.

That the small notes are retained in our circulation is shown by another numerical exhibit which I have prepared. In a space of four months wages were paid out to the sum of 15,000,000 marks. In these payments gold figured to the extent of 43 per cent, and 57 per cent was in small notes. [A voice: Still too much!] Of this amount, 2,600,000 marks flowed back into the Reichsbank through the channel of the company's stores. But of this, 60 per cent was gold and only 40 per cent notes, so that a much larger proportion of small notes was retained in the circulation than of gold. This certainly proves that it is possible to accustom the public to the use of small notes. I am in favor of removing the restriction regarding the volume of small notes issued by the Reichsbank, inasmuch as an increased issue of these notes may be expected to result in an increase in the Bank's metallic cash. And I beg the members of this commission to do their best, each in his own sphere, to promote the employment of the small notes in a way most conducive to the efficiency of our currency.

The further strengthening of the stock of gold in the Reichsbank through the development of the system of



## *B a n k   I n q u i r y   o f   1 9 0 8*

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payments by means of deposits, transfers, clearings, and checks is in the highest degree desirable. But the notion that the existing system of payments based on deposits in the Reichsbank would be exploited on an increased scale if the minimum amount of the balance was raised involves, in my mind, a palpable contradiction. It will be rendered less available by an increase in the minimum balance, and we have heard it stated in the course of the hearings of the experts that some of the larger provincial banks and other customers of the Reichsbank either closed their accounts entirely or else materially restricted them when the bank proceeded to demand a larger minimum balance. From my own experience I can affirm that this tendency to raise the minimum amount of the balance in accordance with the volume of transactions in the way of transfers of money has had the effect of restricting in a considerable measure the use of the method of payments by means of deposits and transfers. Before the campaign for an increased minimum balance was started by the Reichsbank most of the great industrial establishments made use of the Bank exclusively for their cash transactions. The large monthly payments of the trusts were placed to their credit in their deposit accounts at the Reichsbank, and the invoices of the concerns that contracted for the delivery of ores, coal, metals, lumber, etc., were settled by transfers on the books of the Reichsbank. In order, however, to escape the penalty to which they would be subjected on account of the large volume of their transactions, they made a change and had the amounts due them placed to their credit in some one or



## *National Monetary Commission*

other of the Berlin banks, on which they drew checks for the payments which they had to make.

So this cash business was taken away from the Reichsbank and transferred to the so-called "great banks," the same great banks at whose increasing power so many assaults have been leveled in this body. I am therefore of opinion that an increase in the minimum balance would not have the effect of developing the deposit and transfer system, but would only result in its contraction. We are all agreed that such an excellent and perfect institution as that represented by the system of payments through the agency of the Reichsbank and by means of deposits and transfers does not exist anywhere in any part of the world. Germany possesses in this the most complete mechanism for effecting the transfer of funds, something that every country can envy us. It is much more perfect than the system of payment by check, which we are doing our best to develop. By increasing the amount of the minimum balance we should only be hindering the development of this splendid institution and be forced to accept the defective substitute afforded by the method of payment by check.

We ought to endeavor, unless it can be shown that this would render the task imposed upon the bank altogether too gigantic, to extend the system of payments by means of deposits in the Reichsbank so as to make individuals, as well as firms and companies, benefit by it and to bring it even within the reach of small tradespeople. Possibly, however, this will be rendered less imperative by the introduction of the system of pay-



## *Bank Inquiry of 1908*

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ments by postal check, which is to afford an opportunity to these classes of opening a deposit account.

The system of payments by check, gentlemen, from which so much is expected, will, in my opinion, never become fully developed until, through the force of custom, it has gradually obtained a firm hold among the small dealers and with the class of people who conduct a considerable business on their individual account and not as members of a firm or company. It would mean a reduction of the volume of currency and a consequent strengthening of the resources of the Reichsbank if we could see our way to settling our baker's and tailor's bills, and also our hotel bills and the like, by means of checks. An indispensable condition is that the baker, tailor, or shoemaker shall have an account in the Bank, and it seems to me that in this matter the banks have been remiss in not making the kind of joint propaganda that is needed. We should, however, in any case bear in mind that a check serves a purpose only if it is not immediately cashed but is supposed to be used in connection with a bank account, for if I give my shoemaker, for example, a check on some banking institution and he goes and has it cashed, it would be a much simpler matter for me to give him outright, say, a 100-mark bank note.

The buying of checks by the Reichsbank should be recommended. This branch of business would hardly assume large dimensions.

I should like to express my opinion briefly to the effect that the Reichsbank ought not to take interest-bearing deposits. I can not see that there is any necessity, as in



## *National Monetary Commission*

all the States of the Empire there are, by the side of the Reichsbank, large state banks, such as our own Royal Prussian Seehandlung, Lotteriekasse, agricultural banks, provincial banks, and provincial credit institutions, which are all able to transact this kind of business very efficiently, and the Reichsbank would only be engaging in a needless competition with these institutions without any real advantage to itself.

Mr. RAAB. The small sphere of business activity in which I am placed ought in my opinion to offer an excellent field for determining by experience whether or not there is a sufficient volume of small notes and whether we ought, therefore, to increase the supply or to oppose such an increase. I must emphatically state it to be my own experience that in the ordinary run of petty business transactions people do not care for the small notes. We can hardly be said to possess reliable numerical data going to show that, as a matter of fact, the small notes have firmly intrenched themselves in the actual circulation. I believe I can tell you something which in a measure will explain why more of these little notes seem to be about than is justified by the actual demand for them.

I recently had a little talk with a postmaster, and this is what he said: "We are supposed to be doing our best now to get this paper into circulation. We send out our postmen in the morning with the paper notes, and in the evening the notes are once more in our safe, for nearly all the money that has been taken in has come in in the form of paper." The postal officials



## *B a n k   I n q u i r y   o f   1 9 0 8*

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are sometimes almost driven wild when they have to hand in their returns by the number of small notes which they are obliged to count. When the money is in gold or silver, it will do to count it once; you can tell by the height of the piles if you have made a mistake. But the small notes have to be counted slowly and carefully, and even this may not answer, for a couple of notes can easily stick together. So you have to count two or three times, and then you are not sure that your account tallies. It is not so easy to prove to a person who hands you a note that it is a forgery as it is in the case of a coin, and the detection of the forgery itself is more difficult in the case of notes than in that of coins, where one can easily try by the clink or the weight. In a word, those having anything to do with public funds are almost driven to despair by the small notes, which can scarcely be dislodged from their cash while the public keeps shoving back the notes as fast as it can.

I do not wish to dispute what Doctor Schmidt, of Essen, has said, but I could see in his utterances the word "pressure" struggling to the surface. If the small notes have been brought into circulation I attribute this to the fact that more or less pressure has been exercised. We have heard that lottery agents in particular have refused notes and asked for gold. This is a good criterion as to whether most people prefer to be paid in gold or in notes. And the lottery agent is probably the man with the most delicate touch when it comes to sounding the wishes of one's customers.



## *National Monetary Commission*

I can not, therefore, advocate an increase in the volume of the small notes, and in reality I should rather be in favor of an enlarged silver currency. Against this there is unfortunately the factor that silver would have to be bought with gold. The fact remains, however, that it is a much better currency than paper. Paper money tears easily, is apt to get lost, and is liable to be blown out of one's hand by the wind, and the small notes, especially, soon get soiled and insanitary. Of course if we have to choose between getting nothing and taking paper, we would rather take hold of the paper with the tips of our fingers than refuse to accept it.

That we ought to do everything in our power to develop the system of payments by means of deposits and transfers, as well as the still better clearing-house system, appears to me, as a Hamburger, a matter of course. I understand how important this institution is with reference to the entire mechanism of exchange, and we fail to comprehend from our Hamburg standpoint how the rest of Germany can have remained so incredibly behindhand. [Laughter.] If it has not been found practicable in Berlin until now to get the great banks to institute a joint system of transfers, it is a matter that excites our regret. At the same time, however, it does not hold forth a very flattering prospect of the realization of the proposition brought forward by Geheimrat Riesser, which I should say is too fine for anyone to believe in.

We have heard expressions of protest from various quarters, gentlemen, against the suggestion that the Reichs-



## *B a n k   I n q u i r y   o f   1 9 0 8*

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bank shall go into the business of taking interest-bearing deposits, and I, too, believe that these objections are based on valid grounds. It appears to me, however, that they are raised mainly with reference to the home business. The most serious mischief supposed to be involved in the scheme is the harm that would be done to other banks, the cooperative associations, etc., through the diversion of the funds that have been gravitating toward them. This would naturally be very undesirable by reason of the weighty tasks assumed by these institutions. But the taking of foreign deposits by the Reichsbank, which I have previously suggested, would not hurt the banks and surely not the cooperative associations. The money thus received would not have gone into their coffers in any case.

It has been further objected that deposits are a dangerous kind of money, which is liable to be withdrawn too quickly. This fear would be groundless in the case of deposits from abroad. If, for instance, depositors living in the United States or even in still more remote countries wanted to withdraw their money, it might take the letter perhaps weeks to get here. By that time, as a general thing, the country will have got over the first shock and the panic will be over. It would be possible, too, to have a provision relative to the giving of notice of withdrawal. Along with this, there might be a clause enabling the depositor to withdraw his money ahead of time or even immediately on the condition of the deduction of a small percentage, as is often the case with cooperative associations and savings banks. Such a violent



## *National Monetary Commission*

withdrawal of money from the Reichsbank, which is possible in the case of deposits received from our own people, could not take place in the case of foreign deposits.

We have been told, moreover, by one of the speakers, that we should not get any deposits from foreign countries because people get a higher rate of interest abroad, and the Germans who live in those countries are sufficiently light minded to invest their money there. Now, I am sure that the rate of interest is not higher everywhere than it is in Germany, and I believe the Germans are not all light minded, or if they are apt to become light minded it is because they have hitherto not had the benefit of any arrangements enabling them to put away their savings conveniently and securely. I do not mean to say, of course, that I think we ought to have branches of the Reichsbank all over the world. At the same time, I am going to remind you that something of the sort does actually exist. A provision has been inserted in our nautical regulations according to which the sailors' registry offices—that is to say, in foreign countries, the German consulates—are obliged to accept money from sailors and to forward it free of expense to Germany. We are satisfied that in this way we are doing a good service to one class of our society. The sailors are spared no little uneasiness when they can feel that their money is safe, and they are afforded the most convenient means of investing their savings. I can readily imagine that the same thing would work in the case of officials, young tradesmen, engineers, overseers, engine fitters, and numerous classes of men who are in foreign countries. When these people carry



## *B a n k   I n q u i r y   o f   1 9 0 8*

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their money around in their pockets or intrust it to a foreign bank of more or less questionable standing, they are liable to incur a pretty heavy loss.

We can get part of this money, gentlemen. Of course, so and so much will still continue to go astray abroad. Well, that much we shall have to let go. Nevertheless, in the course of the year we shall be getting several millions, which we have prevented these people from losing, and we thereby improve the condition of the Reichsbank and render our balance of payments more favorable. The money comes in and a part stays here. The owners either return home later and spend their money here or else they use it for buying machinery, merchandise, or anything else they may happen to need. I believe that most of the money remains here in any case. So I can not see what prevents the trying of my scheme. If it should turn out, as Herr Schinckel believes, that the amount of money we get in this way is small, then the Reichsbank will not have much of a burden placed upon it and will not run any danger of going too extensively into the discount business, which some of the gentlemen who have had the floor feared it might do.

In regard to the proposed limitation of the total amount of its deposits to a definite fixed sum, the Reichsbank insists rightly that it is impossible for it to tell whether in all its five hundred branches the total received may not have suddenly transcended the assigned limit. It would, therefore, be unwilling to agree to such a limitation. This would, however, have to be done by all means in the case of foreign deposits if the entire volume of such



## *National Monetary Commission*

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deposits was to go to the one receiving office at Berlin, where it would be easy to tell, in a general way, whether there was any immediate danger that the maximum permissible amount might be exceeded. It would be practicable, of course, to send instructions abroad in time to the effect that no more deposits should be accepted, or else some other arrangement could be adopted.

The carrying out of my suggestion can not fail to result in a more favorable state, not merely of the balance of trade, but also of the balance of payments, and for this reason, if for no other, it ought to appeal to the members of this commission, who rightly lay so much stress on an improved balance of payments.

