

61ST CONGRESS }
2d Session }

SENATE

{ DOCUMENT 407
Part 2 }

NATIONAL MONETARY COMMISSION

German Bank Inquiry
of 1908-9

—
Stenographic Reports
—

Vol. II

Proceedings of the Entire Commission on
Point VI of the Question Sheet
(The Deposit System)



Washington : Government Printing Office : 1911

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NATIONAL MONETARY COMMISSION.

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A. PIATT ANDREW, *Special Assistant to Commission*.



NOTE.

The English translation of this volume, and of the preceding volume comprising the proceedings of the German Bank Inquiry Commission on Points I to V of the Question Sheet, was prepared for the National Monetary Commission by Louis Heilprin, Julia Franklin, and Margaret Franklin.

LIST OF THE MEMBERS OF THE BANK INQUIRY
COMMISSION.



CHAIRMAN.

Havenstein, president of the Reichsbankdirektorium, Wirklicher Geheimer Rat.

VICE-CHAIRMAN.

Doctor von Glasenapp, vice-president of the Reichsbankdirektorium.

MEMBERS.

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

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

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

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

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

Heiligenstadt, Dr. Carl, president of the Prussian Zentralgenossenschaftskasse, Berlin.

Kaempf, Johannes, Städtältester, president of the German Handelstag; president of the deans of the Merchants' Association of Berlin; vice-president of the Reichstag, Berlin.

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

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

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

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

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

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

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Riesser, Dr. Jakob, Geheimer Justizrat, honorary professor in the University of Berlin.

Roland-Lücke, Ludwig, landed proprietor, formerly director of the Deutsche Bank, Sonnenburg, near Freienwalde on the Oder.

Schinckel, Max, chairman of the Hamburg Chamber of Commerce, partner in the Norddeutsche Bank in Hamburg, partner and director in the Diskonto-Gesellschaft in Berlin, Hamburg.

Schmidt, Dr. A., member of the directorate of the Friedrich Krupp joint-stock company, Essen on the Ruhr.

Singer, Paul, Privatier, member of the city council, Member of the Reichstag, Berlin.

Ströll, Dr. Moritz, director of the Bayerische Notenbank, Munich.

Wachler, Dr. Paul, Ober-Bergrat, retired, member of the Herrenhaus, Berlin-Charlottenburg.

Wagner, Dr. Adolph, Wirklicher Geheimer Rat, professor of political sciences in the University of Berlin.

Von Wangenheim, Freiherr, landed proprietor, chairman of the Bund der Landwirte, Klein-Spiegel, near Gross-Mellen, Regierungsbezirk Stettin.

Weber, Dr. August, director of the Löbauer Bank, Member of the Reichstag, Löbau (Saxony).

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



From the IMPERIAL MINISTRY OF THE INTERIOR:

Dr. Richter, Under Secretary of State.

Müller, Geheimer Ober-Regierungsrat, vortragender Rat.

Von Sanden, Königlich Preussischer Gerichtsassessor, kommissarischer Hilfsarbeiter.

From the IMPERIAL MINISTRY OF JUSTICE:

Dr. Struckmann, Geheimer Ober-Regierungsrat, vortragender Rat.

From the IMPERIAL TREASURY:

Dombois, Geheimer Ober-Regierungsrat, vortragender Rat.

From the REICHSBANK DIREKTORIUM:

Dr. von Lumm, Geheimer Ober-Finanzrat, member of the Reichsbankdirektorium.

From PRUSSIA:

From the Ministry of Finance—

Dr. Busch, Geheimer Finanzrat, vortragender Rat.

Dr. Schroeder, Geheimer Finanzrat, vortragender Rat.

From the Ministry of Commerce and Industry—

Dr. Göppert, Geheimer Regierungsrat, vortragender Rat, Staatskommissar at the Berlin Bourse.

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

Von Falkenhausen, Freiherr, Geheimer Regierungsrat, vortragender Rat.

Von Massenbach, Freiherr, Geheimer Regierungsrat, vortragender Rat.

From BAVARIA:

Dr. Wolf, Königlich Bayerischer Ober-Regierungsrat, deputy plenipotentiary to the Bundesrat.

Meinel, Königlicher Ministerialrat in the Ministry of the Royal House and of the Interior.

From the KINGDOM OF SAXONY:

Härtig, Königlich Sächsischer Geheimer Rat, president of the Royal Bureau of Duties and Taxes, deputy plenipotentiary to the Bundesrat.

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From the KINGDOM OF SAXONY—Continued.

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

From WÜRTTEMBERG:

Dr. von Köhler, Königlich Württembergischer Ministerialrat deputy plenipotentiary to the Bundesrat.

From BADEN:

Weingärtner, Grossherzoglich Badischer Ministerialdirektor in the Ministry of the Interior, Geheimer Ober-Regierungsrat.

From HAMBURG:

Dr. Sthamer, Senator.

QUESTION SHEET FOR THE HEARINGS OF THE EXPERTS.

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



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

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

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

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

^a The proceedings of the Commission on Points I to V have appeared in a separate volume.

OUTLINE PROPOSED FOR THE DISCUSSIONS OF THE
BANK INQUIRY COMMISSION ON THE QUESTION OF
THE DEPOSIT SYSTEM.

The following scheme is intended to serve only as a general guide; in detailed discussion it will be desirable to distinguish, so far as possible, between banks, corporative institutions, and savings institutions:

- I. General discussion of the question.
 1. The interest of the public in the disposition of the question.
 2. The safety and the fluidity of the investment of deposits and savings.
 - (a) Nature of deposits and savings, and their relation to outside moneys generally.
 - (b) The safety of investments.
 - (c) The fluidity of investments.
- II. Discussion of proposed measures and their prospective effects.
 1. The establishment of legal normative requirements for the acceptance, management, and investment of deposits and savings.
 - A. Does the establishment of such requirements seem practicable and advisable?
 - B. What should they comprise?
 1. Regulations as to acceptance:
 - (a) Limitation to certain institutions.
 - (b) Limitation of the total amount to be received.
 2. Regulations as to separate management (preferential rights of deposit and savings creditors).
 3. Regulations as to investment:
 - (a) Fixing of a percentage of cover.
 - (b) Investment in bills and other fluid resources.
 - (c) Investment in State loans and similar securities.
 - (d) Investment of the surplus.
 4. Other suggestions.
 2. The publication of balance sheets:
 - (a) Is it desirable to require the publication of detailed balance sheet at prescribed intervals and conforming to a fixed scheme?
 - (b) When and where should this publication take place?

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- II. Discussion of proposed measures and their prospective effects—Contd.
2. The publication of balance sheets—Continued.
 - (c) Content of the published balance sheet:
 1. Model form for the annual balance sheet.
 2. Model form for an intermediate balance sheet or for a statement.
 - (d) The bimonthly balance sheets published heretofore.
 3. Other measures.
 - (a) The depositing of a fixed percentage of the outside moneys at the Reichsbank.
 - (b) The establishment of government institutions for deposits.
 - (c) The undertaking by the Reichsbank of an interest-bearing deposit business.
 - (d) The establishment of a bureau of supervision for the banking system.
 - (e) Other measures.
 4. What are the most effective means, legislative or other, of protecting the public against the dangers connected with banks and bankers that attract deposits and savings through advertisements, solicitation by letter, or agents? [Resolution of the Reichstag, May 14, 1909.]
 5. Other remarks and proposals.

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TUESDAY, NOVEMBER 23, 1909—10.15 A. M.

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

GENTLEMEN: In opening the conference which is to consider the last section of the questions presented to the bank inquiry commission a year and a half ago, I take pleasure in welcoming you, as I did then, to the halls of the Reichsbank; and I wish to express my hearty thanks for your presence and for the readiness with which you place your ripe judgment, your experience, and your discriminating counsel at our service in this last and also very important question.

Gentlemen, the debates of last year made great demands upon your devotion, but they have, as I perceive in looking back upon them to-day, as well as upon the debates in the Reichstag linked with them, achieved a great measure of success, which I now acknowledge with redoubled thanks. On the basis of strictly positive evidence, you illumined, moderated, brought into closer harmony the views regarding the more acute Reichsbank problems under discussion at the time; views that had previously been widely and harshly antagonistic, that had largely been formed under the confusing impress of the fresh and vivid memories of the trying and extraordinary experiences of the year 1907; that were partly influenced, too, by party animosity and favor. And to you is due the greatest

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share of thanks and acknowledgment that the debates upon the supplementary bank bill, too, were subsequently carried on and brought to an almost unanimous conclusion on the basis of a thorough consideration of the actual facts.

The question now presented to you is no less important; and it is more difficult and complicated than a great many, at least, of those discussed by you before; for it extends far beyond the sphere of the Reichsbank, and is of great significance for our entire economic life, with whose intricate threads it is bound up at many points.

It may be, gentlemen, that many within and without the circles of the commission and of the experts have, in considering the debates of last year, been unable to obtain a simple and clear answer to the question: How can we permanently avert crises such as traversed the world in 1907? And this question, at a time following so close upon such grave experiences, may have seemed the first, the most important thing to be considered. It may be that the only conclusion reached has been this: The Reichsbank is only a single member of our economic body and of our credit system; it alone can not accomplish that; its province is to remain strong and sound, in order that it may do its part, within the sphere of its power and influence, in striving for that result and solving the problems that arise.

It may be, gentlemen, that the answer to that question will likewise not be supplied by the present debate upon the subject of deposits; though, comprising as it does the broader sphere of our entire credit system and a part of our general economic system, the question,

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if ever justifiable, might with a greater show of reason be asked in connection with this subject. And the question can not be answered because against general developments and phenomena, proceeding not from our own soil and our own economics alone but from the entire economic condition of the world, and against such elemental occurrences as came to a head in 1907, no panacea, no prescription may all of a sudden be found, that shall permanently prevent them; because our present national economic development and the development of our money and credit system are closely interwoven with those of the world at large; because they represent a highly complex fabric produced by innumerable threads and independent forces; a fabric of which we must first of all understand the constitution and growth, the significance of the individual forces and their cooperation, and the causes of any possibly threatening phenomena; and try, from that basis, to find for the future a corrective, or better system—to be introduced only gradually, however, in individual points and for individual forces which have been recognized as entering into the matter. And, gentlemen, this of itself would be a great gain; for to recognize and comprehend a danger means to diminish its importance and enable us to resist it.

If, then, these debates may likewise not yield a short and simple answer to that question so often propounded, I cherish the hope—and permit me to join this wish to my greetings and thanks—that your deliberations upon this single but most important field of the deposit and credit systems—a problem in itself—will carry us far ahead; that, though you may not fully solve the problem at the

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first blow, you will elucidate it and bring us nearer to its solution. And now, gentlemen, let us enter upon our deliberations. [Applause.]

Gentlemen, in regard to the composition of the commission, I will state that on the part of the government commissioners the following changes have been made:

For the imperial ministry of the interior, Herr Gerichts-assessor von Sanden has taken the place of Herr Gerichts-assessor Doctor Fastenau, retired. Doctor Richter, under secretary, chairman of the former subcommission concerned with the system of deposits, who at that time represented the Prussian ministry of commerce and trades, likewise represents the ministry of the interior.

As representative of the imperial ministry of justice, Geheimer Ober-Regierungsrat Doctor Struckmann has been appointed.

For the Prussian ministry of finance, we have Geheimer Finanzrat Doctor Schroeder in place of Geheimer Finanzrat Dickhuth, retired.

For Bavaria, Ober-Regierungsrat Doctor Wolf, acting as proxy in the Bundesrat, has taken the place of Staatsrat Ritter von Burkhard.

His excellency, von Schicker, who has hitherto represented Württemberg, is deceased; he has been replaced by Ministerialrat Doctor von Köhler, proxy to the Bundesrat.

Of the government commissioners, Doctor Richter, Freiherr von Falkenhausen, Meinel, Härtig, Weingärtner, and Doctor Sthamer are, as they have informed me with expressions of earnest regret, prevented by urgent duties from attending our sittings to-day, and it may be for some days to come.

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Of the members of the commission, the following are excused: Herr Fischel, Herr Kaempf, Freiherr von Wangenheim, and Herr Müller of Fulda. Herr Kaempf will presumably take part in subsequent sessions, perhaps also Herr Fischel and Herr Müller of Fulda. Freiherr von Wangenheim has expressed his regret that important sittings, at which he is obliged to preside, and which he could not defer, engross his entire attention. He has, therefore, transmitted a brief written opinion upon the question, with which I shall take occasion to acquaint you later on, so as to incorporate his judgment and advice in the minutes of the proceedings.

In the way of printed matter, you received in the course of the summer Doctor Fastenau's lucid and comprehensive digest of the opinions given by the experts on the question of regulating the deposit system; furthermore, statistics of the German stock banks, by Alfred Lansburgh; and with the invitation to to-day's session, a memorial, "Gesetzliche Regelung des Depositenwesens in Deutschland" (Legal regulation of the deposit system in Germany), by Dr. Georg Obst; there have also been transmitted to you within the last weeks and days some publications^a from the statistical department of the Reichsbank; in particular, a paper entitled "Zur Frage der Regelung des Depositenwesens" (On the question of the regulation of the deposit system)—intended to supplement the work of Doctor Fastenau—which comprises a systematic arrangement of the most important utterances in the bank inquiry itself on the one hand, and con-

^aThese publications appear in a separate volume under the title "Materialien zur Frage des Depositenwesens."

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tains, besides, the most significant opinions voiced in literature, the press, and Parliament; and seeks to give a comprehensive survey of the whole of this many-sided question.

This work is allied to another, "Zur Frage der Verstärkung der Goldreserven in England" (On the question of the strengthening of the gold reserves in England), describing the status of this question, which arouses lively discussion in England also; furthermore, a paper, "Zur Frage der Emissionsstatistik" (On the question of the statistics of flotations), and, finally, two publications, "Zur Bilanz der deutschen Kreditgenossenschaften" and "Tabellen zur Bankstatistik." There was a widely expressed desire for the first-named survey, "Zur Frage der Emissionsstatistik," incident upon last year's debates, particularly on the part of Freiherr von Gamp; a work which, starting from a number of different standpoints, and treating the subject with greater completeness than the private publications—whose accuracy and credibility have been widely questioned—have hitherto done, aims to put the statistics of flotations upon a more trustworthy basis. I may add that to-day a final work has been completed, "Zur Bilanzstatistik der deutschen Banken" (On the statistics of the balance sheets of the German banks). The statistics themselves are in your hands and furnish you a comprehensive survey—such as has not in like completeness hitherto been forthcoming—in the first place, of the statements of all the existing German banks for 1908, including the 458 joint stock banks as well as 127 banks in the form of partnerships with limited liability; and, beyond that, give a comprehensive survey of the interim

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balance sheets published by a large number of great and medium banks in the course of the year 1909. I assume that all the members as well as the commissioners are in possession of this printed matter, and would request anyone who is not, to inform Bank Director Doctor Arnold of the fact.

And now, gentlemen, I will ask you to begin the proceedings.

Doctor RIESSER (on the order of the day). Gentlemen, it seems requisite to me that we should, as his excellency, our president, remarked, conduct our discussions, and particularly the discussions of the present session, strictly upon the basis of a consideration of actual facts—these debates on the question of the proposed reforms of the deposit system, which, to my surprise, suddenly constitutes, according to page 7 of one document, the most important point in the entire deliberations of the bank inquiry. Now, I have been charged by gentlemen with whom I have spoken, to emphasize the fact that the gentlemen who are still directly connected with banking concerns—as well as I, who am now a professor, but was formerly a bank director—consider themselves in no wise as representatives of a party, as representatives of certain interests, but that we look upon our task as one submitted to experts whose concern it is to make the common weal the prime consideration. We believe also that the experts connected with banking interests who were examined by us took a like standpoint, and we do not, therefore, regard it as just that they should be characterized on page 8 of the document, treating of the regulation of the deposit system, as “representatives of banks, Genossenschaften

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(cooperative institutions), and savings institutions" who "are most directly interested in the solution of the problem."

We object, further, to remarks of this same document which claims to be a "digest of the most important utterances," etc., and was produced in the statistical department of the Reichsbank. We take exception to certain remarks on pages 7, 28, and 63, and that because they seem to go far beyond the appropriate limits of a statistical bureau, and do not, therefore, compare favorably with the purely objective digests repeatedly presented by Herr Fastenau.