I can not say that I am strongly drawn toward the idea of the purchase of checks by the Reichsbank. I am not exactly opposed to it, but I should restrict the taking of checks to persons having a deposit account with the bank.

Doctor WEBER. It is extremely difficult, gentlemen, after the various expressions of opinion that we have heard, to enter into a further discussion of the questions before us, as but little can be adduced that is new. For my part, I was glad to learn from the statement made by our chairman that the issue of the small notes up to the generous limit agreed upon with the Reichstag presents no difficulty and that the notes have maintained themselves in the circulation. I would urge that in the discussion of the bank act an opportunity be afforded, in behalf of the simplification of our circulation, of making the maximum amount of small notes that may be issued even larger than it is at present.



## *B a n k   I n q u i r y   o f   1 9 0 8*

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The belief expressed by the gentleman who has just had the floor that people of the humbler class have an aversion toward the small notes is probably founded on fact. This dislike may possibly be based on the recollection of the state of things which formerly prevailed in Germany in the matter of bank notes. But if we consider that aspect of the question which Doctor Schmidt has laid so much stress upon, we are bound to say that we are doing a good thing in enlightening the public with respect to the advantages to be derived from the small notes and the necessity of compelling gold to flow into the Reichsbank. The small notes are eminently calculated to cause gold to flow into the great central reservoir, Berlin, and no one will deny that gold when it is lying in the vaults of the Reichsbank is, at any rate, better capable of discharging its great function, that of serving as a foundation for our monetary system, than when it is in the pockets of small tradespeople and artisans and is used for paying wages and making other small payments. Very mistaken notions prevail among our people as to the function that gold has to perform, and if a member of this body remarked a while ago, that when, for example, the firm of Krupp gets the small notes to circulate among the people it is something like the exercise of pressure, I beg to say that I am altogether unable to agree with him. I hold that it is the duty of such a great concern to enlighten those with whom it has to deal in regard to these matters, and I wish the inhabitants of Saxony were as ready to accept the small notes as those of the Rhine Province and Westphalia. There is this excuse at least for us in Saxony, that we border on



## *National Monetary Commission*

Bohemia, so that the working people are in the habit of taking gold with them into Bohemia, whose inhabitants are delighted to be able to get hold of gold and gladly take it off their hands.

I am furthermore of opinion that if the imperial treasury notes are eventually to disappear, which can only be in the distant future, we shall have to introduce small Reichsbank notes of the denominations of five and ten marks. [Quite true.] Geheimrat Wagner, it is true, declared that he was opposed on principle to small notes, and he bade us remember the period at the close of the fifties in the last century. But conditions in Germany with respect to paper money were very different then from what they are now. To-day our system of bank note currency is based upon the gold standard, and we have adopted the principle of the one-third reserve, and we know furthermore that the notes have to be redeemed in gold and are actually being redeemed in gold.

This much, however, I am likewise willing to admit, that our bank notes are not particularly handsome and that they easily wear out by handling. We can not deny—and in this I agree with the gentleman who has just had the floor—that a certain dislike for the bank notes has arisen among the people on account of their unprepossessing exterior. Indeed, one sometimes has to stick notes into one's pocketbook that are in such a state that one has to wash his fingers after handling them. There is only one remedy for this—that the Reichsbank shall follow the example of the Bank of England, which, as a rule, destroys the notes when they come in. This would render our people more



## *B a n k   I n q u i r y   o f   1 9 0 8*

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inclined to accept the notes in place of silver or gold, especially if the designs could be improved.

We are all of one opinion, gentlemen, in regard to the question of the extension of the system of payments by means of deposits, transfers, and clearings. I believe, for my part, that the system of payments by check is also necessary and that the public ought to be made to appreciate its advantages, and I look upon a well-ordered mechanism of this kind as a preliminary stage in the development of the transfer and clearing system. Reference was repeatedly made in the latter part of this discussion to the system of payments by check and to the law relative to checks, and we have heard the assertion that in this thing there is a new privilege involved, and, in particular, a privilege of the great banks. We have here, gentlemen, an utter misconception of the matter. The great banks are not engaged in this business on their own behalf, but merely in behalf of a more efficient system of payments in general, for the banks are obliged to put themselves to so much expense and trouble in connection with checks that they would not be sorry if they did not have to take in so many. The large volume of checks interferes with the operations of the bank much more than it did formerly, and it is the experience of the banks that in the course of the last year or year and a half the volume of check transactions in the German Empire has increased materially and that the running expenses of the banks have thereby been considerably augmented.

It would be of great advantage, gentlemen, if the governments of the individual States would impress upon the



## *National Monetary Commission*

officers charged with the handling of public funds the desirability of utilizing more than they have done hitherto the means of payment afforded by the deposit and transfer system of the Reichsbank. This has in a large measure not yet been the case, and I have myself heard from a member of this commission that, in spite of the instructions issued by the Prussian Government, many of the officials whose business it is to pay out and receive public money continue to rebel against the use of that system. And when we are told that some of these officials oblige a person who comes for his money to hand in a receipt three days in advance if he desires the amount to be placed to his credit in the Reichsbank, we have before us an illustration of the most outrageous red tape. You know that the officer in question has no trouble in ascertaining through the Reichsbank that the money has gone into the proper hands, and, in point of fact, we ought to see to it that this sluggishness on the part of our officials is supplanted by a businesslike way of doing things. [Quite true!]

I should like to say a word also with reference to the system of payments by postal checks. This, I am sure, is bound to do good service also. I believe, for one thing, that it will remove the necessity of reducing the minimum amount of deposits in the Reichsbank to 300 marks, as was urged in the opinions of the experts, inasmuch as this system of payment by postal checks is made available for the needs of the so-called "middle class" in the German Empire. It is much better adapted to the needs of the artisan (whether he belongs to the poorly paid or the



## *B a n k   I n q u i r y   o f   1 9 0 8*

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better paid class), the petty tradesman, and the small manufacturer than the deposit and transfer system of the Reichsbank, and it is very desirable that this class of the population shall avail itself more of the postal checks than of the Reichsbank, which has much weightier tasks to perform than people are generally inclined to believe.

I am of opinion myself that the use of checks would perhaps not have been confined to its hitherto restricted dimensions had not the great banks and the Reichsbank betrayed a certain lack of willingness to accommodate the public in the best way possible in the matter of the transfer of money by checks and drafts. It goes without saying that it takes too long if, when a check drawn on Dresden is presented at Berlin, one is obliged to wait three or four days before getting his money. If we are to make a propaganda for the use of checks, the banks will have to try to devise some means of remedying this evil. There must be ways and means that shall enable us as far as possible to remove these obstacles to the use of checks by those whose business transactions are on a modest scale or shall at least accelerate the operation of this method of payment.

In regard to the question of Reichsbank checks, gentlemen, I must say that I share the view expressed by some of the experts, that they would represent an unnecessary addition to our currency. I am, however, of opinion—and this question has been adequately discussed before the public by Geheimrat Riesser, who dwelt on the matter also on the occasion of the hearings of the experts—that if there are great difficulties in the way of a clearing



## *National Monetary Commission*

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system, we must try to remove them. We ought not to allow such difficulties to stand in the way of the introduction of so useful an institution. We should see to it, for example, that the system of clearings in connection with the mortgage-banks clearing house, an institution originated by the last president of the Reichsbank, is further developed. A clearing system for the Empire, in the sense in which it was suggested by Geheimrat Riesser, is in my judgment practicable and necessary.

As to the matter of increasing the minimum balance in deposit accounts, I shall briefly express my view to the effect that the amount ought to be graduated according to the services which the customer exacts from the branch of the Reichsbank with which he deals. The raising of the minimum amount of deposits, pure and simple, will in the case of the big concerns have the effect—as Doctor Schmidt has pointed out—of making them go to the great banks in order to get them to undertake the transfers of money hitherto effected by the Reichsbank, which would thus have some of its business taken away from it. I can tell you from personal experience that this is already being done on a large scale by a number of concerns. This amounts, in my opinion, to an inroad into the province of the Reichsbank, which renders its great task of regulating and superintending the monetary circulation in the German Empire more difficult and in a measure impossible. It seems to me that in this respect the Reichsbank might perhaps adopt a somewhat different policy from that which it is presumed to have just now adopted. I am



## *B a n k   I n q u i r y   o f   1 9 0 8*

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unable myself to judge from personal experience what course the Reichsbank is at present pursuing.

In what concerns the question of interest-bearing deposits, I can not say, gentlemen, that they excite any very warm feeling on my part. I consider it altogether out of the question that the Reichsbank should add to all its weighty duties that of paying interest on deposits, a function which does not come by any means within its legitimate scope. It is not the great banks, as has always been said, that would be hurt by it. The great banks are not a bit concerned as to whether the Reichsbank takes deposits or not. It would chiefly be the savings banks and the cooperative institutions that would be the losers. It is not necessary for me to refer to the other objections, mainly of a technical nature, to the introduction of such a system, as they have been sufficiently discussed.

To come finally to the subject of the buying of checks by the Reichsbank, this is a question which, as the president has declared, has to be very carefully discussed. I believe it was Doctor Schmidt who said a little while ago that we ought to try to reach the point where we can pay our shoemaker and our tailor with a check, and that not until then would the system of payments by check be exploited to the extent that we are anxious that it should be. Such a state of things does exist in Germany in a few districts. In Oldenburg, Mecklenburg, and Brunswick the banks are so constituted as to render transactions of this kind practicable. In the city of Oldenburg, for example, everybody is



## *National Monetary Commission*

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used to them; but whether this will work everywhere, I doubt very much. I know it is not suited to Berlin. Such a system of payments by check can be introduced in small places, but it will not be practicable in the case of large cities. What I wish to assert is that while very extensive use is made of checks in the large cities also, it is nevertheless a fact that the recipient of a check, if he be, for example, a shoemaker or a tailor, goes to the bank to have it cashed, because the man of humble means has, as a rule, no deposit account with the bank. And so long as we have not reached the stage where every recipient of a check has a bank account, this system can not be utilized up to the full measure of its intent. For a check that has been cashed has missed its object just as effectually as the beer in regard to which a well-known member of the Reichstag, no longer living, asserted that it would fail to achieve its object in case no one happened to drink it.

In case the purchase of checks by the Reichsbank is introduced, I should be in favor of restricting this branch of business to the depositors and those customers to whom the bank makes loans on collateral.

Mr. FISCHER. Gentlemen, the question has been submitted to us: "Is it desirable to endeavor to bring about an increase of the cash holdings of the Reichsbank out of the channels of domestic trade?"

Along with this come several secondary questions. With respect to the suggestion under B "by means of an increased issue of Reichsbank notes of the denominations of 50 and 20 marks," I must say that all in all



## *B a n k   I n q u i r y   o f   1 9 0 8*

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I do not care very much for the small bank notes. It would be preferable if the circulation were all the time saturated with gold as far as possible and the petty transactions of everyday business were effected by means of hard cash only. This is my theoretical view; but I believe there are considerations of a practical nature that should also be allowed to weigh in this matter.

Apart from the reasons which have been adduced in the Reichstag in favor of the issue of small notes, we can not afford to overlook the fact that we are obliged, as well as everyone else, to cut our coat according to our cloth, and we must therefore ask ourselves whether we have enough gold at our disposal. There is no doubt that our circulation is abundantly provided with gold, but then we have had the experience that in the course of years, in spite of the continual importation of gold, the resources of the Reichsbank have not been as greatly strengthened, relatively to the increasing circulation of notes, as we could have wished. Even if we take into account the needs of industry, which, indeed, have only more recently risen to their present dimensions, as well as some other channels through which gold has been withdrawn, we can not help realizing that there has been a steady flow of gold into our currency, so that the quantity of the metal in circulation must have increased. If the metallic stock of the Reichsbank has by no means been strengthened within the past ten years, as was shown in the course of our recent discussions apropos of another point in our question sheet, it must be ascribed to the peculiar habits of our people, which, unlike the public in



## *National Monetary Commission*

France, makes use mainly of gold. The enviable condition of the Bank of France is chiefly due to the fact that the French people are accustomed to the use of bank notes.

If the Reichsbank has been unable in recent years to retain in its vaults a sufficient share of the gold that has been imported, we have to reconcile ourselves to the fact that the actual conditions are not such as to afford us the luxury of a superabundant gold currency, and therefore, in spite of my theoretical objections, I consider it advisable to take measures to prevent a supersaturation of our circulation with gold. For this purpose I regard the issue of the small notes useful, and I am of opinion accordingly that, without exercising pressure in any way, or, in other words, without forcing the issue of the small notes, we ought gradually to get our public into the habit of using a certain amount of small bank notes by the side of gold, which, as the foundation of our currency, I think ought to be retained in our circulation on a large scale.

I am arguing on the assumption that the greater the volume of covered notes in circulation, the stronger our bank becomes. [Quite true.] That part of the circulation which consists of notes of small denominations would therefore, to my mind, be represented in the Reichsbank by an increased stock of gold. In this sense I can see no impairment whatever in the situation with respect to our monetary standard resulting from the issue of small notes. This would in reality mean a great guaranty in regard to the redemption of our bank notes in general. It is a matter of experience that the main



## *B a n k   I n q u i r y   o f   1 9 0 8*

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reason why bank notes can be kept in circulation is the fact of their being redeemable at any time—in other words, the circumstance that they do not represent any actual separate values in themselves, but are merely the tokens of values situated elsewhere in the bank. Uncovered notes, too, can be kept in circulation without any danger, as long as a proper ratio is maintained between their total and the metallic stock in the bank. I should therefore like to see that part of the circulation which is uncovered, take, in a certain measure, the form of bank notes which even in times of uneasiness do not come in fast for redemption. But these are that part of the currency which circulates most intensively—that is to say, the small notes. It has been shown by actual experience everywhere that it is possible, irrespective of the extent of the metallic cover, to keep a much larger volume of notes permanently in circulation when they are not of too large a denomination. The slow rate at which they come in for redemption appears to me to afford a security for the redemption of the notes as a whole, and I am therefore in favor of the present policy of issuing the notes of the Reichsbank in denominations of 50 and 20 marks. A material increase in the volume of small notes in circulation seems to me expedient, however, only in so far as it can be accomplished without any particular pressure or compulsion, regard being had for existing conditions.

The question as to whether a measure of this kind would be calculated to bring gold into the Reichsbank or



## *National Monetary Commission*

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to keep it there, I should decidedly answer in the affirmative, for we have found that at the quarterly periods there is an outflow of gold which sometimes reaches large dimensions and which, it is quite certain, need not necessarily take this shape [Quite true!], if for no other reason, because it is this very part of the circulation that most speedily flows back to the bank, which means to say that no permanent increase in the amount of gold in circulation is brought about by this outflow. The only actual result is, that just at those times when the needs of business demand a large volume of currency and when the Reichsbank consequently is for the time being in a way crippled in its resources—and that in a way which we do not find in the case of a single one of the other great banks of issue—the outflow of gold amounts to a triple burden, for every withdrawal of gold diminishes the volume of notes that may be issued by a threefold amount. No one would have entertained the fear that at the close of last year the metallic stock in the Reichsbank might fall so low that perhaps the one-third reserve would not be maintained, had we not so greatly dreaded the drain that takes place at the end of December, when for a brief period of a few weeks the necessity of an increased circulation is manifested.

In regard to the second question, as to whether it is desirable that efforts be made to strengthen the stock of gold in the Reichsbank, "C, by diminishing the need of circulating media through extension and intensification of the deposit-and-transfer, check, and clearing system," it is my opinion that the increased multiplicity of such



## *B a n k   I n q u i r y   o f   1 9 0 8*

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transactions is decidedly calculated to diminish the circulation of currency and consequently to check the drain upon the gold supply of the Reichsbank resulting from the needs of our circulation. I consider the steady development of the system of payments by means of deposits, transfers, checks, and clearings of great importance. But I think we ought to be careful not to permit the great expansion of such a system to lead us to commit the mistake—a mistake that the English are evidently making—of allowing our general reserves to run too low. Increased liabilities necessitate correspondingly increased cash reserves. [Hear, hear!] There is a general impression that the English bills, the sterling bills drawn on London, are more readily redeemable in gold than other bills. I do not share this view, for I believe that the small supply of gold that is in the hands of the British people [Hear, hear!] is a menace to the security of the English system of credit. And even if an improvement has set in, it is not sufficiently thoroughgoing. The more we extend the system of payments by means of deposits in the Reichsbank and the use of checks, the more imperative it is to take thought regarding the provision of cash reserves. I should consider such provision a condition of my unreserved advocacy of the extension of the system of payments by deposits and checks.

I am not prepared to go as far as Geheimrat Wagner, who urges the necessity of providing immediately a gold reserve for the deposits in the Reichsbank, my reason for this being, as in the case of my approval of the issue of the



## *National Monetary Commission*

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small notes, that it is well for us, with reference to this matter also, to cut our coat according to our cloth and to wait and see whether we can get what is actually necessary before stretching out for the merely desirable. But I am sure that at some future time it will prove of great advantage when the status of the Reichsbank is under consideration to take account of the necessity of providing a certain cover for these deposits. I do not think, however, that it would be wise to set about to dispose of this question by means of legislation. It is a question of management, a matter of the conduct of the Reichsbank, and I believe that with the increased use of checks and the growth of its deposits the Reichsbank will be more in a position to retain the gold it has amassed in good times firmly in its treasury.

As regards the raising of the minimum amount of non-interest-bearing deposits, I desire to say that I do not consider such a measure calculated to bring gold into the Reichsbank. The raising of the minimum balance on the part of the Reichsbank would tend to diminish the resources available for the purposes of credit. A curtailment of credit would necessarily ensue or else the Reichsbank itself would be put to the stress of meeting greater demands upon it and be constrained to counterbalance the increased sum in the way of minimum balances by a counter-item in the way of loans and discounts. In my opinion this question ought not to come under consideration in the discussion of the possible means of bringing gold into the Reichsbank. It is a question of the lucrativeness of the bank's business, a question of the relations between the bank and its deposi-



## *B a n k   I n q u i r y   o f   1 9 0 8*

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tors. If the Reichsbank happens to find that such and such a customer is demanding too much from it in the way of services which it is bound to render, it has unquestionably the right to insist on an increase in the minimum balance. I should not consider it proper in the discussion of the profit which the Reichsbank derives from its depositors—the increase of which profit would tend to a lowering of the minimum balance—to take into account the total of the bills presented for discount, or, in other words, the profit yielded by its discount operations. I hold, on the contrary, that the discounting of bills is likewise a service which the Reichsbank renders to its depositors and that this ought not to have the effect of inducing a reduction of the minimum amount of deposits. I ought to say, on the other hand, that I should consider it a great gain if, as a concomitant of our economic development, we could see the total of the deposits in the Reichsbank attain to still greater proportions, in the first place, through the increase in the number of depositors—which is, indeed, the essence of the development of the deposit and transfer system of payments—and, secondly, through the increase in the average amount of the balance kept by depositors. I consider the average balance in itself as likewise a source of gain, a gain such as is in accord with a sound monetary circulation; for the greater the reserves in proportion to the liabilities the more secure is the monetary circulation. The amount of the balance over and above the minimum balance constitutes a free reserve for the depositor. I must confess that the present state of things in this respect is not altogether satisfactory to me. If I find, for example,



## *National Monetary Commission*

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that on March 31, 1908, there were only twenty-two instances in which the deposits exceeded 1,000,000 marks, it seems to me that one has a right to infer that an improvement in the direction of an increase in the average deposits is probably achievable. I think that the average amount of the balance ought to constitute a cofactor, although not too decisive a one, in the determination of the minimum balance.

I come now to the question of the taking of interest-bearing deposits by the Reichsbank. The precise question as to whether they would promote the flow of gold from the general circulation into the Reichsbank, I should answer outright in the negative. The whole thing will essentially amount to this (just as in the case of ordinary deposits), that money which would otherwise be lying in other institutions will be deposited in the Reichsbank. I can not see how an increase in the stock of gold in the Reichsbank could result from it.

There are other reasons for my not regarding this branch of business as advantageous to the Reichsbank. One main objection—that already urged by President Kaempf—is that the bank, in order to provide the interest, will be obliged to go into the market and assume largely the character of a credit institution, something which is incompatible with its main function. But there is still another objection. It is the task of the Reichsbank to regulate the monetary circulation and not the placement of capital. The taking of interest-bearing deposits by the Reichsbank may be conceived of under two different aspects. Either the deposits are taken without any con-



## *B a n k   I n q u i r y   o f   1 9 0 8*

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ditions in regard to notice of withdrawal merely for a short period, which would only lead to a malexploitation of the Reichsbank, inasmuch as funds that would otherwise be in its keeping without interest will now draw interest, or else they are placed for an indefinite period with the condition of notice of withdrawal attached, in which case they unquestionably constitute merely the counter items to an investment of capital on the part of the bank. Now, the Reichsbank is not created for making investments of capital. It would only be adding another branch of business to its functions, that of offering to provide for a part of the public a safe and permanent field for the investment of its capital. I am aware that there are some who advocate this course, but I believe that the object which they wish to achieve is incompatible with the character of the bank as a regulator of the circulation. If the arrangement in question were to be utilized on a large scale, it would undoubtedly be necessary for the Reichsbank, as Herr Kaempf has pointed out, in order to prevent a contraction of the currency through the influx of money into the bank, to resort to an increased granting of credit. If it were utilized on a small scale, the only result would be that the rate of interest allowed by savings banks and cooperative associations would be raised by reason of the competition thus created, a condition which would render more difficult the safe investment of funds which ought to be invested only where there is absolute security. I am therefore opposed to the proposition in question.

As regards the buying of checks by the Reichsbank, I am, as a matter of principle, in favor of it. The question



## *National Monetary Commission*

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as to whether it would bring gold into the bank does not admit of being answered outright without the superposition of a second question: Will the purchase of checks by the Reichsbank tend to extend and popularize the use of checks and the deposit-and-transfer system of payments? I am of opinion that it will. I believe we ought to leave the bankers out of consideration in this matter, as they have facilities for cashing checks readily and quickly elsewhere. But the case is very different with respect to the larger and medium-sized business concerns. The more extensively the deposit-and-transfer system of payments becomes operative in our whole mechanism of exchange, the more necessary will it be, in my opinion, to afford ready means of easily converting checks into cash or otherwise disposing of them. If the Reichsbank were to buy up checks, merchants would be glad to turn over to it their daily batch of these instruments, consisting not merely of checks drawn on other places which the Reichsbank is to buy up but also of checks which are simply to be cashed in the place itself. This will bring about an increase in the number of depositors at the Reichsbank, which increase I consider by all means desirable. To my mind it is in the essence of the deposit-and-transfer system of payments that the Reichsbank should feel constrained to facilitate as far as is expedient the making of every manner of payments at other places in Germany and the transfer of funds in whatever way from one place to another.

It goes without saying that it will be necessary to take the strictest precautions to guard against the acceptance of worthless checks by the Reichsbank. It will



## *B a n k   I n q u i r y   o f   1 9 0 8*

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not do, therefore, to extend the benefits of this arrangement to those who have no deposit account in the Reichsbank, as it would be a very difficult matter for the bank to make sure of the signatures of such persons, and the circumstance that the money is not placed on deposit but passes out through the teller makes it more easy to commit forgeries or to do something wrong with the checks. The necessary security ought to be afforded in the first place, I should think, just as in the case of bills, by making several signatures a requisite. It seems to me that the purchase of checks with a single signature would altogether defeat the object of the whole arrangement. It is not a question here of affording credit to somebody by means of the check. It is not the person who makes out the check but the one who receives it in the regular course of business that is to get the benefit of the facilities afforded by the Reichsbank. In so far as the signature does not offer sufficient security in itself, additional security might be provided by the tying up of a corresponding part of the minimum balance. The conditions, I should think, ought not to be made too rigid. I should not consider a deduction of five days in the case of checks justified. If in the purchase of bills the bank deducts five days it is because it does not itself receive the money until five days later, but in the case of checks it is quite otherwise. As a rule they are cashed on the following day and I am of opinion, therefore, that a smaller number of days should be deducted.



## *National Monetary Commission*

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In regard to further guaranties made requisite by the existing laws relative to checks, which provide that a check be secured against cancellation only for a certain period, I have nothing special to say, as this is a matter of organization, and the subject was fully discussed in the hearings of the experts. I should consider it very desirable if every accommodation was afforded in the matter of the cashing of checks and the charge made as small as is compatible with the actual expense incurred by the bank.