The passage on page 7 reads:

"But if we follow the historical course that the public examination of this question has taken, and if we consider the widening circles that occupy themselves with it, it may be clearly discerned that the voices calling for the necessity of some solution of a problem whose far-reaching significance is more and more recognized, are gaining in number and weight. The impression produced is that the question must continue to be the order of the day until a satisfactory solution is found."

We believe that the proper bounds of a statistical bureau have here been transgressed—in regard to a problem, too, which hardly falls within its province—in measuring votes not only according to number but also according to weight; thus pronouncing a judgment upon the solution of a question which we have been invited here to solve, for we must first be heard on the subject. I deplore this and the following utterances, which I shall proceed to mention, for the reason, too, that our president

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has hitherto been so strictly impartial in conducting the proceedings, and since this document is authorized by him, he is placed in a position which, as chairman of our expert commission, he is, in my judgment, assuredly unwilling to occupy.

Another assertion to which we object is found on page 28:

“All these questions are, of course, of far-reaching importance to the problem, and will require a further far-reaching elucidation if a legal regulation is to be attempted. It does, however, seem as if the difficulties of these definitions and the demarcation of the moneys in question should not in themselves offer an insuperable obstacle, provided legislative interposition should, in principle, be deemed desirable.”

This, too, in our judgment, transcends the competence of a statistical bureau, involving as it does the assumption of a position, which is the business for which we are convoked here; and we can not approve of it.

Finally, on page 63 of this same document, it is remarked:

“The problem is a difficult one, yet it does not seem insoluble. Whether its solution can and will be accomplished at the first throw can not to-day be predicted.”

This last is an observation to which we do not, of course, object in the same measure as to the foregoing ones, but we do attach importance to the two preceding passages being expunged from the document; because this document will go to the Reichstag and the impression created there would be that the direktorium of the Reichsbank and its president have assumed a certain position before

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the members of the commission have been heard, and this, naturally, must be avoided.

Finally, we request that in printing the statistics of flotations, which have likewise been included, the publication be limited to Table 4, where correct statistics of flotations have been attempted on the basis of the proceeds from the stamps upon securities. On the other hand, my colleague, Herr Schinckel, will present our objections regarding pages 26 and 27; while Table 3—which is based merely on the estimates of the *Frankfurter Zeitung* and the *Deutscher Ökonomist*—has already been characterized in our examination of the experts and in other quarters, as requiring copious correction, and has been attacked for its errors. Flotation figures have been frequently cited without any attempt to determine what part has remained in Germany; while, in fact, the question how much of the foreign issues was really placed in Germany plays an important part. We shall return to this in the special debates.

Lastly, we should like to point out that if we should express opposition to certain propositions, our attitude is not a negative one; that we have, on the contrary, specially exerted ourselves to bring about the issuing by the banks of interim statements, which has, in fact, been in operation since as far back as last February; and I consider this a very positive action and one that is likely to have beneficial results.

If I may add a personal remark, I would say that I attach special importance to what I observed in the first place in regard to our character as experts, on account of the fact that Freiherr von Wangenheim, who is unfortu-

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nately absent, characterized me a few days ago as a "*syndicus* of the Berlin great banks," or as a paid and consequently dependent employee of those Berlin banks. I am not that, nor ever have been, but the honorary president of the Central Union of German Banks and Bankers, which comprises not only the Berlin and other great banks, but also the provincial banks, and banking concerns on a medium and lesser scale as well. This honorary office will not prevent me, particularly as I am also a man of science, from making the general welfare the sole consideration in forming my judgment.

Freiherr von GAMP-MASSAUNEN (on the order of the day). I, for my part, should like to express the profound gratitude we feel toward the Reichsbank for the material which it has laid before us. I find in it such a wealth of labor and thorough knowledge of the subject that, even though some of the observations do not tally with my judgment, that fact would not prevent me from giving a warm expression to that gratitude. [Applause.] Nor have I received the impression that this material contains anything prejudicial in any way to the Reichsbank or, going beyond that, the president of the Reichsbank. The remarks in the document, objected to by the previous speaker, on the question of regulating the deposit system, have, as I can show here, been blue-penciled by me also. They indicate, of course, the position of the editor; but I believe it would be impossible to produce a scientific work—nor is this, in my judgment, a requirement of a scientific work—which should be wholly uninfluenced by the editor's views. For the rest, I must say that I con-

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sider the remarks objected to as entirely correct; nor do I see how my colleague, Herr Riesser, has any occasion, from his standpoint, to raise objections against them.

When it is said, "The voices calling for the necessity of some solution of this problem have increased in number and weight," this must be acknowledged as absolutely true. I shall only remind you of the debates in England concerning the question of strengthening the gold reserve. If opinion in England is at present almost unanimous that something must be done to increase the gold reserve, while but a few years ago people there would have nothing to do with the question and repelled all efforts in that direction, then we may, we must, indeed, say, without departing from the objective standpoint, that the voices that call for some solution of the question as a necessity are multiplying in a remarkable degree in number and weight.

Nor can I see any objection to this sentence, on page 28:

"It does, however, seem as if the difficulties of these definitions and the demarcation of the moneys in question should not, in themselves, offer an insuperable obstacle, provided legislative interposition should, in principle, be deemed desirable."

It is not detrimental or prejudicial to anyone's view, and I feel convinced that if such formal objections should be insisted on, no one will regard them decisive in themselves. My colleague, Herr Riesser, and the other gentlemen will presumably agree with me that the difficulty of differentiation can not by itself form a hindrance "provided legislative interposition should, in principle, be deemed desirable." The editor has thus expressed himself as guardedly as possible.

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And now, finally, the remark on page 63 which Herr Geheimrat Riesser himself declared weighed less heavily as an objection:

“The problem is a difficult one, yet it does not seem insoluble.”

Well, if the idea were entertained anywhere that the problem is insoluble, then I think it would have been a good thing not to set the whole machinery of the bank inquiry in motion. I believe that all of us who have taken the trouble to take part in the commission as experts share the opinion that the problem is indeed difficult, but that it is not insoluble.

Gentlemen, I merely wished to convey by what I have said my acknowledgment of the assiduity, the remarkable knowledge of the subject, and the great impartiality of the editor of all this material, and I believe that many members of the commission will coincide in my opinion.

Doctor HEILIGENSTADT (on the order of the day). I should like to add a few remarks to those of the two preceding speakers, mainly in order to signify that I should consider it quite expedient to have the statistics of flotations, after the correction of any possible mistakes, published as they stand. I think that the objections that have been raised would be met by adding an appropriate note to Table 3. It is, as has frequently been pointed out in the commission, the publications, taken essentially from the Frankfurter Zeitung, and hitherto generally the only sources of information, that are in question. Whoever wishes to work in this field in a scientific spirit will be grateful for being enabled to make comparisons with the previous information given by the financial press.

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I attach great importance, therefore, to the table in question being published with the other matter. As far as the other table is concerned, its practical and scientific value could be enhanced by the addition of a footnote; but here, too, I consider it very important that the material should be published, because I believe that the matter that issues from the bank inquiry will supply a great number of facts important for the purposes of scientific investigation. What is involved is a great wealth of material which is, in part, made available for the first time for scientific elaboration. The publication of this material will give to scientific workers a great incentive to fruitful activity, and it is this scientific activity which we shall subsequently have to thank should a considerably greater degree of clearness and insight generally prevail regarding these delicate fields of inquiry. It is precisely the fact that in the bank inquiry practical men may express themselves along with theorists, which I consider the essential thing, and I regard it, therefore, from my point of view—standing as I do, in a manner, midway between practice and science—as extremely desirable that the table should be made available to science, providing it thereby with desirable material for further elaboration.

Mr. SCHINCKEL (on the order of the day). Since the question of the statistics of flotations has been broached here, I should like to make a few brief remarks in regard to it. We are, naturally, greatly indebted to those who have done this very laborious work; I, for my part, too, wish to give expression to that feeling; nor, assuredly, did Herr Geheimrat Riesser wish to deny

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it. When, however, it was remarked that the compilation of the statistics of flotations should be specially employed for scientific purposes—and it may be assumed that not only would-be scientists, but also men of business, and among the latter many who will not penetrate deeper into the matter, will concern themselves with these statistics—then the editor was right in being very cautious in the preface; he says over and over again that these statistics are not to be absolutely relied on; we find this on every page of the preface. But, gentlemen, from page 26 on, this compilation is, in my opinion, positively misleading, and here I would concur in the proposition that it should be revised once more before it is made public. From page 26 on, namely, there is a specification of the foreign securities at the German exchanges—the conversions not being noted—and that is something that will be of unusual interest to the practical man, or, I should say, to the majority of the members of the Reichstag. [“Very true!”] If, however, these statistics shall remain as they are, they will, I repeat, be positively misleading. The foreign loans are entered at their full amount. I shall briefly cite a few of them: The Japanese loan at 612,000,000 marks. As is well known, it can be easily verified in the stamp bureau how little of the 612,000,000 marks has been placed in Germany. Furthermore, the Pennsylvania Railroad shares are entered here at 1,680,000,000 marks. Anyone in touch with the actual facts knows that only a few hundred thousand Pennsylvania Railroad shares have really been handled in Germany. The shares of the Deutsch-Asiatische Bank are also entered as foreign

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bank shares on the merely formal ground that the bank is located at Shanghai. The Deutsch-Asiatische Bank was, however, established, at the desire of the German Government, by the German Haute-Banque in Berlin, and its shares are strictly German domestic securities.

These statistics, then, gentlemen, I will frankly say, are greatly in need of revision, and I very willingly offer my services, in case the gentlemen of the Reichsbank shall agree to make such a revision. During my secretaryship I had compilations made on a certain day which, in themselves, show what erroneous figures are, unfortunately, recorded in these statistics. Canadian Pacific Railroad shares, for example, are entered twice at 118,000,000 marks; once, because they were listed in December, in Berlin, and a second time because they were listed in January, in Hamburg; each time at 118,000,000 marks. Consequently, if this table is to stand and be made public, the amounts that were actually placed in Germany would have to be printed alongside the figures given here. This could easily be done with the aid of the stock-stamp offices, as there are not many of them. If this is not done, the figures running into the billions will stick in the memory of the public, while in reality it is an affair of only a few millions. If you compare the really correct figures given in the margin, where the amounts actually stamped are stated, with our domestic flotations, you will find the foreign securities to amount to very little, probably less than the domestic issues which have found their way abroad. But if you read the whole thing as it stands here, especially, from page 26 on, the impression produced is that many billions

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of foreign securities have in the last years found their way to Germany; and that would be entirely misleading.

Freiherr von GAMP-MASSAUNEN (on the order of the day). I should like to remark that among the members of the Reichstag there must certainly be at least enough intimate knowledge of the subject for them to know perfectly well that the 612 millions and the 1,680 millions that are cited here are not sums that have come to Germany in their entirety; for if such sums had been transferred abroad from Germany, our balance of payments and our economic balance would have long since been bankrupt. I, for my part, however, shall be very thankful to my colleague, Herr Schinckel, if he should take the trouble to establish, where it can be established, what amounts have actually come into Germany, for I likewise attach great value to the determination of objective truth. Nevertheless, I find that "last year," for example, very large amounts were involved—quite aside from the Pennsylvania and the Canadian Pacific Railroad shares—of which it must be said that a considerable portion remained in the country; of many loans it must be said positively that they have remained exclusively, or almost exclusively, in the country, and these alone amount to such considerable sums—I shall not go into it further here—that one can not simply dismiss the matter. I would therefore request that the pages from 26 to 30 should not by any means be eliminated; for when this information has been made public it will be made accessible to wider circles, and the Reichstag will also have to occupy itself with these statistics. But, as I have remarked, I am grateful to all the gentlemen who

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direct attention to mistakes and take the trouble to correct the figures.

The CHAIRMAN. Gentlemen, I should like to add a few remarks on this question. I desire in the first place to express my thanks to the gentlemen, and particularly to Freiherr von Gamp, for their acknowledgment of the labors of our statistical department. Gentlemen, what a mass of self-sacrificing labor and devotion are embodied in these publications does not appear from a glance at the little volumes before you. We of the Reichsbank direktorium know, however, with what painstaking assiduity and unselfishness the gentlemen labored throughout an entire year over this work; and I gladly seize this opportunity to express my most sincere thanks, and those of the direktorium, to the gentlemen of the statistical department, for what they have accomplished this year. [Applause.]

Now as to the remarks of Herr Geheimrat Riesser. I can assure him that the statistical department was animated by the unqualified desire to proceed with the strictest objectivity and impartiality. I can tell him, furthermore, that these productions of our statistical department were most carefully examined by Herr von Lamm, as well as Herr von Glasenapp, and, finally, by myself, with a view to ascertaining whether they violated that paramount principle, the principle of impartiality. We submitted the sentences pointed out by Herr Geheimrat Riesser likewise to the same particular examination; but, gentlemen, we, on our part, came to the conclusion that those sentences did not violate the principle. I must say that I was simply astonished at how completely this scientific work kept aloof from any sort of partisanship; and

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if the passage on page 7 of the paper: "Zur Frage der Regelung des Depositenwesens" (On the question of the regulation of the deposit system), which states that the forces urging a solution of this problem have increased, is objected to, the truth of the matter is that that statement is only an expression of what has actually been historically established beyond doubt. To give a brief example: At the head of our question sheet we have the question as to the public interest in the security and the fluidity of our deposits. If you follow the historical development, you will see that formerly this whole question was dealt with almost exclusively from the standpoint of security, but that the question is being shifted, and that to a steadily increasing extent, quite parallel with the changes that are taking place in our credit system and in the development of our credit institutions; that interest in the soundness and fluidity of the credit system and of our economic organization are coming to the front in place of the question of the security of the depositors. The resolution of the Reichstag of 1896 on the Arnim bill and the resolution of the Reichstag of 1909 are a striking illustration of this change of views, and a striking example in particular of how the question of security is receding, and how, while it controlled the whole question in 1896, now, in 1909, it confines itself essentially to the wish that the inexperienced should at least be guarded against solicitation; while in the foreground—we have observed this, too, in all the discussions with our experts—we find the public interest in the development of our credit system.

The passage on page 28, too, was carefully scrutinized by us, but we did not consider it objectionable, because,

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as Freiherr von Gamp has already remarked, here likewise the principle of impartiality is thoroughly observed, the question whether legal measures are regarded as desirable being left wholly in abeyance. It is only qualifiedly mentioned there, and it is expressly remarked that *if* legislative interposition should be deemed desirable for the solution of this great problem then it would seem as if the difficulty of these definitions of deposits ought not to offer an absolutely insuperable obstacle. I hold that this utterance can not be regarded as nonobjective and partisan; and now, gentlemen, as regards the final passage, it really only points out the difficulty of the question, and that it seems doubtful whether the debates of the inquiry commission—convened to examine and discuss any possible questions, because these questions have been projected more and more into the foreground by the public interest and have been recognized as specially difficult and complex—will result in a complete solution. And the desire and hope are expressed, just as I have expressed them in the conclusion of my introductory remarks, that even if we shall not succeed in solving the question at once it may at any rate be elucidated and brought nearer to a solution. I really can not see that those few sentences offer any serious ground for objection.

Now as to the question of the statistics of flotations. They were meant, gentlemen, as an attempt to remove the doubts expressed concerning the statistics that have been given in private publications. Statistical surveys are not to be taken by themselves, but, to be understood, must be read in connection with explanatory remarks,

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and the work is merely an attempt to attack the question from many points of view; it characterizes itself, indeed, expressly as such an attempt; it calls attention throughout to the defectiveness of its sources; and, as far as the statistics of the foreign loans admitted into our country are concerned, it is explicitly pointed out that it should not be concluded from these admissions that the German money market was actually drawn upon to the extent of the figures cited, but that the demand on the money market must be inferred from the foregoing tables. But that a real interest attaches to having a record made of the foreign loans admitted into our country and to making it public was shown in several quarters in the previous debates, for this admission makes it possible for foreign countries to enter the German market at any moment. It was from this point of view that a certain significance was at that time attached to those statistics, and it is a point of view from which such a record can not be denied importance. This record, then, possesses interest, at any rate, and it may be expected that he who reads these statistics, and, furthermore, should wish to draw conclusions from them, will by all means take cognizance of the accompanying explanatory remarks, which alone, indeed, make the reading and comprehension of the statistics possible.