I wish to say in conclusion that in my opinion the legislative provisions relative to this matter should not go so far as to impose upon the Reichsbank the obligation to purchase checks, but ought merely to empower it to do so. This privilege, taken in conjunction with the whole management of the deposit business, would not involve too great a burden for the bank. This is essentially a question of experience and of organization, and I believe that it is well worth while to make a trial.

There is still one point with respect to the use of checks to which I should like to refer. I consider the development of this system of payments desirable for the reason also that it is calculated to diminish the use of subsidiary coin, as I regard the superabundance of such coin in the circulation and the increase of its volume relatively to other kinds of currency as an evil.

Freiherr VON GAMP-MASSAUNEN: I must say, with reference to Question B, that I am rather inclined to agree with Herr Fischel as a theorist than with Herr Fischel as a practical business man, for quite frequently



## *B a n k   I n q u i r y   o f   1 9 0 8*

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after delivering himself of a theoretical exposition, which has often coincided with my own views, he has let us know that he is constrained from a practical standpoint to refute himself in various respects. I fully agree with him when he says that the issue of small bank notes is in itself not desirable. Their issue was, in point of fact, regarded as an emergency measure. But if I am called upon to answer the question as to whether it would be advisable to increase the volume of small notes, I should first of all like to have trustworthy data in regard to the extent to which the small notes have remained in circulation. The president of the Reichsbank stated in the course of the preceding discussion that the small notes had displaced 1,000-mark notes to the sum of 62,000,000 marks, 100-mark notes to the sum of 29,000,000 marks, and imperial treasury notes to the sum of 24,000,000 marks; that is to say, they had displaced other bank notes and treasury notes to the total sum of 115,000,000 marks, while the issue of the small bank notes amounted to only 191,000,000 marks, so that the total increase in the volume of bank notes was only 86,000,000<sup>a</sup> marks. He said, however, to-day, that these calculations are not altogether reliable. I am sure the sum of 86,000,000 marks would not cause me the least uneasiness, and if it is true that the small notes have thus far caused gold to the extent of 86,000,000 marks only to pass from our circulation into the vaults of the Reichsbank, I should not hesitate to increase the volume of the small notes materially.

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<sup>a</sup>The difference between the figures given is 76,000,000.—Translator.



## *National Monetary Commission*

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The question, however, assumes a very different character in my eyes, the moment I am persuaded that the small notes have presumably not driven any 1,000-mark notes from the circulation, but that the decrease in these notes is to be ascribed merely to the increase in the volume of clearing transactions and the like. We shall, therefore, be constrained to request that when the question comes up for discussion in the Reichstag—Doctor Weber has already proposed that the agreement entered into with the Reichstag be amended in the direction of greater latitude—fuller and more trustworthy data be submitted to us than what are now in our possession, in order that we may form an idea of the quantity of gold that the small notes have forced from the circulation into the Reichsbank. I am glad to be able to state positively that gold is already being made to flow in artificially, that is to say, that it is being withdrawn from the circulation and forced into the Reichsbank, and we can perceive already a very considerable diminution of the volume of gold in circulation. In order to be able to grapple with this question, we must have a knowledge, furthermore, of the total stock of gold that we have in the country. We have been told all along that it was 4,400,000,000 marks. I believe there is not a single member of this commission who is not convinced that this estimate is too large by at least many hundred millions. If we have overestimated the supply by 1,000 or 1,500 millions and perhaps even more, then the present volume of the small notes may be a serious matter, and the question would have to be con-



## *B a n k   I n q u i r y   o f   1 9 0 8*

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sidered whether they ought not to be withdrawn from the circulation, for I must say that the gold reserve is much better guarded against assaults from abroad as well as against attacks from within the country when it is in the circulation than when it is lying in the vaults of the Reichsbank. I say, therefore, let us keep our gold tight in our pockets until we can find out just how big the stock of gold in the country is. Only then can we tell whether the further issue of the small notes is practicable without detriment to the public welfare.

[A voice: Just the contrary.]

In regard to this point we shall not be able to agree. But before we can come to any understanding with respect to this question, we must have the necessary information. I am sure that the Reichstag will flatly reject our proposition in regard to an increased issue of the small notes unless evidence is at hand as to how the issue of the small notes has affected the circulation of gold and unless a reliable estimate can be had of the quantity of gold in the country.

Herr Fischel brought forward an argument in favor of the small notes that I, from the standpoint of the great banks, did not altogether relish. He asserted that the small notes remained longer in circulation than the large ones and that in a time of crisis they were slower in finding their way back to the Reichsbank. That is as much as to say that the people of modest means are the pillars of our monetary standard. Herr Fischel is correct as to his facts; he is borne out by the statistics. But I



## *National Monetary Commission*

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think he would prove to be mistaken if it came to a run or if a doubt arose in regard to the safeness of the small notes. In such a case these people of small means would be the first to rush to the Reichsbank, hosts of them, and they would be perfectly right, for they are unable to judge of the economic situation so correctly and so confidently as the big manufacturers, the managers of the great banks, etc. The latter will not go with their bank notes to the Reichsbank because they know that the notes are safe. But the humble public will come the moment a cry of warning is raised by the daily press that we are nearing the one-third reserve and that the Reichsbank may perhaps not be in a position to maintain the one-third reserve. We should then witness a regular onslaught on the Reichsbank.

I am in favor of simplifying, as far as possible, the methods in vogue in our public offices in the matter of crediting sums to an individual's account, and I fully agree with Herr Weber when he says that in Prussia especially some of the officials display a remarkable sluggishness, which can be cured only by the energetic action of the central authorities. I must admit that we Prussians have much to learn in this respect. If I desire, for example, to deposit a bond with the forestry department on account of a purchase of timber amounting to 3,000 marks and hand in this bond in the shape of government securities, it ought to be sufficient for the officer simply to certify that I have deposited 3,000 marks in Prussian consols. A voucher is presented to me instead, on which the numbers and denominations of the securities are



## *B a n k   I n q u i r y   o f   1 9 0 8*

entered. I am told, first of all, to sign this voucher, and then it goes back to the Government, and, when the bond is to be liquidated, the voucher is sent once more to me for my receipt and signature, after which, and not until then, it finally goes to the main treasury and my securities are returned to me. This is an antiquated proceeding, and I think it would be a good thing if there were a little more appreciation of practical needs.

To repeat what I have said, gentlemen, I may define my position in regard to the issue of the small notes to be one of cautious advocacy. I should under all circumstances make such issue dependent upon the stock of gold in the country, upon the evidence afforded by reliable estimates, and not vague or incorrect ones, of the existence of a very considerable stock of gold. I should furthermore make it a condition that the small notes shall not be forced into the circulation artificially through any kind of coercion.

Herr Fischel laid stress upon the fact—a point to which I have repeatedly referred myself and in regard to which matter also I am happy to state that I agree with my distinguished colleague—that in England the general gold reserve which is contained in the circulation is too small and that, in other words, England has not enough gold in circulation. Now I should like to point to the inference that may be drawn from this deplorable circumstance [Very good!], which is, that if at a time of general financial stress demands should be made upon the Bank of England and ourselves for gold to be sent abroad, then, in case the Bank of France should refuse its aid,



## *National Monetary Commission*

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the Bank of England might likewise decline to do its share, so that we should have to bear the brunt of the onslaught alone.

I do not believe that the raising of the minimum amount of the balance in the Reichsbank would tend to diminish the resources of the great banks available for the purposes of credit, as Herr Fischel says. I am of opinion, on the contrary, that they would be increased, for every million which thus goes to swell the cash of the Reichsbank makes it possible for the bank to issue notes to the sum of three millions; that is to say, will triple the currency available for the purposes of credit.

In regard to the question as to whether the increasing of the minimum amount of noninterest-bearing deposits in the Reichsbank is expedient and advisable, it will be impossible for me to reach any definite conclusion until I know according to what principles the minimum balance is calculated. We have heard loud complaints on the part of the experts that pressure had been actually exercised in order to compel them to do business with the Reichsbank and that certain banking institutions had made the minimum balance depend upon the amount of other business which tradespeople and manufacturers did with them. I am consequently unable to express any opinion in regard to this matter and shall merely observe that in my judgment the minimum balance ought to be calculated without reference to any other transactions that the customer may have with the Reichsbank but only with reference to the services mutually rendered. I am willing to admit, to be sure, that, in order that the



## *B a n k   I n q u i r y   o f   1 9 0 8*

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transfer of large sums of money by means of the Reichsbank shall not be made so burdensome for the depositor as to compel him to resort to some other agency, not merely the total amount of business done in connection with the deposit account ought to be considered, but that, in the interest of the Reichsbank itself, other factors ought to be taken into account. In order to increase the total volume of deposits in the Reichsbank efforts should be made, as Herr Schmidt has pointed out, to increase the number of depositors by reducing the minimum amount of the balance, as the amount which the Reichsbank demands at present is too large for business men of moderate means and the class of small tradespeople who can not afford to have so much of their capital lie idle without bearing interest. I assume, of course, that a material increase in the number of depositors will not interfere with the regular working of this excellent institution. These are practical questions, however, in regard to which I am unable to furnish any information.

It is necessary in this connection, gentlemen, to discuss the question that was brought up by a number of the experts as to whether it would not be best to raise the minimum amount of the balance and at the same time provide for the payment of interest on a part of it. Director Gwinner went so far, indeed, as to suggest that the total of the deposits shall bear interest, even if the rate should be very low. I do not believe in it. I am of opinion, however, that when depositors have a sum of money in the Reichsbank which they intend to make use of after a short time, letting the bank have the benefit of it in the



## *National Monetary Commission*

meanwhile, they should be allowed a low rate of interest on it in order that they may not withdraw it and place it at interest for a short time in some private bank. In this way such wasteful transactions would be avoided. If the Reichsbank were to allow 2 per cent in such cases it appears to me likely that considerable sums would be allowed to remain in the bank.

On the other hand, I am altogether opposed to the proposition that the Reichsbank shall go into the business of taking interest-bearing deposits in the way that is done by our private banks, paying interest at a rate dependent upon the time agreed upon with respect to the notice of withdrawal (one day's notice and so on). I should consider this, gentlemen, a most dangerous thing. [Quite true.] The Reichsbank would naturally not be able to pay as high a rate of interest as the private banks. It would consequently be exposed to the danger of having money brought to it only at a time when money was very plentiful and having it withdrawn at a time of crisis. It would, therefore, be much less in a position to discharge its main function than at present.

I should be in favor, however—although I do not care to discuss this question just now, believing that it should be reserved for a very careful discussion—of the establishment of a national deposit institution which would afford absolute security to guardians, etc. This would, however, have to be organized on entirely different principles from those on which a deposit department in the Reichsbank would have to be constituted. [Very good.] Such a government institution could, of course, not receive



## *B a n k   I n q u i r y   o f   1 9 0 8*

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deposits subject to withdrawal at a day's notice or even at a week's notice, but the least that ought to be required would be six months' notice. This subject does not, however, belong to the bank question which has been submitted to our judgment. I am, therefore, of opinion that the suggestion of Herr Raab in regard to the establishment of such an institution in connection with the Reichsbank ought not to be discussed any further in this body. Perhaps the scheme could be taken up by the Seehandlung, which is in a position to do it and is adapted to the purpose. Or else let us create an imperial institution. But let not the Reichsbank undertake such tasks, for its duty is, above everything else, to safeguard our monetary standard.

Herr Fischel dwelt upon the fact that the Bank of France is in a most favorable condition as compared with our bank just with respect to the intensive exploitation of the check system.

Mr. FISCHEL. No; through the circumstance that the French people prefer bank notes, so that the gold stays in the bank and the notes remain in circulation.

Freiherr VON GAMP-MASSANNEN. I understand this, of course, but I wish to call attention to the fact that it is the peculiarity of the French money standard that enables the Bank of France to maintain this colossal stock of gold, as it can protect itself against any inordinate drain, whether the gold is wanted to meet a foreign or a domestic demand. Herr Fischel has rightly insisted that we must by all means have a larger ratio of reserve to circulation. If instead of a ratio of one-third we had a



## *National Monetary Commission*

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fifty per cent ratio, or, say, one of two-thirds, the question of the issue of the small notes would certainly assume an entirely different aspect.

A VOICE. There is at this moment an 80 per cent reserve.

Freiherr VON GAMP-MASSANNEN. Just at this moment, perhaps, but that is not a kind of security that I should like to guarantee.