Gentlemen, I forgot to refer to the remark on page 8 of the digest concerning the deposit system, which, speaking of the representatives of banks, Genossenschaften, and savings institutions, who have in the main taken a negative position before the inquiry commission, says:

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“They are the most directly interested in the solution of the problem and would be the first and most seriously affected by any injurious consequences that might result from inexpedient measures.”

Gentlemen, it is a matter of course in an inquiry, that even though every expert be desirous to take and retain an impartial point of view, his statements should reflect the impressions produced by his practical experience with the matter in hand, representing, at the same time, his own interests; that he is not biased by these conceptions, yet is subject to their influence because they have become a part of himself. This is quite natural, and no more than this was intended to be implied. That the gentlemen meant to be partisan is out of the question; nor can anyone gather this from the remark in question. I believe, therefore, that this passage also will be hardly subject to misconception.

If there are errors and defects in the statistics of flotations, we shall be most grateful should you kindly correct and supplement the statistics. I believe, likewise, that the edge of the misconception regarding the compilation of the foreign admissions, which Herr Geheimrat Riesser apprehends, would at once be taken away if we pointed out explicitly in a footnote to that survey that these admissions do not, of course, represent the extent to which the German money market was drawn upon, but that the extent of that drain must be gathered from the preceding tables.

Doctor WAGNER (on the order of the day). I can not help concurring completely with Herr von Gamp, particularly in his remarks in opposition to Herr Geheimrat

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Riesser. Nor can I convince myself—and in this respect I coincide with what his excellency, the president, has said—that the principal paper shows bias of any kind. I have examined it very carefully with this question in view, and have not been able to find that it shows any leaning to one side or another; and I would question, too, whether the statements of Herr Geheimer Justizrat Riesser have furnished proof to the contrary. The passages mentioned represent essentially the result of the organized investigation which the statistical department has with praiseworthy industry and in an impartial spirit devoted to the subject. If the paper states that there has been an increase in the strength of the opinion that a certain interposition in this field is desirable, I believe that this is an actual fact. If Herr Geheimrat Riesser replies that the weight and not the number of the voices is the thing to be considered, then I may say that opinions differ as to the weight of the voices. It would not be admissible to regard the standpoint of the practical men, who in one respect are always somewhat biased, as alone decisive; it will have to be admitted that other points of view also should in this matter be taken into account. I should say, therefore—if I understood Herr Geheimrat Riesser correctly—that there is no ground for changing the main document: “On the question of the regulation of the deposit system.” As regards the statistics of flotations, the criticism that has been made is doubtless justified. I can only say that the statistical paper contains everything that is essential; and it must, indeed, be assumed of a person who deals with statistics, that when hundreds of millions of foreign securities are

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spoken of he knows that they are not all floated in Germany. It is true, however, as his excellency, President Havenstein, pertinently pointed out, that being once admitted, they can enter the German market; and to ascertain how large a part of them do enter the German market is a matter of importance also. That could be readily added, and we should be very thankful to the gentlemen connected with the banking business if they would lend their aid in doing this. For the rest, I can but express the wish that the statistics, essentially as they stand, should be made accessible to a wider public.

Doctor RIESSER (on the order of the day). In replying to his excellency, our chairman, I should like to say, in the first place, that I had to carry out certain instructions with which, indeed, I, on my own part, agree in every particular, and that the statements which we have heard can not induce me to retract even one word of what I have said. Nor can I concede that the question should be shifted, and that, as a reply to objections raised against individual passages of the papers, the excellence of the work of the statistical bureau should be dwelt upon, for I have shared and do share the opinion expressed in regard to the work as a whole.

And I wish to emphasize another point: We are all interested in having a sound credit system; have given practical proof of that interest, and intend to give further proof of it. But that is not the question *now*. The reason why I did not call especial attention to the fact that we are all heartily grateful to the statistical department for its work, is that my instructions were to bring up certain things, within the scope of the order of the day, for

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debate; while I had made up my mind to give personal expression, in delivering my opinion, to the thanks we all owe to the statistical department. But I stand by the criticisms that I have made, because I do not consider it the business of a statistical bureau, which presents the requisite data to the expert commission designed to examine the questions, to express definite views on its part. Had the matter proceeded from the Reichsbank Direktorium, we should, of course, have had to accept it at once, but should even then have accepted it with regret, because we believed, and still believe, that a decided attitude is assumed here, and that a decided view has been expressed. It is also repeated in the conclusion that utterances in literature and in practical life were at hand which confirm what was said in the preface; and that is what, in my opinion, a statistical bureau in particular has no right to do, and what Herr Gerichtsassessor Fastenau, in the previous digest, rightly avoided with care. It is asserted with the utmost positiveness that the impression created by the views expressed is that this question will not disappear until it shall have been satisfactorily solved.

It is stated on page 28—I can not by any means agree with Freiherr von Gamp that it is a self-evident fact—that it appears “as if the difficulties of these definitions and the demarcation of the moneys in question should not in themselves offer an insuperable obstacle;” but this is highly questionable, and very different opinions may be entertained on the subject. We have been called here, as I take it, to express our views freely and uninfluenced by this or that preconceived opinion. I hold, therefore, that this statement, too, far transgresses the limits which have

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hitherto, under the full sanction of the president of the Reichsbank, been observed; and I can state it as a fact—and it is a fact that can not be controverted—that it has created a painful impression, and I was consequently instructed to give expression to the feeling it has aroused.

As regards the statistics of flotations, I am thankful to his excellency, our chairman, that he wishes to obviate any misleading conclusions by means of a footnote to the tables on pages 26 to 30. I should like to point out, however, that these erroneous inferences have already been drawn within the Reichstag, as well as outside of it, since it is the estimates of the *Frankfurter Zeitung* and the *Deutscher Ökonomist* that are in question, which had long been known and from which inferences have been drawn by treating them as the figures of the foreign securities that are circulating in Germany. This has been extensively done in the Reichstag and out of it; of that I am ready to offer proof.

Mr. SCHINCKEL (on the order of the day). I must revert for a moment to the statistics. I should not like to appear here as a grumbler, but I consider it our bounden duty, should we actually find any gross errors in the statistics in regard to foreign securities, to expose and criticize them. What the consequences are if erroneous statistics are recorded, Herr von Gamp's remarks have shown us. I look upon Herr von Gamp, after his having attended the inquiry, as the greatest expert in this field in the Reichstag, and he has remarked that the figures of 1908 had caused in him a feeling of alarm. I must, therefore, permit myself to subject these figures of 1908 to criticism.

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Freiherr VON GAMP-MASSAUNEN. Nineteen hundred and nine.

Mr. SCHINCKEL. But you said before, 1908. On page 29 there is an entry of 112,000,000 marks of securities of the Jutland Real Estate Credit Association. Everyone familiar with the facts knows that only an insignificant part of this came into this country. The 112,000,000 of securities were to be only granted admission into Germany; the figure is quite correct. I should wish, however, that it were stated, in addition, how much of this was disposed of in Germany. The loan of the Chinese State Railway is given correctly. The figures of the Hungarian Government rentes, of which far from the whole is in Germany, are otherwise correctly stated. Then comes the gold loan of the province of Buenos Aires at 199,000,000. According to the scheme of the tables, conversions should be excluded. Now, all these 199,000,000 marks are not placed in Germany, but scattered all over the world, and they do not belong to the statistics, because it is only conversions that were involved.

A VOICE. Had the conversions already been admitted in our country?

Mr. SCHINCKEL. They had been listed at Hamburg; these 199,000,000 should therefore have been omitted altogether. The loans of the province of Buenos Aires at 30,000,000 are in themselves correct, but they are not all held here. Then we have the shares of the Canadian Pacific Railway, which, however, belong to the preceding year, and thus 118,000,000 marks fall away. Then come once again the 112,000,000 of the Jutland Real Estate Credit Association, which had already been entered.

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These also, then, fall away. There remain, therefore, *de facto*, only a few hundred millions, and Freiherr von Gamp speaks of alarming figures.

Freiherr VON GAMP-MASSAUNEN. I have repeatedly said that I meant to say 1909.

Mr. SCHINCKEL. There I can show you the same thing. These certainly are errors that evidently need to be corrected, and I consider it my duty to express my opinion at the outset that the statistics ought not, in their present shape, to be made public.

The CHAIRMAN. The errors we shall, of course, gladly correct, and I should be grateful to Herr Schinckel if he would have the kindness to inform the statistical department or us of any mistakes that may have appeared for other years; it is to our own interest to give correct figures.

Doctor WACHLER (on the order of the day). I should not attach the importance which Herr Riesser has ascribed to the faults of the various sentences in the paper on the question of regulating the deposit system, to which exception has been taken. We have seen that different opinions may be entertained as to the meaning of the sentences objected to by Herr Geheimrat Riesser; but I believe that those sentences can not, in reality, bias our judgment of the questions we have to decide here, nor be in any way prejudicial to their further treatment. I submit it to you, therefore, whether it would not be best for us to pass over them. As regards the statistics, I, too, must say that I can not admit that the statements as they appear on pages 26, 27, and 28 can be of any importance in scientific statistical investigation; I hold,

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on the contrary, that if it must be admitted that these statistics are erroneous, it would by all means be better that they should not be made the basis of scientific investigations, because, otherwise, erroneous conclusions will be drawn from an erroneous basis. The correction of this statement is, then, necessary at all events, in so far as it can be made. For me, however, these statistics were of special value, in spite of their defects, because they showed what enormous errors were involved in the figures used by our expert, Doctor Ruhland. If you compare his statements on page 19 of the compilation which he has given us, you will find that his account of the foreign flotations makes them about two or three times as great as those still erroneously given us on pages 26 and 27. Since the opinions which have been formulated by various experts, even if they are not made public by the inquiry commission, do, nevertheless, in a measure become public, it is of great consequence, in my judgment, if this statistical compilation serves to show upon what a false basis the conclusions expressed by certain experts rest. I must, therefore, say that even the uncorrected statements which have been given us here are, in my judgment, of value; but they will be of far greater value if they shall be corrected in the manner proposed by Herr Schinckel.

Doctor HEILIGENSTADT (on the order of the day). I believe, in the first place, that it is most expedient that this question of statistics should be discussed as it has been upon the instigation of Herr Schinckel. I think that if our debates were made public they would help to elucidate things. I therefore welcome Herr Schinckel's

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criticism and regard the assertion that these statements contain mistakes as just. It would, in my judgment, then, be very desirable, as Herr Schinckel has already remarked, that the gentlemen who are in a position to do so should give the necessary information to the Reichsbank direktorium. For the rest, I hold that the statistics, even as they are given here, are of an importance not to be despised. In the domain of financial statistics we are, in fact, more or less dependent upon conjectural statistics, and it is consequently very important that all possible material be collected upon which the people who are called upon to do so may form their own judgment. I can not agree with Geheimrat Wachler, who asserted that the figures in themselves were erroneous. Formally erroneous these figures are not by any means—for they relate to the admission of foreign securities—but they may perhaps be falsely interpreted as to their substantial significance. For in the statistics of flotations a variety of things is involved: First, the statistics of the securities actually placed in Germany; and, second, the statistics of admissions. The latter furnish the economic writer with material useful to him in an inquiry into the German banking business in judging to what extent the German banking business is interwoven with international business, etc. That errors may occur here is a matter of course, and whoever has worked in the field of financial statistics knows how very difficult it is to secure a statistical basis for every individual fact. Just as I say that I accept the statistics of the flotations which, though formally correct, are practically misleading, so I say the same thing of the statistics of the Genossenschaften

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[cooperative banks]. I have carefully looked over the statistics of the Genossenschaften submitted to us and I consider them, as they are put and explained, erroneous, for the same reasons that Herr Schinckel adduced in regard to the statistics of flotations. I am entitled on this point, I think, to speak as an expert. We occupy ourselves—and the president will confirm what I say from his own experience—very actively with this matter; for fifteen years we have been making the most strenuous efforts to obtain correct statistics of the cooperative-bank system. I have not dared to come out officially with the material. I likewise have expressed my objections to this or that point of the document before us, prepared for the commission by the Reichsbank direktorium, but I have not closed my eyes to the importance of the fact that it is extremely valuable as material for criticism and that it then becomes a matter for those connected with the Genossenschaften to bring their criticism to bear upon this material. I wish to add right here that the estimates of the fluidity of the Genossenschaften and of the security of bills issued by them do not at all agree with the facts; they may, indeed, be formally correct, but in substantial effect they are absolutely incorrect in every respect. As far as the Genossenschaft bills, in particular, are concerned, I may state positively that they are, in general, as safe and redeemable as any other bills. I spoke more at length here a year and a half ago in regard to the form and character of commercial bills. The comparative value of the Genossenschaft bill is much greater than is generally assumed. The strictures that have been passed here in the commission, and likewise in this report, upon the fluidity of the savings institutions and the Genossenschaften

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I must characterize as substantially unfounded, for the same reasons that the two preceding speakers have given. Nevertheless I do not feel inclined to discard entirely the statistics before us, for I say that the statistics are formally correct and we must understand how to read them properly, and that is why I welcome this very discussion before we enter upon the real order of the day, for by its means the value of the material is justly indicated and it is made clear to everyone who wishes to consult these facts as a basis for his conclusions what conclusions he can and may draw from them.

The CHAIRMAN. President Heiligenstadt was perfectly right when he said that it is very difficult to read statistics, and I can corroborate his remarks—for I, too, have been connected with the Genossenschaft system for fifteen years—as essentially correct. But here, also, it is supposed that the explanatory remarks to the Genossenschaft statistics, which give only cold figures, shall be read, and that the significance of the figures will by their aid be correctly understood. It is true, as President Heiligenstadt says, that the fluidity of the Genossenschaften must not be judged by these rigid figures alone; and that is why it is expressly pointed out in the explanatory remarks that precisely in the Genossenschaften a certain fluidity is guaranteed on one hand by the partly limited, partly unlimited, liability; and, in the case of rural Genossenschaften beyond that by their association in unions, by the union funds, and, above these, by the strength of the Prussian Central-Genossenschaftskasse. These things must not be overlooked in reading the statistics of the Genossenschaften

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and in making comparisons between them and those of the banks.

Freiherr von GAMP-MASSAUNEN (on the order of the day). Not only every Prussian, but every member of the bank inquiry commission, is, of course, entitled to express his opinions freely and frankly, and just as I do not naturally wish to limit Herr Geheimrat Riesser in this right, I, on my part, likewise claim that right. But it is another question—and I think Herr Geheimrat Riesser, too, might recognize and acknowledge it to be so—whether a member of the commission is privileged to bring before the commission instructions with which he has been charged by others. Who, indeed, has the power to give Herr Geheimrat Riesser instructions? He says that he received this commission from outside.

Doctor RIESSER. No; from members of the bank inquiry commission.

Freiherr von GAMP-MASSAUNEN. Then I would request him to communicate to us the names of those by whom he was commissioned, so that it may be known who stand behind him. I am ready to admit that if members of the bank inquiry commission are in question, the discussion would be simplified if Herr Geheimrat Riesser were to say: "Doctor Weber, Herr Mommsen, Herr Schinckel, etc., have instructed me, and with a view to curtailing the debate, I shall summarize their instructions;" but to receive instructions from other quarters, I should not consider admissible.

A VOICE. Nor should I.

Freiherr von GAMP-MASSAUNEN. Very well, then; we agree here again. [Laughter.] Now, I should like to

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make a remark in reply to Herr Schinckel. If I made a mistake and said "1908," I corrected it just as soon as he described the conditions of 1908. Herr Schinckel apparently did not hear me call out the correction, though it was very audible, for he has not accepted it. According to the stenographic report, I did not speak of the securities admitted in 1908, but of those "of last year."

I should like to point out that I also, as stands to reason, queried the 112,000,000 marks of securities entered twice in the paper. The data for January to October of the current year were of special value for the reason that the remarks state under what conditions the securities were introduced, who handled them, and what object they serve. Now the matter stands thus, that outside of certain emendations the thing is to distinguish between admission to the operations of the Bourse in Germany and actual absorption by the German market. To have these statistics is of great importance. These figures are, as a rule, correct and not misleading, and they serve, in my judgment, to place our dependence on the foreign market in a proper light. If the 1,600,000,000 marks of original shares of the Pennsylvania Railroad Company in Germany are admitted to the operations of the Bourse, then these 1,600,000,000 can, in case of a gold crisis, which may, perhaps, even surpass the one we experienced in the German gold market in the year 1907, be thrown on the German market.

A VOICE. On the contrary.

Freiherr von GAMP-MASSAUNEN. No; they can be thrown on the German market if they are admitted. I wish to say that we are all certainly greatly obliged to

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Herr Schinckel for the correction of mistakes, and I should think that we could have a reprint made of the information on page 26 and the following pages, in which the errors would be eliminated. I would, then, by all means, request that both sets of figures be given; first, the statistics of the foreign securities admitted to the Bourse—these figures can not be objected to in any quarter, for they are well established—and, second, the figures, based upon estimates, showing to what extent they were taken up by the German market. If in floating a foreign loan 100,000,000 marks of it found their way into Germany there is a possibility that the next year 100,000,000 marks, and in the year following another 100,000,000, will again find their way here. These are but estimates which must be more closely characterized.

If Herr Geheimrat Riesser has criticised but a few points in all the vast mass of material presented to us in the printed matter—

Doctor RIESSER. No, no; I reserve the rest for the general debate.

Freiherr von GAMP-MASSAUNEU—then I think I ought to give expression to my gratification that even he acknowledges the essential correctness of this digest.

Mr. MOMMSEN (on the order of the day). The remarks of Herr von Gamp in regard to the statistics of the securities admitted to the Bourse induce me to make an observation. I have for many years been connected with the admission office here and know that the admission office in Berlin and those in other great financial centers are extremely anxious that if foreign securities are to be admitted here it should be not only the small amount taken by the

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German banks to be disposed of here that should be admitted, but the entire issue. In this matter changes have repeatedly taken place; and that is why the statistics are somewhat misleading here also. But now the point is strenuously insisted on, not for the reason adduced by Herr von Gamp that securities held in foreign countries are thrown on the German market, but because the salability of securities held in Germany is, naturally, very seriously affected if they can not be thrown on the foreign market; for it has been found that, as a matter of fact, many such securities placed here first gradually returned abroad. We can not, therefore, draw the conclusions from these high figures that Herr von Gamp draws, and that is why I share Herr Geheimrat Riesser's view, that it is hazardous to publish this kind of a compilation, even after it shall have been corrected. If you utilize such statistics in the way Herr von Gamp does, you bring pressure to bear on the admission offices, so that the admission of the total loan will no longer take place, and thus you harm the German buyer instead of benefiting him.

Doctor HEILIGENSTADT (on the order of the day). I will address still another request to the chairman, and that in regard to the publication of additional matter. I attach great importance to making the present debates as widely known as possible, in order to make accessible to a larger public an adequate discussion of the subject. I believe that this wish can not fail to be shared by all. I should think it would be expedient for the entire material to be systematically printed and published anew, so that it might have as wide a circulation as

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possible; above all, the statistical matter and likewise the stenographic reports of the hearings of the experts. I regard this as extremely important. And from a scientific standpoint, I hold it to be proper that our material be made available for scientific research, for it is by means of such research that we shall really make progress. How far it will be possible to make public the stenographic reports of the hearings of the experts at some future time, I can not judge, since it was promised that the statements would be held confidential. At any rate, I request that the remarks of the members of the commission and all the other matter, including the matter received by or laid before the commission, be subsequently made accessible again to the members of the commission as well as to the Reichstag and other interested parties. The material which came to us in the shape of separate publications has been in part marked up by us with annotations; in part, it may have been lost. I request, therefore, that the material, systematically arranged, with all the papers submitted, be republished and made accessible to the members of the commission.

The CHAIRMAN. Gentlemen, the proceedings of last year, as far as the commission itself is concerned, and the papers connected with those proceedings have already been made public, having been published here by E. S. Mittler & Son. I assume that the same will be the case with the proceedings that are now going on and likewise with the papers which are the basis of those proceedings.

We may, then, gentlemen, begin the actual discussion of the subject. I have permitted myself to hand the members a syllabus of the points to be considered as a

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general guide to the debates, and would beg you to adhere in general, as far as possible, to the scheme thus outlined in the interest of the clearness and order of our proceedings. I hope that the debates will show that this is possible and useful. It is naturally not my object to prevent members, in expounding their views—particularly in the first great general question, which is the central point of interest—while discussing the grounds upon which in the public interest a betterment of conditions in the domain of our credit system appears desirable, from referring briefly to particulars comprised in the subsequent groups of questions and measures. But I would request that the discussion be directed separately to each of these special questions and to the specific measures which are suggested in the proceedings of the experts, and that this opportunity be taken for the expression of any individual desire in the matter. If the members agree with me in regard to this treatment of the matter, I would now ask them to take up the discussion.

Mr. SCHINCKEL (on the order of the day). Would it not be possible to lay down more definite lines, so as to keep the debate within bounds? I call your attention to the fact that when the inquiry commission was convoked we were, for instance, informed by the Government that the system of mixed banks, which had been tested, should not be tampered with; that a separation of the banks should not be thought of. Could not that, for example, serve as a guide, so that subjects that we are not at all called upon to treat should not be discussed? I believe, moreover, that I was not wrong in assuming

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that it was the resolution of the Reichstag of May of this year that occasioned the resummoning of the inquiry commission at this time. This resolution of the Reichstag has its limits, however; otherwise I can not see why we did not treat the subject more fully last year. But, if I should be mistaken in the matter, if we are actually to enter once more into a full inquiry into such far-reaching questions, then I would ask how many weeks are we to sit here? For since the Reichstag convenes on the 30th and a part of the members of the commission are likewise members of the Reichstag, the matter will be rendered vastly more difficult. I think, therefore, that we should have a somewhat more circumscribed field of discussion laid out for us than appears in the syllabus that has been presented. We should then, I believe, advance more rapidly.

Freiherr von GAMP-MASSAUNEN (on the order of the day). I should think that too much time would be taken up if we should follow the proposal of our honored president and treat each question separately. Nor can I even conceive the possibility of such a sharp division. How, for instance, can one take a stand on the question of security and fluidity without at the same time taking a stand upon what is understood by fluidity and the means by which fluidity is meant to be brought about? I believe that if we confine ourselves to showing clearly, in systematic sequence, the standpoint that each one occupies on this question, the proceedings would, in my judgment, be greatly shortened and at the same time be more comprehensible. We should have an utterly disjointed discussion if the members were to speak first of what is

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meant by public interest, by fluidity and security, and if, days after, they were to speak about the means by which fluidity may be secured, and again, days after that about how the balance sheets of the banks are to be made up.

These are really all only means of producing a greater degree of fluidity. The object of these balance sheets is that the public be informed of the condition of the bank, and that the banks may find in them reason for adopting better methods. It was a different thing with the other question sheet; entirely isolated groups of questions were involved there, toward which one could and had to assume a stand. But now it is only the deposit system that is left, and I think it would be desirable to take a position on the whole question and not dismember the discussion into ten or fifteen main and subsidiary questions.

The CHAIRMAN. The questions, gentlemen, that occupy us to-day constitute the second division of the questions laid before the bank inquiry commission by the Bundesrat a year and a half ago; and I think we shall not be able to avoid a settlement of these questions, nor to confine ourselves to what Herr Schinckel has kindly indicated, namely, the wishes of the Reichstag. It was not the wishes of the Reichstag that caused the adjournment of the commission; the wishes of the Reichstag were made known only this spring, while the adjournment of the commission took place last year, and it was due to the circumstance, as Herr Schinckel probably knows, that a new element had come into the case, which interfered with a final judgment on the whole question—an element affecting one-half of the question, namely, our view of the policy and organization of the private banks, which is a necessary part of

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the foundation of any conclusion on the question as a whole. This new element was the decision of the Berlin great banks to publish their intermediate balance sheets; and another reason was that it was impossible to sift the comprehensive and intricate material which the proceedings of the experts brought to light, and prepare a lucid compendium of it for the members of the commission. And finally, the third reason, gentlemen, was that a series of publications of the statistical department, which were to serve likewise as the basis for the deliberations of the commission, had become desirable, but could not be completed in a few days. These were the causes that made the adjournment necessary, but which can have no influence upon the range of the subject we are debating here.

Doctor STRÖLL (on the order of the day). I should like to put a question. A year and a half ago the Government made a declaration, in the form of a programme, which tended in a certain direction. When the sessions of the commission were opened it was emphasized in the opening speech that the Government did not favor the separation of the deposit banks from the stock banks, etc. I may assume—I have heard nothing to the contrary—that the Government and our honored chairman still occupy the same ground. If this should be confirmed by the president of the Reichsbank, there is a great mass of discussion that becomes irrelevant. If the adoption of a law concerning deposits, and in particular of regulations governing them, is to be discussed, then the question of this separation is of the highest moment. For a separation of the deposit banks from

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the stock banks [*Effektenbanken*] there is, in my opinion, no historical foundation, and I would by no means advocate it; but if it is eliminated from the discussion at the outset—and I think it must be eliminated—then the debates concerning the kind of normative regulations it might be desirable to make for deposit institutions would be confined to comparatively narrow limits. The disposition that the president of the Reichsbank has proposed appears to me appropriate and expedient in every respect.

Freiherr VON GAMP-MASSAUNEN (on the order of the day). I would ask you, gentlemen, not to make the attempt to fix definite limits at the outset on the basis of an authoritative declaration of the president of the Reichsbank. I must say that it did not strike me pleasantly, even the last time, and I think that precisely in this question—I believe, for that matter, that no such suggestion will come from any other quarter—we should avoid anything of the kind. I am very doubtful whether it would be expedient—nay, I regard it, on the contrary, as inexpedient—to say that the Imperial Government does not contemplate a separation of the deposit banks, and that it is therefore not to be discussed.

A VOICE. But this has actually been stated in the paper intended as our programme.

Freiherr VON GAMP-MASSAUNEN. By whom has it been stated?

A VOICE. In the name of the Imperial Government.

Freiherr VON GAMP-MASSAUNEN. But the Reichstag, too, has its initiative, and I think you do not render any service to the cause if at the start you wish in a way

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to muzzle us. I have no intention of making a suggestion in the direction of a separation of the banks, nor do I believe that it will proceed from any other quarter, but I think a most disagreeable and painful impression would be created at the outset were the Imperial Government to declare that it does not wish to have any opinions on the subject.

A VOICE. It has so declared.

Freiherr VON GAMP-MASSAUNEN. If you will kindly refer to the stenographic report, you will find that it does not say that it was in the name of the Bundesrat, which, after all, is one of the two factors of legislative power, nor in the name of the "Imperial Government"—I do not know what Doctor Ströll understands that term to mean—

A VOICE. I beg pardon; that was a slip.

Freiherr VON GAMP-MASSAUNEN—that such a declaration was made.

I consider the question sheet proper and would express myself against entering into discussion—first, under No. I-1, upon the public interest in the regulation of the question; then under No. I-2, upon security and fluidity; then under No. II-1, upon normative provisions; for I am of the opinion that we must take a stand systematically on the whole question.

The CHAIRMAN. I beg permission to make a few remarks. At the opening of the bank inquiry it was certainly declared that the imperial chancellor, and, if I remember right, the Bundesrat, did not contemplate a separation between the deposit banks and the mixed banks. This declaration is just as valid to-day as it was

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then, and will, I assume, exert some influence upon the commission in the way of a certain moderation in the discussion and judgment of this problem. The questions that occupy our attention are, however, of such an exceedingly complicated nature that I do not intend to cut short every word that may be spoken beyond this narrower subject. We have, as a matter of fact, been placed in similar circumstances in former proceedings, where individual members declared that they would on the intrinsic merits of the case, for such and such reasons, advocate a separation of the deposit banks; but that if this can not be accomplished, then they would pronounce in favor of such and such measures, which, while perhaps not as good, are, at any rate, advantageous. Nor do I believe, gentlemen, that there is any disposition in this inquiry commission to actually separate by law our deposit banks from the credit banks. ["Very true."] Meanwhile I am of the opinion that the disposition is not in favor of regulating our entire credit system organically by a comprehensive law regarding deposits, and of putting it on a different basis; that the commission is aware of the gravity of the question; that conditions which penetrate so deep into our economic life, which are still wholly in a state of flux, and are woven of such multiform threads, can not be regulated offhand and at once by a legal decree; and that, perhaps—I do not wish to enter into any criticism, I merely point out a possibility—the only thing for individual members will be to propose separate measures, be it of a legal, administrative, or voluntary nature, regarding separate points which they think need amendment; and that the chief consideration will be to indicate

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clearly the points in our economic development and in the development of our credit system where, in the individual's opinion, flaws have been exhibited; to place the finger on the wound, and then, perhaps, wait to see whether the pressure exerted by the disclosure of those conditions upon the parties concerned and also upon the supervising authorities has not of itself meanwhile exercised a salutary effect; and, gentlemen, I feel convinced that the pressure of your votes in that direction will, indeed, be a strong one.

But if Herr von Gamp asks what may be discussed or should be discussed under Point I of the general discussion of the question, and whether it would not be better to enter at once into a discussion of the separate measures, I would submit it to your judgment whether such a course would be right. It appears to me, according to the entire impression produced upon me by the proceedings of the experts, that the separate measures can not be judged at all without making clear to ourselves whether or not injuries wrought by our economic system and by our credit system, that require amendment, have actually been disclosed—and for this reason, gentlemen, since in our opinion this whole question is the crucial point of the matter, we must perforce enter into the general discussion first.

On the one hand, the question at issue is the credit institutions peculiar to our credit system: Genossenschaften, savings institutions, banks. I would request you, in discussing the general question, as well as the separate measures, to keep these three kinds of credit institutions apart. But, gentlemen, I should like, in order to give

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at least a brief reply to Herr von Gamp's question, without wishing to indulge in any sort of criticism, to make a few remarks. The first question that will be considered in the debates will, I should say, presumably be the credit system of the banks; it occupied the foreground in the proceedings of the experts and likewise in public discussion; and along with it in the foreground we shall have the question of the maintenance of the fluidity and soundness of our credit system and of our economic life. Now, gentlemen, that the organization and development and policy of our banks are intimately connected with our entire rapidly advancing economic development is surely beyond doubt. Many foreign countries envy us for the efficacy of our banks, and even in England this view, as opposed to the separation of the credit from the deposit banks, which obtains there, and which was often held up to us formerly as a model, is being advocated more and more widely; and it is ungrudgingly recognized—I may indeed say without any serious contradiction—that our economic development has been vastly advanced and in part only made possible through the development and activity of our banks. Gentlemen, this, too, is a consequence of the ever greater concentration of capital in the banks, of the steady increase of deposits, or—if, owing to the uncertain and fluctuating character of this term, I may replace it by the more general term—of outside moneys. And this we must not forget when we shall come to consider this question. But, gentlemen, with this development, the banks, as has been pointed out in many and important quarters, have become more and more the guardians and custodians of the fluid working capital of

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the German people and of our economic interests generally. This constitutes them responsible powers in our public life and imposes duties upon them. And just here, gentlemen—and these are the points that I would at least indicate as an answer to Herr von Gamp's question—it is pointed out in many quarters that elements did nevertheless make themselves felt, most particularly at the time of the last great crisis, which admonish us to caution and suggest misgivings; misgivings bearing on the public interest.

I can only go into the matter briefly. On the one hand, the danger is pointed out that the vast capitalistic power conferred by the outside moneys has led to an excessive sinking of what should be fluid working capital in our economic life, in permanent investments and long-term credits, as, for example, in the supplying of permanent working capital; that this danger is further heightened by an immense and unsound increase of bank acceptances and bank drafts in so far as they do not proceed from mercantile transactions, but serve again merely as credit grants; and that here again there is danger that, owing to the ease with which credit may be obtained, great numbers of our people stretch their credit to an inordinate extent, and that this overstraining of credit represents a continuous burden on our money market and may lead to an unwholesome and dangerous development.

On the other hand, gentlemen, it is contended that, owing to the growing power of the banks in the money market, and to this development based upon overextended credit, the position and influence of the Reichsbank itself have experienced a change, as has likewise happened to

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our great western neighbors—it being the reason why in England this question has recently been absorbing so much attention—and that the very great and, under certain circumstances, dangerous strain upon the Reichsbank is connected with these circumstances.