I should imagine that the people whose dealings make up the great bulk of petty monetary transactions, as a general thing, prefer silver to the small bank notes. Our workmen prefer to take silver. I have been speaking with some gentlemen who have large industrial establishments, employing from 6,000 to 8,000 hands, and I gather from them that the working people do not care for the small bank notes, preferring to take silver. Then why do these establishments not pay their hands in silver currency?

Doctor SCHMIDT. Because it has to be accepted in payment only up to 20 marks.

Freiherr VON GAMP-MASSANNEN. I do not consider it right to stick to this provision of the law in the payment of wages. It would be preposterous to imagine that the laboring man is going to appeal to the article in the coinage regulations and say, "You are not allowed to give me more than 20 marks in silver." What laboring man will do this when he knows that he can dispose of the silver at once and must use it in his small payments? I do not believe that any laboring man ever hit upon such an idea, unless he was somehow egged on



## *B a n k   I n q u i r y   o f   1 9 0 8*

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to it. [Laughter.] I think Herr Singer, too, will agree with me that the laboring men are glad to get silver. But we have recently had such a dearth of silver money that it has been impossible for the employers of labor to get what they need for paying their hands. I am willing to admit, however, that we have peculiarly unhandy coins, the 5-mark pieces being especially ill-suited to the convenience of most people, and things will be mended by the introduction of the 3-mark pieces.

I believe, gentlemen, that we are in a felicitous accord with respect to this question. As to the question of the buying of checks, I hardly think there is any need of my discussing it, as here also there would seem to be, on the whole, a concurrence of opinions.

Doctor STRÖLL. A great deal, gentlemen, of what I should feel like saying has already been said, and the differences of opinion, if perhaps not altogether with respect to their grounds, yet with respect to the net outcome, are comparatively so slight that I can afford to be very brief.

In regard to the issue of small bank notes, I am of opinion that it is the best means of tapping the gold mines within the German Empire and of bringing the gold where it can do the most good, that is to say, to the Reichsbank. We have no accurate statistics concerning the extent to which the small notes have thus far displaced other kinds of currency in the circulation, and the president of the Reichsbank himself has not been able to submit to us anything more than merely provisional data. But in any case we can note a gain. There is no doubt that the metallic stock of the Reichsbank has increased



## *National Monetary Commission*

enormously, and this coveted increase is certainly to be ascribed in part to the issue of the small notes. Freiherr von Gamp remarked to-day that he regarded the small notes as the money of the small man. I can not by any means agree with him, and I believe that in regard to this matter Freiherr von Gamp has altogether misunderstood Herr Fischel.

Mr. FISCHEL. That is not at all what I meant.

Doctor STRÖLL. The fact being that even the more well-to-do classes, in which perhaps the circle here assembled is to be included, have used the small notes to an immense extent, Herr Fischel was undoubtedly referring to the petty transactions of ordinary everyday business and not at all to the daily monetary transactions of the propertyless classes. As far as I have been able to observe, the small notes are already circulating very extensively among the well-to-do classes. It may be that these small notes are not exactly popular, but they have long ago ceased to be so unpopular as it was feared at the time of their issue that they might be, and this, to my mind, is the main thing, for their popularity is bound to increase from day to day and will ultimately produce the desired effect with regard to the monetary conditions in our country. I had myself at the outset certain objections to the small bank notes, and I am even now not in favor of an excessive issue of them. I hardly think we ought to have more than about half a billion marks. What I was mainly afraid of was that too many hundred-mark and thousand-mark notes might be forced out of the circulation and that thereby in place of the volume of bank



## *B a n k   I n q u i r y   o f   1 9 0 8*

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notes which would be available for the purposes of credit if the reflux from the circulation to the Reichsbank was a rapid one, we might have perhaps an unmobilizable mass of these small bank notes, which remain out longer in the circulation than those of large denominations. This objection on my part has, however, been overcome, in part through the statements made by the president of the Reichsbank and in part through my conviction that the Reichsbank will come out of this bank inquiry and the deliberations in the Reichstag and Bundesrat vindicated with respect to its policy in the matter of the issue of notes, and that the quota which is to be available for the needs of capital will be materially increased. Otherwise I am fully in accord with the view expressed to-day by President Kaempf. The main thing, in my opinion, is to get the German public first of all habituated to the use of the small notes. I consider this of immense importance with reference to a time of crisis, for I regard the small notes as a type of money eminently adapted for times of stress, when gold is hoarded up and disappears from circulation. I believe, however, in any case, that we should have certain guaranties in regard to the small notes. This matter has been referred to repeatedly in to-day's discussion, and the Reichstag will doubtless take some action in the matter. The new notes ought to be æsthetic in their design, protected against counterfeiting, hygienically clean. No one, of course, will find fault with the 20-mark note. It has won the favor of the public very quickly, much more so than the 50-mark note. I think it



## *National Monetary Commission*

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is very respectable aesthetically, and in any case I like it much better than the 5 and 10 mark treasury notes.

I can not for a moment understand how anyone can indulge in fears regarding our coming down to a paper basis on account of the issue of small bank notes. What we are mainly intent upon doing is not to increase the bank-note circulation, but merely to change the proportions of the various denominations.

As regards the extension and popularization of the deposit-and-transfer system of payments, all I have to say is that the development of any system of payments that tends to diminish the use of cash is an object to be most zealously striven for. Without such an institution how should we ever be able to provide the monetary means demanded by the constantly increasing volume of our pecuniary transactions and by our growing population? That a good deal has already been accomplished by the legislation in regard to checks is incontestable, but then the system of payments by check is only a preliminary stage to the deposit-and-transfer system and to the transfer arrangements, which are far more advantageous than the mere check system. In my opinion a great deal has already been done in this direction, when we consider the organization of the Reichsbank. We have fourteen or fifteen Reichsbank clearing offices in Germany on rather a large scale, and if these clearing offices are joined together by a common organization I believe that very useful results can be attained in this regard. For my part, I think and hope that the proposals of our esteemed Herr Geheimrat Rieser, who is unfortunately not here just now, will attract



## *B a n k   I n q u i r y   o f   1 9 0 8*

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general interest, and that from these proposals there will come an outgrowth of practical organizations which may come to be exceedingly important.

As regards its mechanism, the Reichsclearing may be a very difficult undertaking, but difficulties of mechanism have never yet prevented the Reichsbank from making an advance in any direction when it was necessary and possible for it to do so. On the whole, however, I believe that, as some one has rightly observed, we have much less to expect from an organization proceeding from above than from patient educational drudgery which shall work gradually upward; and therefore I do not consider it wise to force any organization upon the people. Excess of zeal, in my opinion, is only harmful, and in this case it might create stillborn things. For instance, I remember an organization which was formed exactly a year ago in this room—the Hypothekenbankskontrol. This organization—my esteemed vis-a-vis, Freiherr von Cetto, will bear me out—was a stillborn child; at least with us in South Germany no use at all has been made of it. Perhaps a contributory circumstance has been the fact that in South Germany we do not have negotiable mortgage papers, but only book mortgages. But if this is so, it should, I think, have been taken into consideration, and we should not have put forth from the council chamber an organization which is in part only a paper scheme, and which is not put into practice in South Germany. In my opinion it is only by a slow and gradual process that we can make an approach to the English situation, and especially as the blessings of a lowering of rates of interest can be introduced among us only step by step.



## *National Monetary Commission*

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As for the increase in the deposit minimum, this plan accords ill with the general tendency of the Reichsbank to promote the deposit-and-transfer system; at least as a general measure I am certainly opposed to it. Of course if an individual account involves too much work, special treatment may be called for. But I should strenuously oppose any such general increase of the deposit minimum as was once effected. At that time it gave rise to a great deal of ill feeling, to loud complaints from the business world, and to reactionary measures. Director Schmidt recounted to us to-day a few examples of such measures, and in South Germany, too, we had some experience of this sort of thing; we saw particular concerns doing their own clearing business; we saw payments made by postal money orders, etc.; the question was often asked whether it was really worth while to maintain a bank account. At any rate, we ought not to proceed at once to an increase of the deposit minimum. Nor do I think that this is the intention of the Reichsbank, for, as I have said, it would be absolutely inconsistent with the general tendency which we have been glad to find guiding the conduct of the present bank administration—the tendency to work not merely with a view to financial expediency from the bank's standpoint, but also with a view to the interests of the community as a whole.

Now, as for the purchase of checks by the Reichsbank, I believe that this branch of business will not create any very pleasant relations for the Reichsbank, and that it will not be at all easy to regulate it. But all the same I am convinced that if we have in the German Empire the imperial check law which we owe chiefly to the initiative



## *B a n k   I n q u i r y   o f   1 9 0 8*

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of the former Reichsbank president, Doctor Koch, then the Reichsbank will find it hard to refrain from buying checks. In what manner this will happen, or can happen, will appear from the regulation made by the Reichsbank, which will of course be carefully weighed in all its aspects.

At this point I will permit myself to suggest to the Reichsbank management that, if the new Reichsbank act is to empower the Reichsbank to buy checks, the private banks of issue should not be forgotten. This will give us small satisfaction, but I think that if the Reichsbank buys checks the private banks of issue will also have to be allowed to do so; and the practice will probably result in these banks adopting for their own use the regulation made by the Reichsbank. How the regulation will turn out I do not know; but I think the process will not be essentially different from that of the discounting of short-time bills. One signature will of course be altogether insufficient; two signatures must be demanded, for the Reichsbank must be kept on an absolutely safe footing. The Reichsbank will have to look especially to the last signer. The suggestion of the Reichsbank president, that the discounting of checks be limited to depositors, seems to me good; for these are people from whom the Reichsbank knows what it may expect, and when a depositor hands in a check the Reichsbank runs much less of a risk than when some third party hands one in. Incidentally, we must not forget to try to instruct business people in the advantages of deposit-and-transfer bank accounts. This is also in accordance with the tendency of the latest



## *National Monetary Commission*

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développements, and every demand made in pursuance of this tendency should be eagerly complied with.

As for interest-bearing deposits, I think I can sum up very briefly my view on this matter. Ideas on the subject have already been advanced, and on this particular question there was absolutely no difference of opinion. Even Freiherr von Gamp said that it would not be suitable for the Reichsbank to undertake this branch of business, and that the matter might as well rest on its present basis. The present basis is as follows: The Reichsbank is now empowered to accept, without asking consent of anyone, interest-bearing deposits not exceeding in the aggregate its capital and surplus—that is, a quarter of a billion. Twenty years ago it carried on this business; then it gave up the practice, and I can well believe that this was done after careful consideration. For what point is there in having interest-bearing deposits in the Reichsbank? The deposit-and-transfer moneys, the noninterest-bearing deposits, etc., it has anyway; it is not likely that the Reichsbank will ever be either willing or able to take and use savings to any great extent. In any case, I do not see why the sum of a quarter of a billion should be exceeded. Therefore, as I have said, I consider the present regulation satisfactory, and I am opposed, on general principles, to the efforts made to turn the Reichsbank into an imperial deposit bank. I should not approve of having the deposits more centralized than they have been hitherto; for that matter, I look forward rather to a decentralization of deposits, since I think the people of a State or of a district have some



## *B a n k   I n q u i r y   o f   1 9 0 8*

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claim to the employment among them of the money they have saved. I do not say that the present concentration of deposits seems to me already to contain an element of danger, but I do think that, for the present, sufficient progress has been made in the process of centralization, and that we should not authorize or encourage a further centralization in the Reichsbank. In my judgment, the tendency should be resisted; the Reichsbank should not be burdened with interest-bearing deposits, for in good times they are merely a burden, while in hard times they undoubtedly constitute a danger, since they may be partially withdrawn. In this matter, therefore, I agree with the other gentlemen who have spoken that there is absolutely no need of our making any change in the present conditions, according to which the Reichsbank is already permitted to engage in this business to a certain extent.

I shall now permit myself to ask his excellency—since he has been so kind as to say that members from out of town may speak on Question V—whether I should now take up that question; I do not know whether the present moment is the proper time for it.

The CHAIRMAN. I should like to wait until we are done with this question; but at the proper time I will interrupt and ask the gentlemen to express their views on Question V.

Doctor WACHLER. Gentlemen, in our discussion hitherto we have taken great pains to consider how the Reichsbank may best be provided with plenty of gold, and I hope I shall not be misunderstood if I say at once that I think we have given somewhat exaggerated attention to the stock of gold in the Reichsbank, for it has been



## *National Monetary Commission*

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several times asserted that it is not sufficient to take care that the gold cover for notes issued by the Reichsbank be considerably increased; that we must also make sure that there is a gold cover in the Reichsbank for all minimum deposits, and indeed for all deposits of any kind. I have expressly said that I beg you will not misunderstand me. I agree that it would not hurt the Reichsbank to procure as much gold as it can in good times; but on the other hand I would say that we must consider that the gold held in the bank brings in no interest, that it costs us money, and that consequently we should not in our anxiety increase it beyond reasonable limits. There is not the slightest occasion for doubting the trustworthiness of our gold currency on the ground that the Reichsbank has not a sufficient cover for deposit money. For the main reserve is, in the last analysis, the strength of the nation, the strength of the whole economic system, and we must not forget that our present economic situation, while not very prosperous, is yet sound, so that we may indeed assume that all bank notes that are afloat as a result of transactions in the discounting of notes have a perfectly adequate cover in the bills that are in the possession of the Reichsbank, in the actual business transactions on which they are based, and in their ready convertibility into cash. It can not therefore be said that the situation of the Reichsbank is less secure because, while a sufficient gold cover is indeed provided for the notes in circulation, there is not a sufficient gold cover for the other liabilities of the Reichsbank. It seems to me that we should be going too far if we were to prescribe for the Reichsbank, in addition to a fully adequate gold cover



## *B a n k   I n q u i r y   o f   1 9 0 8*

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for the notes in circulation, a special gold cover for the deposits. No such extreme regulations exist in other countries.

After we have considered in all its bearings the question of how gold can be brought into the Reichsbank from abroad, we come to the discussion of means of bringing gold into it from our own country; and here the issue of small notes enters at once into the question. I am convinced that the introduction of small notes—20 and 50 mark notes—has the effect of bringing gold into the Reichsbank from domestic business, and I think, too, that the effect upon our monetary system would also be altogether beneficial. I have often tried, in the course of the past year, to find out whether there really is much gold in use in ordinary retail business. For instance, in the last two days, whenever I have had to make small purchases, I handed out 100-mark notes, and in no single case did I receive anything but gold. When I had 4 or 5 marks to pay for different little purchases, I invariably received 80 or 90 marks in gold as change for my 100-mark note, and the rest of the change was invariably handed me in silver. This afternoon I drank a cup of coffee, gave a 20-mark piece, and received a 10-mark piece and the rest in silver; I took this change to the Reichsbank in order to get new 3-mark pieces for it, but they were difficult to procure, because at the proper counter for them this notice was posted: "There are no more 3-mark pieces to be had." [Hear, hear! and laughter.]

Well, gentlemen, surely these experiences go to show that a great deal of gold is to be found in use in retail



## *National Monetary Commission*

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business, and I think the issue of small notes by the Reichsbank will have the effect of causing a certain outflow of gold from the channels of business into the Reichsbank—and this I should regard as an excellent thing. I do not agree with Freiherr von Gamp, who has declared that the abundance of gold in actual circulation is our real reserve, but on the contrary I maintain that this is actually no reserve at all, because we do not know its amount, because it is absolutely impossible to trace it, and because there are absolutely no means available to us for exercising an influence upon it. [Very true!] On the other hand, if the stock of gold is in the vaults of the Reichsbank, then we can keep our eyes on it; then we know how much it is; and then, too, the Reichsbank is in a position to make use, if necessary, of defensive measures for holding on to this gold reserve as against international demand; whereas now it has no means of knowing when international business tends to draw the gold out of the country, because it is hardly able to observe the outflow which comes from the general circulation, and therefore can not know how much gold is going out. And yet the regulation of the monetary circulation in the country is a chief function of the Reichsbank, and it can certainly perform that function more readily if it holds the gold itself.

Count Kanitz asserted—and Freiherr von Gamp afterwards reenforced the assertion—that gentle pressure was brought to bear in order to get the small paper money introduced into business. I think there is certainly a prevailing misunderstanding on this matter. At the very time when the small Reichsbank notes were issued, I hap-



## *B a n k   I n q u i r y   o f   1 9 0 8*

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pened to be in industrial districts, especially in Silesia and Saxony, and I was greatly interested—since I considered the measure a good one—in finding out whether the plain man received his pay in the new paper money. I looked about to see how the cashiers and pay officers on the one hand, and the workmen on the other, reacted upon the situation. I was invariably told the same thing both by the foremen and by the cashiers; they had been informed by the Reichsbank office that small bank notes would be provided for their use instead of the crowns (which were needed in business to such an extent that the demand could not be satisfied), and that they for their part would do well to promote the circulation of these notes. Nor did I hear any serious misgivings expressed on the subject in any quarter. To be sure, it was at the very first, when everybody said to me: "Oh, the people are going to take it quietly." Certain difficulties did present themselves at the offices where the wage money used to be given in transparent paper bags, and the recipient could feel whether there was the right amount in his bag, whereas this was not possible in the case of the paper money. Thus the pay officers were somewhat in doubt as to whether it would be easy to keep on paying wages in this way. I have since heard, however, that people made no objections whatever to the bank notes; that, to be sure, this sort of money could not be adapted to the system of payment in bags, but that the men counted their pay a second time; and, finally, that in this way the notes supplied a very necessary substitute for crowns in ordinary payments. We were all agreed that the crown is of all forms of money the one which is most quickly worn out,



## *National Monetary Commission*

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that consequently it is not a desirable form, and that we must provide a substitute for it. I do not deny that this substitute could perfectly well be provided in the form of hard money; but in consideration of the great weight of large amounts in coin people prefer paper money—or at least like it just as well.

Then, too, sanitary arguments have been advanced against the circulation of notes. But think of all the things we take into our hands every day, and think what a host of bacilli we must absorb! [Laughter.] Well, we certainly are not called upon to handle paper money as often as we handle other dirty things. Take, for example, the enormous quantity of newspapers and magazines we are always handling; and at a restaurant, for instance, no matter how hard we try to remember not to touch them with wet fingers, we are sure to forget—I know that from my own experience. In handing out or receiving paper money, this habit of wetting one's finger at one's mouth is, I believe, not so common. So the sanitary considerations are not really as important as they are often supposed to be. I admit that the paper money is less pleasing to the eye than one would wish; but its looks surely do not settle the question of whether or not it will come into general use, even though an improvement in this regard may be desirable.

I deny, therefore, that any influence having in any degree the character of external or even moral pressure was brought to bear in any quarter to bring about the use of the paper money. This, too, I should consider unwise; and I should concur in the opinion, already expressed elsewhere and repeated here to-day, that only



## *B a n k   I n q u i r y   o f   1 9 0 8*

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so many bank notes should be issued as business is quite ready to take up. But I have never heard—and the reports we have had from the Reichsbank have instructed us on this point—that any of the paper money that has so far been put into circulation has failed to be availed of; on the contrary, the president of the Reichsbank has informed us that even all the paper money that was at first regarded as provisional has been made use of in the channels of business. If this were not really the case, if the channels of trade were clogged with unwelcome paper money, then the paper money would surely be coming back to us by this time. I have already recounted how, out of a great many 100-mark bills which I have handed out in the last two days in order to test this point, I did not get back a single note, but always only 20-mark pieces, and from this I am justified in drawing at least this conclusion, that in ordinary business there is no superfluity of paper money, nor any feeling of its being inconvenient, nor any aversion to it; for otherwise I should certainly have got some back. Anyway it is very hard to decide whether a given medium of exchange is liked or not. I think that from the data before us no certain conclusions are to be drawn to the effect that the greater number of the men who have to do with this kind of money do so unwillingly; indeed we have not yet had nearly enough time to warrant us in passing a definitive judgment as to the outcome of the thing, or even in beginning to collect statistics on the subject. We must wait a while at least before pronouncing a final judgment. Perhaps in a few years the situation will wear a different aspect, and then we shall be able to discuss the matter



## *National Monetary Commission*

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further. But at the present time statistical investigations, such as have been recommended by one of our members who seems to have a great penchant for statistics, would in my judgment be very premature.

Freiherr von Gamp said that small notes involve this great danger—that if there is any misgiving expressed as to their soundness, a run on the bank would be likely to result, and that a run of this kind would have a much worse effect than in the case of large notes, because the small notes are used by the poorer classes, who would come flocking in great numbers to get them redeemed. Theoretically I believe this to be a mistaken idea; but there is no real use in discussing the matter, since we can not tell how the thing would work out in practice. Any such assumption is false for this reason: If mistrust of our gold standard is once aroused, if it can be generally asserted—no matter with what degree of justification—that the notes, whether 1,000-mark, or 100-mark, or 20-mark, or 5-mark notes, are not absolutely certain to be redeemable in gold, then all notes, large as well as small, will be presented for redemption from all sections of the community at the same time. But we must take into consideration, too, that the great masses of the people are not so very easy to set in motion, that in point of fact all sorts of people would come trooping up together to present the little notes, and that besides the inflow of the small notes only, of which there are in all only 300,000,000, would in any case be the lesser evil—not to mention the fact that it is a mistake to suppose that the small notes are used only by the people of small means; they are



## *B a n k   I n q u i r y   o f   1 9 0 8*

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really absolutely indispensable also in large business and among well-to-do people.

Nor do I think it right to say, as many do, that the small notes replace only larger notes; for I think that the use of them unquestionably causes gold also to flow into the Reichsbank, and to stay there longer, since it is generally recognized that small notes remain longer in circulation. It has also been denied by the experts that the check and deposit business would be restricted by the issue of small notes, and I do not believe that it can be maintained that such an effect would occur; for the deposit-and-transfer business, which certainly only serves for the making of large payments, has not as yet been developed to the point at which it can serve the purpose of making the little payments in which the great masses of the population are concerned. I am constrained therefore, to answer unconditionally in the affirmative the question whether the issue of bank notes of small denominations is calculated to improve the condition of the Reichsbank.

As to the preservation and further development of the deposit, transfer, and clearing business, so much has already been said on this subject by persons more competent than myself that it is not necessary for me to enlarge upon it. I have heard no one express the opinion that this business is not to be regarded as worthy of encouragement. One of our colleagues has, indeed, expressed a doubt as to whether the gold stock of the Reichsbank can really be strengthened by this means; on the other hand, I may mention that while, according to the Reichsbank's statistics, the clearing business here in Berlin alone



## *National Monetary Commission*

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amounted in the year 1900 to 8,500,000,000 marks and the entire clearing business of the Reichsbank to 29,500,000,000, seven years later—that is, in the year 1907—it had increased so rapidly that the clearing transactions in Berlin amounted to 15,500,000,000 and in the entire business of the Reichsbank to 45,500,000,000. These are enormous sums, and if the settlements had not been made by means of the clearing process, they would have had to be made otherwise—that is, by the use of actual circulating media; and therefore it can not be doubted that a further extensive and intensive development of the deposit-and-transfer business would have the effect of ultimately strengthening the Reichsbank's stock of gold.

In connection with this question, special attention has been directed to the fixing of the minimum for bank balances. I agree with those who look upon an increase in the deposit minimum as unquestionably harmful in its effect upon the development of the deposit-and-transfer business. And I can testify from my own experience that several small manufacturers and tradesmen have said to me that they could not think of establishing for themselves a direct connection with the Reichsbank, since the burden of keeping a minimum deposit such as is demanded by the bank officials seems to them prohibitive. Besides, many depositors in the branch offices of the Reichsbank regard it as a hardship that—and this is a point that was often made in the hearings of the experts—besides being obliged to keep a minimum deposit at the bank, they were expressly requested by the Reichsbank officials to transact other business at these branch offices, and especially to discount bills there. We have already heard the Reichs-



## *B a n k   I n q u i r y   o f   1 9 0 8*

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bank president say that he does not approve of any such method of conducting the branch offices. I think that this statement will justify us in not taking any further steps to make the opening of Reichsbank accounts more difficult, and even in taking every available means of increasing the number of Reichsbank accounts—even for small handicraftsmen and small tradesmen who have an account of only 3,000 or 4,000 marks. And indeed an increase of the deposit minimum really can not be called for, for the minimum deposit, according to the reports, is much larger than that demanded by the regulations. There is therefore no practical necessity that the Reichsbank should compensate itself for its pains by fixing a higher figure for deposits.