Furthermore, gentlemen, to take up another point, it has been indicated that to this development the strong reform movement in favor of the introduction of checks—of substituting cash-saving devices for cash payment—has of late been added; but that every step whereby we approach these ends, which are by all means desirable, involves other dangers; the danger which in England, too, is specially emphasized, that the credit structure will grow apace with increasing rapidity and the metallic basis upon which it rests become steadily narrower. England has come down to the single-reserve system, which is to-day regarded as dangerous by many authorities in England, and that is why I have laid before you the interesting compilation of English opinions on this subject.

Gentlemen, I confine myself to these suggestions. I merely wished to show that enough elements of a general nature are before us, and have been set forth in the proceedings and the opinions of the experts, to justify placing a general section before you first, in order to probe those considerations, to elucidate the economic development of our credit system in Germany, and to find the basis here upon which we can form a judgment on the question: Are the existing evils so great that interference should be resorted to; and, if so, what measures should be taken?

I should think, therefore, gentlemen, that it is the right thing to take up these general questions first—and there

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are, besides, a whole series of others—and center into special debates only later on. But here, too, it rests with you to set forth any opposing views, so that we may come to a clear understanding as to the course of our proceedings.

[I would add, furthermore, that if it meets the wishes of the members, I propose to have the sessions in the morning until about half past 1, as last year; then a recess of about two hours; and in the afternoon at half past 3 or 4, just as the members may desire, to continue our debates, which, since gentlemen are apt to have so many engagements in the winter season, will probably close at about half past 6 or 7.

Mr. SINGER (on the order of the day). I regard the arrangement, as it is presented to us, as most satisfactory, and agree with the president that it is absolutely essential to enter into a general discussion, because I believe that if in this general discussion it is determined in what special fields the abuses and evils occur, the special deliberations will be more useful and effective. If we begin at once with a consideration of the special questions, we shall unavoidably have very frequent repetitions, while with a preceding general discussion the special debates will assume a clearer and more practical form. If it is found in the general discussion that, on the whole, there is agreement in the commission upon certain necessary measures, we shall be in a much better position, in the special discussions, to reach an agreement as to ways and means, because the answer to the question whether legal measures should be resorted to will already have been given in the general discussion.

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I regard it, therefore—I wish to express myself only on this point—as positively requisite that we enter upon a general discussion, in order to draw the conclusions required for the special consideration of individual points.

I shall, however, venture to make a remark here concerning the possible adoption of a deposit law. This question must be made to depend upon the course of the debate, upon the determination that such a law is or is not required; and I believe that one of the speakers of the commission misunderstood the president in interpreting his remarks to mean that the inquiry commission was to be prevented from expressing its opinion upon the necessity, or it may be the inexpediency, of a deposit law. That, in my judgment, would be absolutely at variance with the functions of the inquiry commission. I think that the commission should be in a position to make suggestions to the Government without restriction. I can not conceive that the Government is resolved in advance to pay no attention to such suggestions if it can be convinced of their justice. We should not at this stage, I think, assume that a deposit law is proposed or, on the other hand, that such a law is not to be considered, but should make all propositions dependent upon the course of the debates. But I do not regard it as the duty of the commission to confine itself strictly to the questions put before it, for it must naturally be entitled to make such proposals as it may deem necessary in relation to our system of banking and credit.

In order to make the work of the commission really fruitful, a general discussion seems to me very desirable. The more fundamental, comprehensive, and effective this

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general deliberation will be, the shorter and more to the purpose will be our treatment of the separate propositions, and I can not conceive that the time of the commission would be economized by cutting out a general discussion and yet having in each individual question to return to the general points of view, for the necessity of any specific measures must be based upon those points of view.

I should, therefore, recommend that the scheme of our proceedings presented to us by the president be accepted.

The CHAIRMAN. Gentlemen, if no opposition is manifested, I shall assume that you will at least make an attempt to begin the discussion under the guidance of this scheme, and I would request members to give me notice of their intention to speak.

Doctor LEXIS. The first question to be considered is whether there is a public interest in the regulation of the matter before us for debate, and I wish to state my views on that point.

For the great body of the people the object of greatest interest, as is well known, is that of preventing the owners of small savings from being enticed by the offer of high rates of interest from taking their savings to the banks and bankers in order to obtain higher interest than is given by the savings banks. That such things happen is beyond doubt. We saw, also, notably in the year 1907, that in many quarters, particularly on the part of small bankers and small banks, very high rates of interest were offered; they were published in the papers, too, and many people of slender means were

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thus induced to place their savings in that way. At that time this did not, as a rule, result in embarrassment or loss to the people; the small banks and bankers raised the rate of interest on their loans to from 7 to 8 per cent, and could consequently pay from $4\frac{1}{2}$ to 5 per cent on demand deposits. But these were, in great measure, business men, who could in reality hardly lay claim to the name of bankers; small money-changers who, however, by calling themselves bankers, are invested in the eyes of the masses with a certain prestige, and often thus actually attract considerable quantities of savings. This is unquestionably bad, and it is a thing to be discussed whether some sort of measures might be adopted to protect the great mass of people of small means. It will, in my opinion, hardly be possible, but the question can be discussed later, and this would be one subject that certainly represents a general public interest.

Next to this the public is interested, it appears to me, in securing for the prospective development of the check system the most positive guarantees possible for that part of the public that does not belong to the business world, yet wishes to avail itself of the check system. We must, therefore, distinguish between those real deposits of savings consigned to banks and bankers by people of moderate means, with the object of actually saving, and check deposits consigned to banks by non-business people. In the latter case there is not the danger inherent in the case before mentioned. Here, namely, no promise of high interest can be made; our check deposits will, under any circumstances, command only very moderate rates of interest, and, altogether, we have

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not the danger here that people—and they are, besides, persons of a wealthier class—will be induced by enticing promises of interest to take their money to the banks. The question, then, that would come up for discussion here would be simply: What precautionary measures should be adopted in case of a great development of the check system so as to render moneys of that kind secure for non-business people? In my judgment nothing in that way could, indeed, be practically done; nevertheless, the question might be discussed, particularly as here again some smaller banking concerns or bankers, as they term themselves, might, perhaps, use the opportunity to attract moneys.

Then, there is a third point which also, and that to a higher degree, might touch the public interest, the question of the relationship between account-current debtors and account-current creditors. In this case the business patrons of the bank only are involved; one could, therefore, define the class very sharply and say that the only persons in question are those entered in the commercial register who, according to the bourse law also, occupy in other respects as well a particular position.

It might be said that business people having accounts with a bank form a group by themselves, and the account-current creditors and account-current debtors are, indeed, very intimately connected with each other; the creditor may become debtor, and vice versa. Here comes in the question, How is the working capital of the business world in general managed? The current-account creditors are, for the time being, holders of fluid, temporarily unapplied capital, which is in the banks; their credits are not

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savings deposits; they are deposits of another kind, which it would be best not to call deposits at all, or to call credit deposits. These may, to be sure, be jeopardized, as happened, for instance, in the striking case of the Leipziger Bank, by the investments made by others (with the aid of this temporarily disposable capital) being ill judged, by their being in some way tied up—in other words, it may be that the debtors of the banks do not stand in a proper relation to the creditors. The chief danger, which seems to me to represent the kernel of the question before us, must be recognized in this: Is the fluidity of the debtors as opposed to that of the creditors rightly gauged in the accounts current? Here, then, we should have another question of very great general significance; much more important than the first question which, economically considered, would, after all, jeopardize relatively only very small sums, while here far greater possible dangers might be involved.

I would, for the rest, remark that it is not by any means inherently necessary that there should be a disproportion of that kind between credits and debits. As a matter of fact, as I wish to state at the outset, we see from the statistics of the assets and liabilities of the banks communicated to us, that precisely in the case of the largest banks almost exactly the same sum is found in the balance sheet for account-current credits as for account-current debits; in the case of the other banks, on the contrary, the amount of debit moneys is greater than that of credit moneys, and, indeed, considerably greater. But this would lead to the special questions themselves. I shall not go into the matter any further.

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This question of the proper relation of debits to credits in the accounts current—consequently in the affairs of business in which only business men are concerned—would again represent a distinct and perhaps the most important side of the problem before us. With it, furthermore, is allied the question: Are these outside moneys employed for purposes which have perhaps no connection at all with German economic activities? Are they employed, namely, in foreign business, in foreign promotions, syndicates, loans, and the like? That is a question that is often insisted upon with exaggerated emphasis. In my opinion it is very desirable that we should have as many safe investments abroad as possible. This question, however, is not directly connected with the deposit question, for Argentine railways are not built with deposit moneys—deposit moneys are not directly applied to that; at most, then, it can only be a question of temporarily employing the deposits for the purchase of newly issued shares or foreign obligations. That, however, is only a passing employment of the moneys whereby the average fluidity of the outside moneys in the banks need not be at all imperiled. But at any rate a point is presented here which might be discussed.

DOCTOR WACHLER. I think that in view of the fact that since the year 1857 in the joint-stock banks alone the credits increased from 90,000,000 marks to over 5,500,000,000 at the end of 1908, and the deposits from 110,000,000 to over 2,750,000,000, and the credits and deposits combined at the close of 1908 in the Kreditgenossenschaften amounted to nearly 3,000,000,000, the deposits of savings in savings institutions to over 15,000,000,000, that the

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consideration of the deposit system touches the public interest in a very great measure.

Along with this, as a matter of course, the next and most important things to be considered are the *security* and the *fluidity* of the investments made with the deposit and savings moneys.

This question, as the president has pointed out, was originally publicly agitated chiefly in connection with the question of insufficient security. Passing gradually from arguments upon security, other points—inadequate fluidity and the management of the moneys—were taken up. Perhaps they were taken up only because it was seen that the objection of inadequate security, especially in the case of the joint-stock banks, was without foundation, and yet the critics, having begun to find fault with the deposit system as carried on by the credit banks, did not feel disposed to drop the subject altogether.

Now, it appears from the tables of the bank statistics that in the case of the credit banks, particularly those having a capital of over a million, in view of their spare capital and surplus and also of their easily realizable resources, no danger can be apprehended either to the security or to the fluidity of the deposits and outside moneys. In the case of credit banks with a working capital of less than a million these conditions are, to be sure, not as favorable, but, then again, smaller quantities of deposits are here in question. The experts who have been questioned have almost without exception—only Doctors Ruhland, Kreth, and Vorster desired still further provisions for the security and fluidity of deposits—acknowledged that on the part of the credit banks adequate security and fluidity of deposits are offered.

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On the basis of the opinions of the experts we must, accordingly, answer the question propounded under Point VI unreservedly in the negative, the question being:

Does it seem warranted in the public interest to take care, by way of legislation, of the security and fluidity of the investment of deposits and savings?

Nevertheless, some of the experts have in their opinions spoken of a limitation to the extent that—

1. They recognize existing conditions as satisfactory only under the present managers of the credit banks, but perceive danger should these managers be replaced by inferior ones, and desire such danger to be counteracted by legislation.

2. They see, irrespectively of this, a danger in the concentration of the great banks.

3. Even if they have no misgivings as to the security and fluidity of the deposits, they nevertheless take decided exception to the kind of uses to which these funds, representing the national working capital, are put, especially by the great banks, and desire a more satisfactory economic utilization of these funds.

As regards the remark that confidence may be placed in the present managers but that there is danger that other people may in their management of the banks misuse such such funds, I would make the following observation:

It is recognized in England and France, as well as at home, that the development of the German banking system has for many decades been most admirable. This development the banking system owes to the predecessors of the present managers; and just as their predecessors found capable successors who have furthered the work begun by

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them, it may be assumed that the present managers will, in their turn, find and attract successors who shall know how to continue their activity in a salutary way. No legislation would be capable of securing qualified people. ["Very true!"] But to limit by legislation the activity of the managers, which is regarded as efficient at the present time, and confine it within rules, would be both perverse and futile. Financial conditions are affected to a most far-reaching extent by every incident in the economic concerns not of Germany alone but of the world at large, and their treatment requires the utmost freedom of motion. Moreover, any legislative requirements would be evaded by dishonorable and unscrupulous persons, and in fact no legal measures can secure the absolute protection of depositors. If it were possible, without doing injury to our economic interests as a whole, to secure a part of the deposits by certain measures, though it were by transporting the funds to some sort of a *Juliesturm*, this would affect only such a minute fraction that no security would thereby be created for the deposits which could in the remotest be compared to the injury that free economic activity would suffer from such legislative experiments.

As for the fear of the concentration peril, it has been playing a great rôle recently in our economic life, but I can not understand how scientific men, who have gained a wider insight into economic conditions and are able to compare the events of the past and the present with a fair, critical judgment can share such a feeling. We all know the proverb that trees can not grow up to the sky, and we know from the history of nations and of the

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development of states, how in these fields concentrations of various kinds were developed, but also that when these agglomerations went beyond the limit of wholesomeness they disintegrated of themselves. It is barely for two decades that we have witnessed here in Germany a strong movement of concentration in the economic sphere—industrial as well as financial; and I believe that the movement has been entirely justified and has thus far been a wholesome one.

Just consider the development of our trade, our commercial relations with all the leading countries of the world; cast a glance at the progress of our shipbuilding, our mining, our electrical industry; lately, too, the utilizing of water power; and recognize from this what vast demands have been thereby made upon our iron industries and machine shops in order to produce the magnificent machinery and other elements that have been necessary. In all other departments of industry and business, in building, in municipal life—elevated and underground railways, colonization, canalization, etc.—conditions have changed in every way on so grand a scale that it should be no matter of surprise to anyone if in industry and in the domain of finance a considerable concentration has been developed. I regard it as an inevitable necessity, and I look upon it as a piece of good fortune for our country that farseeing men were quickly enough found who recognized the needs of our day in good time and acted in accordance with them. No one, I should think, can doubt that if our industrial and financial world were still in their dwarfed condition of about fifty years ago, they could not do justice to the demands of to-day, and that if we had

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maintained the old and more patriarchal point of view, we could not have advanced to our present political development either.

Nobody, it may be presumed, will wish to dispute this. But now come the anxious and the omniscient, who perceive in this development excrescences and abuses for the future, and think, therefore, that they can, by way of precaution, establish by legislative means regulations which will guard us against such dangers. That is a mistaken idea. It is precisely economic development—which, along with the ever-changing views and necessities of life, is in a constant state of flux—that can least suffer legislative regulation; it can be regulated only by the sound sense pervading our social and national life, not by legal paragraphs, which can have only a detrimental and obstructive effect and can not possibly serve any useful end. I would refer to the trusts and syndicates. In that field, too, many politicians perceived the danger of abuse and wanted to anticipate it by legislation and government control. A decade has elapsed since measures considered appropriate were discussed, and, finally, further development was left, after all, to run a free course. The dangers apprehended not only did not materialize, but the National Government and many business interests are resorting to every means to secure for the potash industry the continuance of a syndicate. In the domain of financial management, too, then, matters may be calmly left to develop themselves, and people will become convinced that the concentration now objected to will continue to progress in a wholesome way and prove useful to our economic life.

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But, finally, the main objection raised by some experts against the accumulation of great quantities of deposits proceeds from the idea that the great banks do not dispose of these moneys in an economically desirable way, nor in accordance with the intentions which the depositors would probably wish to see carried out.

Were this reproach justified, a remedy for such an abuse would, indeed, have to be considered necessary in the public interest and the question considered whether legislative interposition might not be requisite and expedient, or what other measures would have to be adopted.

But, to begin with, the assertion that the great banks dispose of the deposits in a different way from that desired by the depositors appears altogether vague, absolutely unsupported by any proof. Whence do the critics gather how the depositor wants his funds to be employed? No actual material of any kind for the proof of such an assertion has been brought forward by any expert. Such a presumption is, indeed, entirely incompatible with the facts; if a depositor in a great bank were to signify how he wished the bank to employ his money, the bank would either unqualifiedly comply with that arrangement or decline the deposit altogether. It appears from the statistics of the German joint-stock banks that the deposits in the credit banks rose from 119,712,000 marks in 1872 to over 2,500,000,000 at the close of 1908—increased, therefore, about twenty times. One must naturally conclude from this that the depositors were not of the opinion that the banks employed deposits in a way contrary to their wishes, for otherwise they would undoubtedly have taken their funds not to the

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great banks but to other institutions, such as the Seehandlung, the Preussische Zentral-Genossenschaftskasse, the Provincial-Credit institutions, the agricultural banks, the communal banks, etc.