Still more mistaken, in my judgment, would be a measure providing that part of the minimum deposits of the Reichsbank be interest-bearing. I can not understand how Freiherr von Gamp, who has expressed himself as decidedly opposed to the acceptance of interest-bearing deposits by the Reichsbank, can be heartily in favor of having any part of the minimum deposits at the Reichsbank subject to interest. For this is an essential contradiction; if once we give interest on deposit-and-transfer accounts and think it a good plan to do so, I do not see on what ground we can regard the acceptance of interest-bearing deposits by the Reichsbank as an unmitigated mistake. I think it is perfectly just for the Reichsbank to demand compensation for the trouble of the deposit-and-transfer business and for the other activities in which it is engaged, and I believe that such compensation can best be found in the requirement of a certain size for the bank accounts; but I do not think



## *National Monetary Commission*

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we ought to consider the proposal made by some of the experts, that in the cashing of checks and the discounting of bills special charges be made in order to compensate the Reichsbank for the trouble of the deposit-and-transfer business. There are several branches of business in which the Reichsbank engages, and it may as well estimate its profits in accordance with them all collectively.

For the rest I would say that I am not enough of an authority to prescribe any course of conduct for the Reichsbank. The experts at their hearings made many different proposals for the invigoration and extension of the deposit-and-transfer and check business, and the Reichsbank can best judge for itself what part of these proposals can be made use of to greatest advantage by its administration.

As for the acceptance of interest-bearing deposits, the experts who were heard on the subject seem to have been not at all favorably disposed toward it. All those who considered the question exclusively from the standpoint of the management of the Reichsbank expressed themselves opposed to the acceptance of interest-bearing deposits, and those who spoke in favor of it did not, it seems to me, give their opinions from the standpoint that such a measure would be advantageous for the Reichsbank, but rather from the standpoint that it would cause circulating media to be withdrawn from the private-credit banks. I shall not go further into the matter, since in the discussion of Question VI we shall have an opportunity to return to a consideration of the motives which led the different experts to speak for or against the acceptance of interest-bearing deposits by the Reichsbank, as well as



## *B a n k   I n q u i r y   o f   1 9 0 8*

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to a consideration of the consequences that would ensue to our economic life. I must confess that I consider the wish to curtail the deposit resources of the great banks to be very petty and utterly mistaken. But as for the grounds on which the Reichsbank can be recommended to accept interest-bearing deposits, the first thing to take into consideration is that the very men who recommend the plan have attached to it conditions that render the whole scheme absolutely illusory. The only condition that would make the plan on any account acceptable in principle would be that the amount of deposits should depend upon the amount of the capital of the Reichsbank, or upon any other sum that might be fixed upon, so that the Reichsbank should not be allowed to take deposits in excess of that amount. But in practice even this would not work, because the inflow and outflow of money at the Reichsbank and at its different branches is so enormous and so variable that in any one day it would be quite impossible to tell whether the limit set were overstepped or not. Thus even this proposal, though it is plausible enough, is, when it comes to the point, impracticable. The other proposals that have been made—for example, that deposits bearing interest be taken only on condition that a longer notice of withdrawal be given, or only at a lower rate of interest—would defeat the very purpose of the measure; for under these conditions, with all the competition that exists for deposits all through the banking and business world, the Reichsbank would certainly receive no such deposits at all. If the interest offered is 2 per cent, or perhaps less, we can not suppose that the prospective depositor, even if he were satisfied



## *National Monetary Commission*

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with this rate, would give his deposits to the Reichsbank if he were obliged also to wait three, four, or five weeks before being allowed to withdraw his money. The people who are satisfied with so low a rate of interest, and who are chiefly interested in getting a safe investment, will at least insist upon being able to make use of their money at a moment's notice; and in every place where there is a Reichsbank office there are so many absolutely safe institutions where they can deposit their money that they do not in the least need to resort to the Reichsbank. Therefore, if any such condition were made for the acceptance of interest-bearing deposits by the Reichsbank, the effect of the measure would be nullified, or at least it would be negligible.

Our colleague Raab is very much worked up over the fact that our beloved countrymen who live in the primeval forests have no opportunity of sending their savings here. [Laughter.] Freiherr von Gamp has already pointed out that this sort of social service to our good countrymen in the primeval forests is no part of the duties of the Reichsbank.

I wish now to say a few words more about the purchase of checks. Doubt has already been expressed whether a strengthening of the Reichsbank's stock of gold could be brought about in this way. I leave that question open, but I should like to remind you that in regard to this very question of the purchase of checks there was developed in the hearings of the experts a great variety of views as to what ought to be done. All these are to my mind technical banking questions. Theoretically I should see no harm in the Reichsbank's being allowed



## *B a n k   I n q u i r y   o f   1 9 0 8*

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to purchase checks. What technical measures it shall introduce in this connection must be left to the Reichsbank to determine; a sufficient number of considerations have been submitted to the administration by proposals that have come both from speakers in our assembly and from several learned experts; and the Reichsbank administration, placed as it is on the high watch tower and at the very center of our whole money market, will be much the safest judge of the comparative merits of the many measures suggested.

Mr. GONTARD. After what I said this morning in accordance with the order of the day, I should consider myself wanting in modesty if I were to expound my opinion, which I am very glad to find agrees, especially on the question of notes, with the views expressed here by almost all of you. There is one thing, however, which I did not convey to you—which, indeed, I can not convey to you—and that is, what a great influence the measures under consideration here have upon the smaller manufacturers and tradesmen, or—if you will permit me for the sake of brevity to use an expression which I should otherwise avoid on account of its indefiniteness—upon the middle class; the interests of the private banker must coincide approximately with the interests of this class. I am unfortunately obliged to rest my hopes, so far as this matter is concerned, upon those members of the Reichstag with whose views on other questions of this nature—for instance, on the question of treaties of commerce—my views are in diametrical opposition.

One point made by Doctor Schmidt this morning was that the increase of the deposit minimum would be very



## *National Monetary Commission*

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likely to send the smaller manufacturers and tradesmen to the great banks. I have the greatest respect for the great banks; I hope they will be further developed, and as a patriot I am grateful to them for what they have done for the economic development of our country. On the other hand, I agree with Herr Geheimrat Wagner that the middle sections of the community must be protected, and that in this matter, too, everything must be done that may contribute toward this end. Therefore I am in favor of our taking every means to bring about a direct business relation between the middle class and the Reichsbank. I will even go so far as to say that in so far as it is possible the intermediation of a bank must be avoided. Cashing and buying of checks can be managed in that way, and also credit transactions. The banker, too, has his reasons for being so anxious to accommodate the public in the matter of checks.

In the first place, it brings in custom. It has been repeatedly asserted that the legal business of negotiating loans has been transferred from the banks to the Reichsbank. I will not go so far as that. But why does the banker solicit custom? The custom in question is mostly custom that has never before applied for credit. To induce this custom to apply for credit is, in my opinion, to act in opposition to the interests of the middle classes. Of course, it is a matter of the investment of money; but if the investment of money is carried too far, or undergoes too frequent changes, then it amounts to speculation. I can not, therefore, concur in the opinion expressed to-day that it would be a good thing for every one to have a bank account.



## *B a n k   I n q u i r y   o f   1 9 0 8*

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The other consideration that induces the bankers to solicit the presentation of checks is that they are thus provided with information. On this point a highly respected member of the commission has said: "I am of the opinion that the Reichsbank would be enabled to inform itself much more accurately about its depositors if as many transactions as possible were made through its transfer system." Though it is the deposit-and-transfer business that is here spoken of, what is said applies also to a certain extent to the banks; for a clearing house in the hands of the great banks, and, for that matter, any check business, will give the banks information about its customers—and this is not always an advantage for the customers. A Silesian banker, for instance, has told us that the checks are almost all sent by the bankers to Berlin, and I heard the same thing in Leipzig; in this sphere too, therefore, there is a certain tendency toward centralization, which seems to speak in favor of the institution of some such clearing house among the banks.

I am fully persuaded, gentlemen, that every customer, even a middle-class customer, must render the banker some service; that is, if he expects the bank to do something for him, he must do something for the bank in return; that goes without saying—the banker wants to live, too—and not so very poorly, either. [Laughter.] But as for a moral obligation binding the middle classes to the banker, there is no such thing.

Herr Kommerzienrat Rinkel has spoken of a monopoly that is given to the banks by the check system. In the sense in which I understood Herr Kommerzienrat Rinkel to use the word, I do not think there is any ques-



## *National Monetary Commission*

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tion of monopoly; but there is another monopoly, and that is the monopoly of the account check, which forms a chain attaching the middle class to the banks—a chain from which it can perhaps be freed only by the Reichsbank. I admit that the postal check system, if, contrary to expectation, it should maintain itself, or the savings banks, if they are roused out of their present partial lethargy, may be of great service; I admit also that in many parts of Germany the cooperative banks have done a great deal. But I think that this point demands very careful consideration.

Upon the other questions I can sum up my view very briefly. Above all, of course I am in favor of the clearing system after the Hamburg model; next in order I place the deposit-and-transfer system; and in the third place I put the check system. Whether the thing turns out well will depend upon what conditions the Reichsbank makes. I think that the customers of the Reichsbank should be offered some inducements, so that the Reichsbank may have as many customers as possible, and so that the deposit-and-transfer system in general may be put on a higher footing. But if a clearing system is not established through the Reichsbank, as under certain circumstances I should wish, then I had rather answer yes to the question that Herr Peter put in the spring than go over to the view of Herr Geheimrat Riesser, in spite of all the difficulties in the way of carrying out this plan. I believe that the clearing system would be of the greatest value to the Reichsbank, because, as Herr Geheimrat Kopetzky has said, the Reichsbank is concerned in having the life of the check shortened as much as possible, so that the



## *B a n k   I n q u i r y   o f   1 9 0 8*

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deposit-and-transfer system may be put on a higher plane.

I was particularly interested, in the course of our inquiry, in the proposal of Herr Kommerzienrat Leissmann that we introduce Vaglia checks. The chief problem connected with the deposit-and-transfer system is the education of the public, and it will be a long time before we really accomplish anything in that line.

I should like to call your attention to an example that may perhaps interest you—the case of the Leipzig book-sellers. The Leipzig booksellers, who up to a certain point were really the first inventors of the clearing system, are making strenuous efforts to put it on a better basis. Nevertheless it still happens that at Cantate, where accounts are balanced, the very packages of money that are taken away in the morning are often brought back again to the same place in the afternoon. At first glance this seems very strange; but when we look closer into the matter, we find that there are after all economic reasons for it—among others, the fact that in the book trade there is this peculiar situation: The money covering the cost of production must be paid at once, whereas the money for the finished product, the book, is turned over to its final destination only once a year.

I think that the same thing is true in many other places. We suppose at first glance that it is nothing but indolence, but when we look more closely it appears that there are economic reasons for the phenomena in question. But if it takes so long for the system to get itself introduced in these intelligent sections of the community, how long will it be before the deposit-and-



## *National Monetary Commission*

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transfer system is as fully developed in the country at large as we wish it to be?

I also am opposed to an increase in the deposit minimum. In the case of the large business men, such a measure would lead to a curtailment of deposits and to payment by check; in the case of the poorer classes, it would lead eventually to their withdrawing from the Reichsbank altogether. With reference to the smaller people, I would say that perhaps even now a change in the clientèle of the Reichsbank is about to take place in consequence of the introduction of the postal check system.

As to the determination of the deposit minimum, I am of the opinion that all depositors, including the bankers—even including the most important bankers—should be treated with absolute impartiality and justice. But precisely in connection with this function the Reichsbank must be allowed to act on mercantile principles. And the Reichsbank must not make its system public; it would be a great mistake to penalize people engaged in industries by raising the deposit minimum in case they did not present any bills. Yet I know of many instances—I should present them if I had time—in which the Reichsbank has been particularly obliging toward members of the industrial world in the matter of the deposit minimum.

The same reasons that hold against interest-bearing deposits hold in general also against the payment of interest on the minimum deposits; besides, in critical times the plan would fall through.

With regard to the deposits,<sup>a</sup> I wish also to say that I do not think the Reichsbank will have any considerable

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<sup>a</sup> I. e., interest-bearing deposits.—TRANSLATOR.



## *Bank Inquiry of 1908*

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success with them. The reasons for this belief have already been presented by others. The public will not set as much store by safety as it is expected to do, and therefore my advice is decidedly against the acceptance of deposits.

A VOICE. By safety?