Still more serious is the charge that the great banks do not employ the funds consigned to them in an economically desirable way. The great service that the banks have rendered by attracting and utilizing the disposable funds of the people, contributing thereby in such great measure to the increase of the national wealth of Germany, is universally acknowledged. Diametrically opposed to this view is that of the experts—very few of them, to be sure—who hold that the deposits have not been managed in an economically desirable way.

Such a false conception can be explained only on the score of the peculiar economic and political attitude which these experts represent.

These gentlemen take an altogether one-sided, agrarian point of view, and demand that the deposit moneys should be withdrawn from the great banks because they misuse them by granting too much credit to industry and commerce, while the money ought to be applied to the strengthening of productive agriculture and the raising of the market price of government securities. They see in the deposit moneys of the great banks a means of bringing about an overstraining of credit in industry and commerce; of keeping up, on the part of the Reichsbank, a high rate of discount, to the detriment particularly of the middle class and of agriculture, and notably also the floating of foreign securities to the detriment of domestic needs, and the strengthening of foreign competition

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against productive domestic industries. In my judgment, such a view, founded directly upon jealousy of industry, commerce, and the Bourse, is wholly erroneous, and completely lacks any real and objective basis. It is altogether incorrect to say that the great credit banks intentionally withhold credit from agricultural concerns in the interest of industry and commerce or of speculators on the Bourse. Agriculture is more than sufficiently provided for by the Provincial-Credit institutions and the Zentral-Genossenschaftskasse, and it is well known that in spite of the immense increase of all land values in the last decades, landed property is burdened to excess with debts—

Freiherr VON GAMP-MASSAUNEN. Only too true.

Doctor WACHLER—so that efforts are being made to free landed property from debt by means of legislation. Personal credit has been granted to agriculture in quite adequate measure and with very favorable conditions through the Zentralgenossenschaftskasse, as the yearly accounts of that institution show. The statement, therefore, is erroneous that our economic equilibrium suffers from the use of the deposit moneys by the great banks in favor of industry and commerce. Another thing to be considered is that besides the deposit moneys in the great banks, amounting, according to the bimonthly statements, to almost one and a quarter billions, nearly 2,000,000,000 marks in deposits in the cooperative credit banks and over 15,000,000,000 marks in deposits in the savings banks must be taken into account, of which a very considerable part is employed in the interest of agricultural credit, so that there can by no means be any question of a

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disturbance of the economic equilibrium to the detriment of agriculture. That no prejudicial influence at all is exercised by the great banks upon bank discount, and surely not by their manner of employing the deposit moneys, Herr Fischel has heretofore set forth, and it has likewise been established in many ways, by those professionally qualified to decide, that there has been no detrimental flotation of foreign securities. In the document presented to us dealing with the question of the statistics of flotations it is convincingly shown, too, that all statistics in regard to the flotations of foreign securities are thoroughly unreliable, because they are based solely upon the reports of the admission offices, which exhibit merely the total amount of the flotations and not the sums actually taken up by us, and recently upon the information gathered from receipts of stamps upon securities, which, however, do not tell what part of the amounts taken up passed out of the country again. Hence it follows that all statements concerning the flotations of foreign securities, especially the kind prepared by Doctor Ruhland, give figures that are entirely false and much too high. The statement in the pamphlet dealing with the statistics of flotations which I have just mentioned shows, for that matter, that operations in flotations of foreign securities have diminished very considerably since 1905, and in 1906 and 1907 did not attain even one-third of the amounts given by Doctor Ruhland, and in 1908 also were estimated to be under a billion.

As to measures aimed at the utilization of deposit moneys to raise the market price of domestic government loans, that point will be discussed further in another

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connection. Here I would only remark that the Government has, I should assume, no sort of legal right to any such interference in the private affairs of the credit banks to compel them to invest the deposit moneys, in whole or in part, in domestic government securities; that the market price of government loans suffers, on the contrary, from the circumstance that great quantities of new loans are put on the market every year; and that an artificial raising of the market price would, in the event of a crisis, result in losses so much the greater to the holders of government securities.

It must, indeed, strike everyone as an exaggeration to hear an expert declare, in the last communications transmitted to us, that our economic life is based upon the unsound constitution of our money market; that, owing to the unbounded license in the investment of money, brought about by the banks, perfect anarchy holds sway; particularly as the same expert must acknowledge that, notwithstanding such a state of affairs, Germany has worked its way up in the economic world in a way that has aroused the envy of all rival nations.

It must, on the contrary, be concluded from this development that it was precisely the great banks that, by their efforts to attract great quantities of deposits and utilize them in our economic life in general, even if in greatest measure in industry and trade, have signally contributed to furthering the growth of our economic life; and the conviction must therefore be reached that it would be entirely ill judged and prejudicial should measures of any kind be resorted to that would disturb the situation.

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Various opinions can, to be sure, be entertained as to what, economically considered, would be the most expedient way of managing deposits; but no one assuredly, can doubt that it would not do to submit the decision to some official authority that can never be as familiar or as closely connected with the movements of economic life as are the managers of the different banking concerns. The introduction of such an authority would only have the effect of promoting concentration, and a mistaken view on the part of such an authority would in critical times lead to altogether unsuspected catastrophes.

Recognizing the great credit due to the banks for the improvement of our economic condition—achieving that object in spite of their activity having, in some respects, been impaired by bourse and tax legislation—it would evidently be most dangerous to follow the advice of those few experts who view the question from a limited, agrarian standpoint and wish to make it appear that the present conditions are thoroughly unsound, while they themselves must admit that they have vastly promoted the national prosperity. The National Government ought to recognize that such propositions can proceed only from a false conception of conditions or from selfish motives, and take a most determined stand in opposition, if it does not wish to conjure up serious dangers to our further favorable economic development. The banks have thus far stood the test perfectly, even in critical junctures.

These are the general points of view upon which I base my position on the question at issue. If it be thought

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advisable to bring forward those points also that were discussed by the experts as determining their general attitude, and which the president has referred to in his remarks, I would state my position as follows: I deny, along with the great majority of the experts, the expediency of issuing normative regulations concerning the acceptance, management, and investment of deposits, and would regard such regulations, for reasons adduced by the experts, which I fully approve, as very disadvantageous, particularly for the reason that the subsistence of the provincial banks and private bankers would by any such measures be impaired to no inconsiderable extent and thus concentration, which many consider objectionable, would only be promoted.

I would limit myself to this general reference to the hearings of the experts, not entering into the separate reasons adduced by them because only a general discussion is called for now. Against the publication of statements at shorter intervals I have no sort of objection. A number of great banks have already undertaken such publication. I would consider it well to leave the further shaping of this publication to the banks and to professional judgment. I do not deem it advisable to prescribe a scheme, but would leave it to the public judgment and the sagacity of the banks interested to find the proper form of publication, one that would afford an insight into the state of business without injuring the interests of the bank.

I would mention in addition that the public does not concern itself at all about the statements; while, for the judgment referred to, the form favored at present

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suffices to yield a correct conclusion as to the security and fluidity of outside moneys in the banks.

As regards the various measures of another kind, aimed at banks that receive deposits, I would just remark that in so far as such measures should be based upon the idea of promoting security and fluidity, I could not support them, if only upon the ground that I believe—and this belief is borne out by the statistics and recognized by a great majority of the experts—that absolutely no misgiving exists, at least as regards the larger banks, as to security and fluidity.

If another justification is further sought in the idea that such measures contribute toward raising the market price of government loans, then I hold that, aside from the fact that that object would not be promoted to any appreciable extent, I can not perceive any just ground for asking the banks to devote themselves to such an object simply because third parties, in consideration of a proper rate of interest, hand their money to the banks to be managed and used by them. The Government does not give the banks any sort of advantage in connection with the receiving of deposits; it can consequently make no just claim to any advantage to be derived on that score from the banks.

Nor can I recognize any just ground for an obligation to place a given proportion of the deposits in the Reichsbank in order to strengthen its working capital, although it may, indeed, be urged that the Reichsbank furnishes the other banks indirectly with money. But it does that for all other discounters and money lenders as well. For the rest, I subscribe to the objections raised by the experts against such a measure.

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Against the establishment of additional state deposit banks I should not raise any material objections. A necessity for such an arrangement I can not, to be sure, recognize, since we have state and municipal institutions where funds may be deposited with perfect security in every city and in every district, in sufficient numbers to satisfy even the most anxious. Besides, I would not pronounce in favor of creating additional competition to the private banks by such measures, which would be prejudicial, above all, to the business interests of the provincial banks.

I fully concur in the objection shared by nearly all the experts against the acceptance by the Reichsbank of interest-bearing deposits and in the convincing grounds adduced against such acceptance.

To the establishment of a supervisory bureau for the banking system, I must declare myself as most decidedly opposed.

Such a measure can not by any means be justified by an analogy with the mortgage and insurance companies. The mortgage banks are granted authority to circulate debentures; and the insurance companies are engaged in a kind of business in which they receive money from the public for a long series of years, paying out a sum of money on the occasion of a definite event or granting a life interest on payment to them of a capital sum. In reference to a peculiar and definitely limited business of this kind under a charter from the Government, the establishment of government supervision is of course justified. Such reasons, however, do not enter into the banking business, which every citizen of the State may follow as a free branch of enterprise.

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Moreover, it does not seem very consistent to me that in a State in which everybody is regarded as politically mature an ever-extending tutelage is sought to be spread over the economic field, ostensibly for the protection of the inexperienced public. Government supervision would not really look after the inexperienced public at all, but only the institutions themselves, which are able to conduct their own affairs, which, as a matter of fact, it would prove incapable of watching over or safeguarding, and which are indeed in no need of guardianship. The alleged inexperienced and unprotected public will in spite of such supervision dispose of their money as they like, and lose, too, under certain circumstances. The supervision would exert an injurious effect upon the banks, crippling them, perhaps, by interposing in their operations at the wrong time; and it would exert an injurious effect upon the public by lulling them into a sense of security and misleading them, by reliance upon the supervision, to neglect examining things themselves. Instead, therefore, of having an educational value in the direction of making the public more self-reliant, such a scheme would promote and maintain their dependence.

That government supervision can not in fact save the public from loss has been shown in the case of the mortgage banks; and yet the supervision in their case is much simpler and easier than in that of the credit banks. The thing is of no real value. But, strange to say, it is of the spirit of the time to demand every possible kind of government supervision, and thereby extend the administrative apparatus and strengthen formalism and bureaucracy—

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Freiherr VON GAMP-MASSAUNEN. Very true.

Doctor WACHLER—while at the same time it is declared to be an urgent necessity to make government administration simpler and less expensive. ["Very true."]

As to other measures, such as the creation of an imperial board to manage long-term deposits secured by state bonds, or the creation of an imperial deposit-insurance institution, I shall not enter into them here, since the suggestions for such measures that have thus far been made are, in the form indicated, certainly not practicable.

My remarks refer primarily to credit banks. I believe, however, that on the whole, unanimity prevails on this point, too, that at least so far as savings banks and *Genossenschaften* are concerned, they are presumably sufficiently *safe*; that in the case of these institutions, if there be any misgivings, they relate only to the question of fluidity. But we must take into account that fluidity in these institutions must be judged from entirely different standpoints from those applying to the case of credit banks, and the experts intimately acquainted with the circumstances have held that even in the former, owing to the peculiar nature of their business, the necessary fluidity is provided for. Where it does not exist in adequate measure redress may be had by administrative means, since the management of the savings institutions—owing to their communal character and to the fact that the taxable resources of the respective communal associations are pledged for their operations—is under the control of the state government.

Finally, another question to be discussed would be how the public might be guarded against loss through bankers

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who, by public or written appeals or by means of agents, entice people to make deposits. This question, of which Professor Lexis likewise spoke, should, however, in my opinion be more closely discussed only in the special debates.

Economic opinion regarding the free development of business activity on the one hand and the undertaking or supervision of business enterprises by the State on the other has changed in no inconsiderable measure from that which was dominant thirty years ago.

Freiherr VON GAMP-MASSAUNEN. Very true.

Doctor WACHLER. But whether increasing governmental interference in the business affairs of private individuals promotes the national welfare is still a matter upon which opinion is greatly divided. Undoubtedly during the period of business freedom a very great advance has taken place in every department of our economic life. This economic development is steadily manifested in a lively activity and assumes the most varied and frequently changing forms, so that it will always be difficult for legislative action to follow this brisk evolution without retarding it by rigid forms. Legislation in the economic field requires, besides, in an especial degree, along with a delicate and just appreciation of all economic requirements, the greatest impartiality and freedom from political agitation. The bourse legislation has undoubtedly been injurious to German economic life. Economic questions are to-day of the greatest importance in world politics. The German bourses have evidently lost in international influence since the enactment of the bourse legislation. In spite of the greatest efforts on the part of the bourse, of industry and commerce, they have

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certainly not gained ground in international business. That is a great loss to the political power of Germany. The advantages gained and the peaceful victories achieved by means of our industry and commerce are the best foundation and greatest aid to the extension of our political power; even more effective, perhaps, than the increase of the army and navy. But it is precisely in international business that commerce and industry require the support of the German banks and exchanges. It is therefore exceedingly hazardous to adopt measures that would in any way interfere with the free activity of our financial and banking world.

Legislative measures of other countries that may be cited can not serve as a criterion for us at all, because the material premises in the various countries—the conditions of capital, the habits of the people, trade relations, and likewise the banking system—have been developed and formed in a totally different manner, so that a transference of arrangements which suit England or France would not by any means be appropriate to our circumstances.

The tax legislation passed in the last session of the Reichstag has heightened the discontent with the previous legislation concerning economic affairs, increased the tension between the political parties, and materially altered the position which they had occupied toward each other. These circumstances, in particular, clearly show that the time is altogether inopportune for the interposition of legislative measures in economic affairs, especially in the domain of the deposit system, since it is precisely there that the agrarian tendencies are in sharp opposition to the other economic tendencies.

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If, according to this, our time has not exhibited a specially happy faculty for lawmaking, all the more urgent should the warning be against legislative experiments, where opinions are still so sharply divided. The financial burden on commerce, industry, financial and bourse business has just recently been directly and indirectly increased and the taxable capacity of the country has been strained in a considerably increased measure for the urgent needs of the Prussian and German fatherland, so that it would be extremely dangerous to come forward just at this time with a legislative act which might not only impair the capacity of the chief sources of taxation, but is avowedly meant to reduce it.

These are the various considerations which lead me to answer the question put under VI, whether it would be advisable to adopt legislative or new administrative measures for the further regulation of the deposit system, in the negative.

The CHAIRMAN. Gentlemen, I abstained from interrupting the previous speaker at several points, but should nevertheless like to remark that in a number of instances—for example, in regard to the question of supervision—he entered into an amount of detail that would carry us too far from the subject. I would request that the subsequent speakers observe some restraint in that respect.

I would, in the next place, gentlemen, give the floor to Freiherr von Wangenheim, so as to bring his judgment to bear also, and make his voice and his views a part of our proceedings.

Herr von Wangenheim, since he is permanently prevented from taking part in the deliberations, has

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transmitted to me the following statement regarding Point VI of the question sheet:

"I gained the impression at the very beginning of the debates in the bank inquiry that the numerous specific questions, useful as they might be in directing the course of the debates, must find their chief usefulness in connection with the consideration of the technical points of banking. The discussion of general points of view would suffer from them. Thus, though the individual parts were in the grasp of the members during the debates, the spiritual bond to unite them was lacking, and consequently also the power of passing judgment on the functions of our banking system in the life of the people. Our bank inquiry, however, should bring to the 'life of the people' something out of life. It has always seemed to me, therefore, a doubtful proceeding to enter so deep into details that there would be danger of not seeing the forest for the trees.

"This impression is specially strong in considering the questions now before us under Point VI.

"The starting point of the whole bank inquiry was the crisis of 1907-8. The great body of the people are looking for an answer to the grave question: 'How can the recurrence of such crises be prevented in the future?' With this in view, I have given a connected general exposition of my opinions on Points I to V, in pages 496 to 539^a of the bank inquiry already published, and would refer to it here also in its entirety. Judging from the questions now before us under Point VI, the impression

^a These are the pages of the translation as issued by the National Monetary Commission.—TRANSLATOR.

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created is that the Bank Inquiry Commission was convoked for the sole purpose of increasing the safety of the moneys intrusted to the banks. I must, however, emphasize particularly that that is only one of the secondary questions which, when the main question is solved, settle themselves. But if this main question—How in the future can the recurrence of great, general crises be avoided?—is left unanswered, then it is, in my opinion, of little practical value to trouble one's self about separate, technical improvements relating to a secondary question.

“The matter that has appeared in print concerning our question since the publication of my statements in the report of the commission, to which I have referred, has only confirmed my views. If, for instance, the *Frankfurter Zeitung*, in its well-known observations on the result of our inquiry, says that crises are the ‘necessary corrective of the haste to get rich,’ that quite agrees with my view of the matter. I differ with the *Frankfurter Zeitung* only in this, that I would check this evil, the haste to get rich, at its source and anticipate its consequences by demanding that banking legislation be framed which will have the effect of admitting to the market only such credit as is economically covered and excluding purely speculative and baseless credit; while the *Frankfurter Zeitung* is content to leave this evil, the haste to get rich, undisturbed in the future and to note again, at the next recurrence of a general crisis, that it is the inevitable result of the haste to get rich.

“I also demanded in the memorandum mentioned an imperial bureau of supervision for our banks and their

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credit transactions. But I can not agree with the view of Professor Fassbender, who would have this bureau cost as little as possible. The Reichstag had under consideration, with material participation of the Center, the question of insuring wage-earners against crises, and it was calculated that 80,000,000 marks of the national resources would annually be required for that special purpose. Now, if it is not difficult to perceive that prevention is by far the best insurance against such crises, and if this prevention of crises rests preeminently with an imperial bureau of supervision over the credit transactions of our banks, then, in my judgment, it is impossible that it should be desired to carry on this bureau with only 200,000 marks, while actual readiness was shown to appropriate 80,000,000 marks yearly as insurance against crises. The question of economy must not enter into the creation of such a bureau. For its responsible management only a certain small number of persons, whom almost anyone could name, can be considered. Their salary should be very ample; but they should be obliged to resign their office as soon as they shall have failed to prevent the occurrence of another crisis [laughter], unless the lawmaking bodies had failed to carry out their proposals of reform. In that case the entire responsibility for that crisis would fall upon those bodies. In this way only will it be possible to interest eminent specialists in helping to organize a modern credit system which will redound to the well-being of every section of the people engaged in productive labor."

Mr. MOMMSEN. Gentlemen, only a few words. I am not present in the afternoons, and should like to make at

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least a few remarks, especially relating to the views expressed by Herr Geheimrat Lexis. If I do not enter into a discussion of the views set forth by Herr von Wangenheim, it is solely because I, personally, do not wish to take part in the consideration of an absolutely insoluble problem. I regard it as absolutely impossible to find a means of preventing economic crises through legislation, a bureau of supervision, or in any other way; and I do not see why I should take up the time of the commission with the consideration of such a question.

I had requested permission to speak when Professor Lexis expressed his views. To begin with, I start, of course, from the same standpoint, that public interest does undoubtedly attach to the question how deposits and savings are managed. Whether this public interest also includes regulating the present management of these savings by legislation or otherwise, I have very strong doubts. I do not think that such an interest exists in the circles that are actively involved; that is, the people who take the money to the banks—I am speaking, first of all, only of the banks. For we should bear this in mind: Our question relates to deposits and savings. We are speaking here to-day—and, as it appears, indeed, with intention—about banks only in their aspect of accepting deposits and savings; and, as a matter of fact—I think every person engaged in banking will confirm this—the amount of the deposits and savings, in their real sense, especially in the case of the greater institutions, is infinitesimally small in comparison with the total of outside moneys.

We must not be misled by the statistics and publications of the banks themselves, for in the hearings of the

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experts it was made as clear as day by the individual experts that no definite line can be drawn between deposits and other outside moneys; it is an absolutely arbitrary distinction. If here, to be sure, the Deutsche Bank, or the nine Berlin great banks, state deposits at about one and a quarter billion marks and credits two and a half billion, and if some method could be agreed upon which would determine what constitutes a deposit of money and what savings—if these sums, amounting to nearly 4,000,000,000 marks, could be separated accordingly, then genuine deposits and savings would be found to be a quite infinitesimally small quantity. It is very clear that the division is a purely mechanical one. It was, indeed, explained to us at the time, that, for example, the Deutsche Bank or the Dresdner Bank separated deposits and savings from the other debits by classifying all the credits of deposit institutions and exchange offices as deposits and everything else as credits. That is, of course, not a true classification. The central and branch banks may also have deposits and the deposit banks may have credits, and in both cases the credits will generally predominate. Consequently, I believe that if only the question of the security and fluidity of deposits and savings is to be considered, the larger establishments—not only the great banks, which are precisely the ones upon which our economical development has in part depended and continues to depend—really* do not enter into the question at all. Where it is that large quantities of such deposits and savings are to be found, the statistics help us to ascertain; it is in the smaller and, in part, the smallest institutions; there the securing of a certain security and fluidity

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is, of course, a desideratum. But if, on the other hand, we introduce definite restrictive measures and thereby lower the rate of interest, it is precisely these smaller institutions, whose maintenance is requisite to our economic development, upon which we shall inflict an immense injury; to the great ones we shall do no harm; they will not be impeded in their development, though their profits may, perhaps, be somewhat reduced.

Freiherr von GAMP-MASSAUNEN. Very gratifying.

Mr. MOMMSEN. Very gratifying—why?

Freiherr von GAMP-MASSAUNEN. Of course it would be very gratifying.

Mr. MOMMSEN. If they were reduced? Oh!

Then Professor Lexis takes up the relation of account-current debits to account-current credits and assumes here that these embrace the debit and credit items of business men only. That is an entirely false assumption. Among the debits, as among the credits, there are, naturally, debits and credits of private people as well as of business men, and up to the present no bank has come to the point of separating these different moneys or debits according to the status of the individual; it would, indeed, be practically impossible, since the one item often passes over into the other.

Professor Lexis was of the opinion that the relation between these account-current debits and credits should be differently treated according as they were private or business accounts, because the employment of credit items—that is, of the moneys belonging to business men—constitutes an entirely separate question in our economics. I believe that he errs on that point. He errs

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not only in the interpretation of those items, but also in thinking that those who have their business credits in the banks feel a very special interest in the question of how this business credit is managed and employed. They have only one interest, like everybody that takes money to a bank, and that is to be able to get it back when they want it. That is the whole thing, and for that I can neither devise a law nor do anything else; the banks themselves must be managed with that in view. As long as you can not make a law that a bank should be conducted in a certain way, it is useless to consider legislative measures tending in that direction.

Now, in the compilation which we have received, in the views of the press, of the experts, etc., and also in the remarks of Professor Lexis to-day, reference has been made to the law concerning checks, and the question has been raised whether it should not be declared a duty of the lawmaking power, or of the banks, to provide special safeguards, more than ever, for the check credits, which are now under legal protection. In the case of check credits, likewise, no distinction can be made between those of private individuals and those of business men; it can not be ascertained what is industrial working capital—which is always in question here—and what is the cash holdings of private individuals. There are check accounts, too, where there is no credit at all; we must not forget that. If the law pertaining to checks shall be used to impose additional duties upon the banks in regard to the investment of their outside moneys, then you will be taking a dangerous step. Ask any bank manager. In the check law the banks have no interest

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whatever—the greater the bank, the less the interest—and if you carry this matter to an extreme, it may happen to you that some fine day the nine Berlin great banks will meet around a table and say: “Since the check law is used, entirely contrary to the predictions and alleged purposes of the lawmaker, to throttle the banks, we shall, in a body, declare some fine day that we shall issue no more checks and shall allow no more checks to be issued.” And this would go, too. We shall thus probably save a great deal of money; but, of course, the economic advantage pertaining to the check system, which is now obtained in great part at the expense of the great banks, will not be secured.

But I would warn you against creating new burdens on the strength of the existence of the check laws, which are alleged to yield great advantages to the banks. Gentlemen, the check credit of every individual is so absolutely safe with the larger banks—I do not mean only the great banks—that unless some uncommon circumstances arise (which may happen even if you pass the most beautiful laws) it is entirely unnecessary to devise any additional special measures.

I do not at present wish to enter into particulars which Oberbergrat Wachler has discussed. But I think that we should not allow the occasion of this inquiry to pass without making it unmistakably clear to the public that no laws are really of any use in these economic questions; all that is necessary is to bring about a good organization of the banking system of Germany. The basis of that organization is to be found in our commercial code, and, furthermore, in the element of personality. We can not

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do anything beyond that; and I would earnestly warn against the advocacy of any changes by this commission. We should thereby only inflict a vast amount of injury, and could do no good whatever.

Freiherr von GAMP-MASSAUNEN. Gentlemen, that public interests are involved in this matter I feel is beyond doubt. Our entire money and credit system is so closely bound together that it is impossible that mistakes and evils that may occur in one department should fail to affect the whole of our economic life. But I do not conceive this public interest to consist in providing an absolute guarantee that every individual will be guarded against loss; that is impossible, and it is not the function of legislation, either in this or any other field. Hundreds of millions are lost through bankruptcy, because the buyer or the seller did not keep his eyes open, and engaged in business transactions with unreliable persons; and losses will likewise occur if the same carelessness is committed in depositing savings. On the whole, we may say: The losses in savings are comparatively slight, and, from this point of view, there can be, in my judgment, no ground for legislative interposition. [Hear! Hear!]

One remark in this connection. Why are the losses in savings deposits so slight? The largest amounts are held by the public savings banks. The savings banks are absolutely safe by reason of government supervision; they are safe because the disposal of the funds is given the widest publicity; because a certain number of persons naturally keep track of these matters. If 30,000 or 20,000 marks are given to some one on a mortgage upon a certain piece of property by the savings bank of any

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district, any community, the entire public has its eye on the matter, and if this sum is not secure it is immediately discussed and the remedy resorted to. Besides the savings banks are backed by the communes, which have thus far in Germany proved themselves perfectly capable of fulfilling their duties.

The Genossenschaften (cooperative banks) also I would credit with absolute security; for, whether they are Genossenschaften with limited or unlimited liability, the guarantee is considerably greater in every Genossenschaft than the amount of the obligations. There have, as a matter of fact, therefore, been no material losses of savings in the Genossenschaften.

Mr. MOMMSEN. Is that so?

Freiherr von GAMP-MASSAUNEN. Some of the members of the Genossenschaften have lost their money there; but that is quite another matter, into which I do not wish to enter. But through the auditing arrangements, through the supervision of state authorities, and particularly now through the Preussenkasse, there is brought about such a safeguarding of the obligations of these institutions that losses to depositors are hardly possible. The Preussenkasse, and likewise the Genossenschaften, inquire so closely into the personal circumstances of the individual cooperative members that it hinders many from joining the Genossenschaften, since they object to having all their financial and property concerns made known to outsiders.

Thus, gentlemen, security in my estimation is so well provided for that the interposition of legislation is absolutely unnecessary here.

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But how about *fluidity*? The savings banks, gentlemen, really seldom have actual fluid resources. In speaking of fluidity we must distinguish between real fluidity and fluidity as it is understood in ordinary life. Short-term bills, state securities, debentures, etc., are spoken of as means of securing absolutely the fluidity of an enterprise. That is, in my opinion, a mistake. I can not always dispose of a bill. For state and municipal securities, to be sure, a purchaser may be found any time that one wishes to dispose of them; such papers, then, are means of bringing about fluidity, but this is not true of bills, even though they be absolutely safe, which can be realized on only by taking them to the Reichsbank. The savings banks, Genossenschaften, banks, etc., do not wish, however, save in exceptional instances, to sell the state and municipal securities, but to use them as collateral for money which they temporarily need. For such loans on collateral they can count with certainty only upon the Reichsbank. But in the same measure in which the Reichsbank accepts bills from the savings banks or the Genossenschaften or advances money to them on consols, etc., in order to secure their fluidity, it weakens its own resources, which it requires for the fluidity of its own obligations. Thus, gentlemen, it is not an assured fluidity for the savings banks or the Genossenschaften to have government securities, bills, etc., at their disposal; fluidity must be brought about in some other way.

How, then, is the fluidity of the savings banks to be secured? For this purpose it would, in my opinion, be expedient to provide that the savings that may be withdrawn at any time or those that can be withdrawn at

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very short notice shall not exceed a certain percentage of the total deposits. I think that such a restriction would not be at all prejudicial to the economic interests of the public. A person who to-day takes his money to the savings bank is asked by the bank official: "Do you wish it to be payable to you at any time or upon notice?" "Well," says he, "I would rather have it payable at any time."

[An interruption by Mr. Mommser.]

Freiherr VON GAMP-MASSAUNEN. But it is withdrawable at any time.

The CHAIRMAN. There is no uniformity on that point.

Freiherr VON GAMP-MASSAUNEN. There are, of course, people who want to be able to withdraw their money at any time, and some of the savings deposits would not be made if they were not withdrawable at will. In that respect the savings banks ought to be subject to certain regulations, so that the demands which have to be satisfied at any time should not attain too great proportions. Precisely in the case of savings banks a disturbance rarely exerts any material influence upon the general credit and money system, because the runs upon savings banks are mostly, or exclusively, traceable to local causes. If there is a run upon a particular savings bank, it happens because certain reports are circulated in the city that the manager is not reliable, or that some irregularities have taken place; but, except in case of international troubles and wars, this disturbance will not spread all along the line, and will, therefore, not produce any serious effects upon the general money and credit system of the nation.

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The fluidity of the Genossenschaften and the savings banks, then, is not sufficient. It must be demanded that both shall have at their disposal at all times a certain portion of their savings deposits in ready money, and that another portion shall be put into investments that may be realized on at any time, such as bills and government securities.

In the case of private banks, gentlemen, the circumstances are quite different. I recognize perfectly that not only the great banks but also nearly all the middle-sized and even smaller banks are admirably managed, and that, viewed from this standpoint, the necessity of imposing such regulations upon them can hardly be urged. But the effect upon the money market if a serious run on a great bank were to take place would be so momentous and entail such grave consequences upon our business affairs in general that we can not pass this question by lightly and carelessly.

Herr Mommsen remarked that for the great banks such a reserve would mean a slight diminution of their income.

Mr. MOMMSEN. I did not speak of this point!

Freiherr VON GAMP-MASSAUNEN. It was to this that my "gratifying" referred. But I think that if the having on hand a certain amount of cash reserve, of moderate proportions, is not a vital question for the banks, but signifies only a slight diminution of their income, which it actually does, the great banks can not, in good truth, be absolved from that obligation. But that in the case of the small banks, gentlemen, there are serious objections against the holding of large amounts of savings

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deposits, I would ask you to gather from these statistics. If 82 small banks—banks with a capital of less than 100,000 marks—have 10,500,000 of their own and 98,500,000 of outside moneys, and of this last 96,500,000 are deposits, then these are very serious considerations. These small banks have a tenfold amount of deposits on an average. Some of them, therefore, must have a much larger quantity still of outside money in proportion to their own resources. It is by all means necessary here to ponder these things seriously. It ought to be provided that the amount returnable at any time on demand shall not exceed a certain percentage of the bank's own capital. In the case of the great banks this is provided for by their natural business requirements. The Deutsche Bank has 200,000,000 of capital and about 450,000,000 in deposits; thus, these are normal conditions. But if the deposits of a bank are ten times as great as its own capital, it is a very serious matter, which legislation can not overlook.

Now, gentlemen, the following question was exhaustively discussed in the previous deliberations also: Can a distinction be made between deposits and credits? May both be treated alike? The two categories present, of course, very considerable differences, both as to their origin and in regard to their economic significance to the persons concerned. But in one respect no difference exists between them. Credits that may be withdrawn at any time or upon very short notice require a fluidity just as great as deposits that may be withdrawn at any time. If I were to declare my position, therefore, as to legislative measures, to which I shall recur later on, I should not make any difference in that respect between deposits and

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short-term credits, and should provide that all obligations of the bank subject to demand without notice or upon very short notice be treated alike, so far as security and fluidity are concerned, and that for these two categories—actual deposits and the short-time credits—certain regulations should be instituted, about which I shall express myself later.