Mr. GONTARD. I will correct my expression. Of course the public will set great store by safety; but I think the great banks are rightly held to be in many respects almost, if not quite, as safe as the Reichsbank. As for the competition that would be caused by the acceptance of deposits by the Reichsbank, it would be felt chiefly by the cooperative banks.

As for the purchase of checks, I have already brought forward a few considerations pertaining to that question, and I now add that the purchase of checks is to be recommended in so far as it is the indirect cause of an improvement in the status of the deposit-and-transfer business. But in what way the purchase of checks is to be managed is a problem which, now that we have made a great many suggestions, we must leave to the Reichsbank itself to solve; and we may be very sure that the Reichsbank will act in accordance with the interests of the community.

Mr. FISCHER. Greatly as I should deplore the withdrawal of gold from the channels of the great body of ordinary retail business, I am convinced that this section of the business world is overstocked with gold, and that at least half a billion, perhaps a whole billion, could be withdrawn from it and be better provided for in the vaults of the Reichsbank; we must have been convinced this morning that the Reichsbank has room for it. And to



## *National Monetary Commission*

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this end I think that the further issue of Reichsbank notes of 50 and 20 marks might be largely conducive; and I think that the figures furnished us this morning—that, from the time of the greatest tension in the Reichsbank last December until now, only 17,000,000 out of the 290,000,000 marks of small bank notes that were then issued can be shown to have been turned in—these figures, I think, are an extremely good sign; for they indicate that in the future, too, the small notes will not come flocking in, as many people think they will. If, then, business retains them and will take more of them, I should consider it very advisable to issue more small notes. We have heard that in many quarters they are much disliked. I admit that the two instances given bear out this assertion so far as they go. For a commanding general to receive his salary in 20-mark notes is just as absurd as for a common workman to be paid his wages in small notes. But between these two extremes there is a very large portion of the community for which 20 and 50 mark notes are to my mind very well suited; and I think that among the middle classes an enormous quantity of small notes can be introduced, and that this would have the effect we all desire—it would cause a great deal of gold to flow into the Reichsbank.

It is an established fact—and I hope nothing will occur to change it—that for a long time we have all been directing our efforts toward the general introduction of the clearing system, the deposit-and-transfer system, and also by all means the check system; and I am very glad that we shall soon see the introduction of the postal-transfer system also. I believe that this will be a very effective



## *B a n k   I n q u i r y   o f   1 9 0 8*

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educational factor, and I strongly urge all who have a chance to do so to promote this system. Its first introduction seems to me to have turned out not quite as we might have wished, and it would be well if the improvements that are suggested by the practical working of the system could be effected as quickly as possible, and if all those who have anything to do with the matter were to do what they can to bring this about.

I must express with all possible clearness my objection to an increase in the minimum of noninterest-bearing deposits. There are two more reasons of real cogency that may be assigned against such a measure. It is certainly strange if here in Berlin there are even a few of the more important banks that have not accounts of their own at the Reichsbank, but have this business managed for them through other banks. That is very inconvenient both for the business people and for the persons not in business who have to do with these banks, and besides it looks very odd. The only explanation I can see for it is that even now the deposit minimum demanded is too high, and I am convinced that if the minimum were lowered these people, too, would start deposit accounts of their own. Even the slight increase that was made last fall in the minimum deposits required of persons engaged in industry and trade had everywhere a very unpleasant effect; and I can tell you of an acquaintance of mine who, when the minimum was 8,000 marks, let more than 100,000 marks lie idle at the Reichsbank for many months, but declared, as soon as the minimum was raised to 13,000 marks, that on no account would he let more than 13,000 marks lie idle at the bank, but that he would take his



## *National Monetary Commission*

money home with him and let it lie in his own chest. In South Germany, at least, people are very thick-headed about these things. [Laughter.]

There seems to be no occasion for examining more closely the advisability of the Reichsbank's acceptance of interest-bearing deposits, after such qualified judges have argued against it. The best-qualified judge of all is the Reichsbank itself, which has for twenty-five years not exercised this right, and has doubtless refrained from doing so on good grounds. But I wish to say, nevertheless, that there are a great many people who deplore the fact that the Reichsbank does not exercise this right, and who would prefer to have interest-bearing deposits at the Reichsbank, even at a low rate of interest, rather than at banks in which they have not the same confidence that they have in the Reichsbank; and the layman imagines it possible that with the help of interest-bearing deposits more or less of an influence may be obtained upon the rate of interest in the great business world. If the Reichsbank were always to give on deposits an interest of 2 per cent less than its official discount rate, then when the rate of discount was high a great many deposits would come in; then the rate of discount could be lowered, and the deposits would doubtless be withdrawn. If the Reichsbank raises the rate of discount again, it will receive deposits again; and this relation would necessarily have an equalizing effect upon very high and very low rates. I do not mind giving expression to this idea, because one hears it so often from the layman.

One can not very well argue against the purchase of checks by the Reichsbank, for all the efforts to introduce



## *B a n k   I n q u i r y   o f   1 9 0 8*

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the check are connected with the movement for having the Reichsbank also buy them. However, this seems inconsistent with our chief object, which is to encourage the transfer system and to discourage the use of cash checks; so I hope that if the purchase of checks by the Reichsbank is made legally possible, such administrative measures will be taken that very few checks will be presented to it to cash. If the Reichsbank charges nothing for entering large checks upon the account books of its depositors, the number of those who wish to get checks cashed will not be very great; and if a few do need money so urgently that they can not wait until it comes to them through the cashier, then there is no harm in their giving these transactions to other banks, which, after all, also pray for their daily bread.

Mr. SINGER. I, too, wish to urge that the Reichsbank be empowered to issue small notes in larger quantities. In my opinion, nothing has been adduced which proves that the increase in the number of small notes issued could involve any sort of risk for the Reichsbank or the public. The chief concern of the public is not that the note issue be large or small, but that the notes be absolutely safe—that is, that they be at any moment redeemable in gold. If we succeed in convincing the note-using public that this is the case—and I have not the slightest doubt that it is—then I think most of the misgivings of those who have to-day argued against the increase will disappear. If the public once knows that the safety of the notes is in no wise impaired by their being issued in lower denominations, then it is a matter of complete indifference to the public in what kind of notes it receives or makes pay-



## *National Monetary Commission*

ments. The only thing that really enters into the question is the convenience of business transactions, which dictates that in the case of large payments large notes be made use of, so that too much time need not be taken up in making the transaction. Since, then, in my opinion, the security of the notes is not affected by their different denominations, and since, on the other hand, it can not be questioned that the small notes are in the first place necessary for business, and in the second place conducive to an increase in the stock of gold of the Reichsbank—in view of all this, I must say I can not understand how anyone who does not deny these points—and they have not yet been denied during the debate—can be strongly opposed to the issue of notes of small denominations. Really the only grounds that have been made to tell against them have been based on practical convenience.

Our colleague Raab has raised a great many objections, some of which, I will admit, seem to me not entirely unfounded. The argument from hygiene seems to me overworked; the Reichsbank can easily manage that by renewing the notes more frequently.

It is undoubtedly true, however, that in large sections of the community there is still a certain mistrust of paper money—not of the small notes particularly, but of paper money in general. This part of the public—the part our colleague Raab was speaking of—gets more pleasure from fingering a gold piece, or even a silver coin, than from fingering a piece of paper. The reason of this, as I have already said, is that in these classes there does not yet prevail the certainty that the paper given by the bank has exactly the same value as gold and that it is not reckoned



## *B a n k   I n q u i r y   o f   1 9 0 8*

at a lower valuation in the actual making of purchases; and it is very important that we should convey to these people how mistaken they are in thinking that paper money covered by the gold holdings of the Reichsbank is of less value than gold.

As for the other objections raised by Herr Raab—that paper money is dirty, and that mistakes may be made in payments—these are to my mind more or less unimportant objections; at least they certainly can not be regarded as decisive when it is considered that the general welfare of the people is better served by making the gold holdings of the Reichsbank as large as possible; and this is effected in a considerable measure at all events when an addition of 200,000,000 marks is made to the amount of small notes in circulation.

The example mentioned by our colleague Raab, of the postman who pays out notes in the morning and thinks that the same notes are in the post again by evening, can not be regarded as conclusive against the increase of the quantity of small notes. If the post-office messenger brought gold in the morning to the business people—especially to the small tradesmen—the gold would equally return to the post-office in the evening. This is a consequence of the business circumstances which oblige the small tradesmen to use immediately whatever money they may receive in order to make the payments they owe; the kind of payment plays no part in the matter. The notes are given away, not because the people do not wish to keep them, but because it must be done; and this would still be the case just the same if payments in gold were made through the post.



## *National Monetary Commission*

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I think, therefore, that when it is established that an increase in the number of small bank notes does not impair their security in any way, we shall in course of time succeed (the facts lead one to think so) in creating in the public a greater readiness to accept small notes than has hitherto existed. The more this feeling is introduced, the more the public is convinced that there is not the slightest insecurity about these notes, the more extensively will these notes be used as currency.

For the rest, I have never yet found that workmen will not take bank notes because gold is withheld from them. The notes will find the greater favor—and find it the more quickly—among the workmen the more notes the workmen receive; but the bank notes are not disliked by the workmen because they are paid to them as wages. I think, therefore, that it is a mistaken idea that in preventing the issue of notes of low denominations we are doing a favor to the laborer and artisan classes. If Herr von Gamp breaks into high moral indignation over the possibility that a workman might sometime dare to say: “I am not obliged to take over 20 marks in paper money; I want gold,” I explain this on the ground of the view which our honored colleague takes of the relation of the workman to the employer. He still looks at this relation from the patriarchal standpoint, and thinks that the workmen have to blindly do what the employers wish and blindly take what they offer. I for my part can not consider that a workman is doing wrong in making use of a right that is his by law and refusing to accept wages that are not paid him in gold. Unhappily there are not many workmen who receive weekly payments at a higher



## *B a n k   I n q u i r y   o f   1 9 0 8*

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rate than that of 20 marks. If such a thing should happen—to the horror of Herr von Gamp—the man will merely have acted upon his right, and I must say that the indignation over the possibility strikes me as rather comic. [Laughter.]

I should think, therefore, gentlemen, that the fears which are attached to the idea of issuing a larger quantity of notes of small denomination need make no impression upon the conclusions of the Reichsbank directors, who, by the way, have already full power to act in the matter. So far as I can judge, I am quite convinced that, even without the statistical proof demanded by Herr von Gamp, the view will prevail in the Reichstag that (of course always assuming that the security of the notes with regard to their gold cover be not impaired) there can be no reason for putting difficulties in the way of the Reichsbank's better fulfillment of its task of maintaining the gold supply.

The other questions that I wish to take up have already been so thoroughly discussed that I can content myself with a few words. I should like first to make some brief remarks about the check and deposit business. Like most of those who have spoken, I consider the extension of the deposit-and-transfer system on the part of the Reichsbank to be an extremely desirable measure, and I only hope that this system may come to occupy more and more of a place with us. But precisely because I hold this view I should regard as dangerous an increase in the minimum balance of depositors. I think, too, that my view must fit in with the views of those who wish to have the Reichsbank made of service not only to the great



## *National Monetary Commission*

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banks and to the industries, but also to the middle class; they must certainly agree with me that it is desirable that the middle class, the small tradesman and artisan class, should also be induced to bring deposits to the Reichsbank. But if you do desire this, gentlemen, then you can not possibly be in favor of a raising of the deposit minimum. Moreover, the Reichsbank itself would not profit at all by any such measure; for through raising the deposit minimum it would reject a class of possible depositors, and thus make the use of the deposit system more difficult.

Since the question of checks has also come up in this discussion, I should like to add a word on the subject. I am of the opinion that the naturalization of the check among the German public is of very great importance for our whole monetary system. But I must say that we are still very far from the situation here pointed to as the ideal for which we are to strive—that of having every tailor and shoemaker, in short every artisan, paid by checks. ["Very true."] Gentlemen, let me speak of the situation in Berlin, which I know better than situations elsewhere. There the handicraftsman, as a rule, only waits until his bills are paid to him to settle with the money his account at the cloth merchant's, the leather merchant's, etc., not to mention the fact that the handicraftsmen are really so badly off that they generally have to spend these payments at once as wages for their workmen, so that they never arrive at the point of carrying the money to the bank, and they often have no bank account at all, because in order to have one they would have to keep some money idle, even if it were only a little. The situation is