The CHAIRMAN. Gentlemen, it is half past 1 o'clock. I would propose that we take a recess and reassemble at half past 3.

[Recess.]

The CHAIRMAN. Gentlemen, we resume our deliberations. I request Herr Doctor Ströll to give his views.

Doctor STRÖLL. Gentlemen, there is not the slightest doubt in my mind that the German deposit system is a subject that possesses a high degree of interest for the public. The simple fact of the gigantic amount of capital involved—if we include all classes of deposits, it amounts to perhaps 25,000,000,000 marks—is a sufficient justification of that interest. To watch over this enormous capital, to observe the channels from which it flows, how it distributes itself, how it is directed and administered—these are undoubtedly economic problems that are most intimately connected with the national welfare and the welfare of a vast number of the citizens of the state. The deposit problem enters very profoundly into the progress of the national production and the weal and woe of the individual business man.

As for the question of the security and fluidity of deposit funds, the question of security may, perhaps, be eliminated

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for the present. If the deposits are fluid, they are likewise safe; fluidity is a heightened degree of security. On the other hand, some investments are not characterized by absolute fluidity and yet are perfectly safe. Let us, then, take up the question of fluidity first. The question of security, in so far as it will not be answered of itself, is a thing to be considered separately.

In investigating the subject of fluidity a distinction will have to be made between the theoretical and the practical side of the question.

Fluid in the abstract, theoretical sense, German deposit funds certainly are not, or, at most, only an infinitesimal part of them—the part, namely, that has ready money for a cover. All other deposits that have other covering—the great mass of them, therefore—are theoretically non-fluid; for these other kinds of cover must in case of necessity look out for a way of being converted into cash, and, what is the main point, be able in the given instance to find it, too. Theoretical nonfluidity is, consequently, with few exceptions, the rule.

Nevertheless, this condition of affairs is not, as every practical banker knows, specially menacing, for, in spite of the theoretical nonfluidity, it is quite possible that for all practical purposes the fluidity may be quite sufficient. Such practical fluidity is all that we need be concerned about, and it may be regarded as actually prevailing in the great majority of cases.

The two greatest German credit institutions, the Reichsbank and the Deutsche Bank, have gigantic obligations of the short-term variety resting upon their shoulders, obligations referring to their circulating notes and their

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deposits respectively. Either institutions would be embarrassed if it were called upon to redeem these obligations by a sudden presentation of its entire issue of bank notes or a sudden withdrawal of all its deposits. I take this extreme example to show the vagueness of all theory, for theoretical possibilities are often practical impossibilities. Life, however, reckons only with practical possibilities and draws its conclusions from them alone.

Life and the business world reckon with facts of experience extending over many years, with average estimates and calculations and with computations of probabilities. Were this not done; were, instead of a moderate optimism, a crass pessimism to hold sway, all the national savings, all business reserves, and in general all capital which, temporarily unemployed by the owner, is placed with others on call, would be simply shut up in safes and could not be put out at interest. ["Very true!"] The economic and cultural employment of the savings of the nation would thereby be made impossible. And from the modern economic system there would be eliminated one of its most important factors, credit and the reciprocal business confidence of all in all. ["Very true!"]

Gentlemen, in speaking in a general way upon the question of the fluidity of the banks, savings, institutions, and Genossenschaften, there is another consideration of great practical importance to be taken into account; one which, in my opinion, was touched upon far too lightly in the hearings of the experts.

In the modern economic organization, where all the various credit organisms are linked with each other in a thousand ways, it will not by any means do to regard

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each separate institution—in our case the individual depositary—by itself and, in a manner, to dissect it; this would lead to erroneous and far too unfavorable conclusions. The individual must, on the contrary, be regarded and estimated as part of a whole, or at least as a member of the category to which he belongs. All the members jointly are united into a whole; they mutually guard, sustain, and support each other like the celestial bodies in the planetary system. Over the individual there extends the protecting arm of the whole. If one member falls there is a crackling through the entire structure, a premonition of a threatening general disaster.

This, gentlemen, is of immense and far-reaching practical importance, for, from the structure just described, we obtain, as a practical application, the mutual support, the reciprocal giving of aid on occasions of need and stress which threaten the individual organism within the limits of his own category. This aid, moreover, is by no means given solely in the interest of the person in danger or prompted by feelings of altruism, of mutual consideration; no; it is often prompted by selfishness and egotism, by regard for one's personal welfare, inasmuch as, in an enforced solidarity, we must stand by one another lest in the fall of one individual all, or at least many, be dragged down with him.

To cite instances of this half compulsory, half voluntary solidarity, I feel is unnecessary in an assembly of experienced, practically informed men. We are, indeed, very familiar with these conditions: The diversified chapter of aid given, of painless liquidations, etc., is known to us all, I might almost say, only too well. Based upon the

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consciousness of this absolutely essential solidarity, there have been developed, as you know, various permanent, protective institutions, which the community has established in the interest of the individual, and which are a sheltering roof over the organisms of a certain category: Bank associations, syndicates, central institutions, auditing bureaus, clearing houses, etc. In short, protective organizations and protective unions of all kinds, partly of a preventive, partly of a restrictive character—an extensive protective apparatus, therefore, evidencing the lively interest of the whole in the welfare of the parts. This point will, perhaps, be considered in greater detail in discussing the three classes of deposits spoken of in the question sheet.

And to these concrete agencies, whose function it is to guard the fluidity of the individual depositary, and to guarantee it as far as possible, are joined valuable intangible factors. I mean the instruction, enlightenment, observation, and critical illumination which have for a number of years been furnished by the professional press and in the literature of the subject; furthermore, the ever-increasing publicity of banking affairs. All these circumstances must serve to impress the managers of the deposit institutions, be they termed what they may, more and more with the necessity of occupying a position of unexceptionable fluidity, and to quicken their conscience. Most assuredly the effort to attain the greatest possible fluidity is to be seen everywhere.

I lay special stress upon the words greatest possible fluidity; for no institution, as has already been explained, can, in my judgment, pretend to absolute fluidity; for to do so it would have to lock up all the outside moneys that

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it receives in a safe and wait until they are demanded back. The depositary satisfies the demands of fluidity if it keeps on hand an equivalent of the outside moneys entrusted to it; a small fraction in cash, the main part, however, in what are known as easily realizable assets—that is, according to current acceptation, in bills, good securities, and debits; and even here, as far as possible, not only such as are simply realizable, but such as are realizable at once. Realizable; in other words, convertible into cash. But convertible where, and convertible by whom? And here we come to the crucial point of the matter; to the pivot, indeed, upon which the whole question of fluidity turns.

Neither with bills nor first-class securities can a deposit-debtor at once procure by his unaided efforts the means to pay back deposits demanded suddenly and in unexpectedly large quantities. He needs here, in fact, in so far as he may be short of cash, a potent intermediary who will discount his bills and ledger-claims and buy his securities or advance money upon them. These intermediary services are, in normal times, gladly and willingly rendered by those who furnish credit, and in the case in question by the banks, from the smallest to the greatest. It is through this interposition of rediscounters and acceptors of collateral that the fluidity of the individual deposit-debtor is guaranteed. The final and supreme agency, however, upon whose shoulders everything ultimately rests, upon which everything converges, which represents the general reservoir of the means of payment, and must be ever ready when all else fails; this, the great rediscounter and acceptor of pledges, and chief sponsor of the

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general economic fluidity, can only be a central bank provided with an elastic power of note issue, and operating throughout the country by means of its branches, such as, fortunately, Germany possesses in the Reichsbank. ["Very true."] The powers of this sponsor of fluidity have just been considerably increased by the last supplementary bank act, and will, it is to be hoped, always be sufficient to enable it to meet all legitimate and just demands.

Gentlemen, where the national credit system has well-organized, efficient bourse arrangements at its disposal and can point to a powerful central bank of issue as its pivot and center, the question of fluidity must be judged entirely differently and infinitely more favorably than where such supports are lacking. It is only necessary to recall the American crisis of 1907, which was very instructive precisely in this respect. In normal times the business of a country stands in comparatively slight need of a supreme credit institution; fluidity is then sufficiently cared for and guaranteed by the lower and middling agencies; in normal times pretty much everybody is all right as to fluidity, while in critical times scarcely any one is—possibly not even the Reichsbank, or if so, only because it may in case of need resort to forced circulation. Anyhow, the Reichsbank can create lawful money and distribute it with a lavish hand and thus the specter of nonfluidity, of individuals and of business interests as a whole, may be exorcised. In the case of the individual only so far, of course, as he has the benefit, either directly or through an intermediary, of access to the Reichsbank, the general reservoir of the circulating medium.

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The degree, therefore, to which the individual depositary can have recourse, in case of need, to the general source of money, is the measure of its fluidity in a time of disturbance. I take no account here of the possibility that the individual depositary may be the possessor of realizable international paper. The possibility of obtaining access to the resources of the Reichsbank is fixed by law. The Reichsbank is obliged to discount and to advance money on collateral; it can not evade this legal obligation. Whoever, then, wishes to make use of the Reichsbank must offer it good bills for discount or first-class securities for advances of money. The bill must be good, that is, be redeemed at maturity, otherwise it will go back and the fluidity of the depositary concerned will rest on a slender basis. As to what constitutes a good bill, one that will be rediscounted by it, the Reichsbank is the supreme judge. And consequently the Reichsbank is the final arbiter as to the fluidity of every deposit-debtor, be he ever so great and powerful. In 1901, 60,000,000 marks in deposits were withdrawn from the Dresdner Bank. Had not the Reichsbank intervened in a helpful way with great rediscounts, embarrassments might have arisen.

Summing up, gentlemen, I wish to emphasize this point: In examining the question of fluidity, the individual depositary must not be regarded as an isolated, or at least as an altogether isolated, organism; it must be regarded rather as occupying a place in its class as a whole, in its environment; it must be regarded as a part, and in a certain measure as a beneficiary, of all the important economic institutions and mechanisms that contribute to

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the maintenance of fluidity. If we do this in regard to the Germany of to-day the result of our observation must, speaking broadly, be distinctly favorable as to the conditions prevailing in this regard in our deposit system.

I have considered these preliminary remarks to be necessary and important, and beg your pardon if I have been somewhat discursive. I can, on the other hand, be so much the more concise in considering the different classes of depositaries.

Our question sheet states these classes to be: Banks, savings institutions, and Genossenschaften—a trio, therefore, very dissimilar in character and circumstances. Dissimilar in economic purpose, in historical development, and in internal organization; dissimilar especially in respect to the part played by their own funds—a point of such importance in the deposit problem—their own cover at their disposal from their own resources, as distinguished from outside resources. In this important point the banks occupy the strongest position, the savings institutions the weakest, while the Genossenschaften occupy a middle ground.

Before considering the different classes of depositaries I shall say just a few words in regard to the German deposit system as a whole. The statistical figures are generally known. Conclusive statistics we do not, indeed, have, if only for the reason that there is no definite idea as to what the term "deposit moneys" signifies. Figures, for that matter, are perhaps of minor importance. What is above all important is to determine the general situation, the general trend; and the direction of this general trend is perfectly clear and undisputed. Well known, in

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particular, is the fact that the deposits in the banks have increased enormously in the last decades, while in the case of the savings banks and the Genossenschaften the increase has been on a smaller scale. Equally well known is the keen competition for deposits that prevails in the banking world, this being further promoted by the decentralized organization of the banks and by other circumstances. Conspicuous, moreover, is the general tendency toward concentration of deposits in the great banks, and above all in the Berlin great banks. It is known to everybody, furthermore, that the investigation which has been inaugurated regarding the deposit system is specially aimed in the direction of the banking world of Germany.

The banks, therefore, form the most interesting chapter. Allow me to linger over them a while. They have over 8,000,000,000 marks of outside moneys in their hands—a mighty sum. But mighty also are their own resources in share capital and reserves, standing as security and guarantee for the outside moneys. And the way that deposits are generally covered is entirely unexceptionable, and in accord with the fundamental principle of banking management that the asset business must be in keeping with the liability business.

A single speaker can, of course, give only a general outline of things here, a bird's-eye view, and can not enter into the particulars. For the extremely interesting particulars I refer you to Lansburgh's recent publication, "Das Deutsche Bankwesen von 1857 bis 1908" (The German banking system from 1857 to 1908), which gives a searching analysis of the condition of the great banks,

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the middle-sized and small banks, and presents the results arrived at in a broad and comprehensive way.

Now, gentlemen, how is it in regard to the cover of the deposits held by the banks? Have the banks readily realizable assets at their disposal as against outside moneys that are payable on demand? Have they access through these assets to the general reservoir of circulating medium, the Reichsbank? These questions may, as a rule, be answered in the affirmative. Outside moneys are covered in a small part by cash, in a far greater part by bills and debits. And, indeed, it is generally regarded as an axiom of banking and carried out in practice that 40 per cent of the deposits shall be covered by cash or bills, 60 per cent by debits; while the bank's own resources are utilized in the less fluid and more risky business connected with the handling of stocks and promotions. Lansburgh states further that the proportion of their own resources to outside moneys is favorable in the case of the great and middle-sized banks; least favorable, comparatively, in the case of the small banks.

The 40 per cent cover in bills above mentioned constitutes, in the event of an extensive recalling of deposits, the most fluid part of the cover; more fluid than the debits, because, although bills may be rediscounted at the Reichsbank, ledger accounts can not be. The cover in bills must, therefore, be considered along with securities which can be used as collateral, as the *pièce de résistance*. And this it actually is, provided an essential condition is fulfilled, namely, that the quality of the bills is good; that is, that they are such as will be redeemed at maturity or that before maturity they will be rated by the Reichsbank as good enough to be rediscounted.

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Upon this very important point, gentlemen, I must say a few words. Opinions as to the quality of the German bill circulation are, notoriously, divided. It is pointed out that the German bill circulation is decidedly more extended and greater relatively than is the case in neighboring countries. Moreover, that in Germany many a transaction is carried on in the shape of bills, which shape it should never have assumed, because it does not fit into it. And yet—it is further said—this great and at times artificial and nonfluid mass of bills is not sufficient to satisfy the great demand, emanating for the most part from the banks, that exists in the bill market. This urgent demand gives rise on its part to a supply of illegitimate bills. Thus the thing goes on in a vicious circle, and from this unhealthy condition there results a deterioration of the German bill circulation in general, which, increasing in quantity, is constantly losing in intrinsic quality.

Gentlemen, these criticisms are not altogether without foundation. I conclude this not only from my own professional experiences, but from what seems a very striking fact. The highest authority passing on the character of our bill business, the Reichsbank, found itself called upon last year to restrict the range of the paper which it would rediscount, and other rediscounting banks have followed its example. From this it may be inferred that not every German bill portfolio is of such fluidity that it might be marked "interest-bearing cash." You know, gentlemen, that the step taken by the central bank was much discussed and assuredly furnished food for thought.

Now, it may be that in our bill business there are some things that are not as they should be—it may be that in

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Germany some transactions take the form of bills which, strictly considered, should not do so; but there is no particular occasion for any exaggerated fears—that is, so far as the question of fluidity is concerned, for it is not necessary, in order to guarantee the fluidity of deposits, for every bill in every bill portfolio to be fluid. The fluidity of a fraction of them would suffice for this purpose. In practice, for that matter, everyone who regularly discounts at the Reichsbank examines his bills, so as not to risk a refusal. And it is not as if the fluidity of the deposits depended exclusively upon the bill portfolio; the deposits have other props and guarantees of fluidity besides—money, debits, securities available as collateral, international paper, etc. And if the bills were really of as doubtful a character as they are said to be, it would become noticeable not only in the number of protested bills, but particularly in the shape of losses in the bill business of the banks. So far as I have been able to observe, neither the one nor the other is the case. And as for the more rigid censorship on the part of the Reichsbank, it would, in critical times, in its own interest, as well as with a view to the general good, have to guard against bending the bow too far by exercising too severe a censorship.

On the whole, gentlemen, I have not the impression that there is much the matter with the fluidity of the banks in Germany or the outside moneys handled by them. The general observance of sound banking principles, the adaptation of assets to liabilities, the access of the banks to the Reichsbank through their bill holdings, the mutual protection that the banks must extend to each other by

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reason of a self-interest well understood, the connection of nearly every institution with some greater concern or syndicate, and the consequent increased capacity of resistance enjoyed by each, the high degree of publicity and supervision that exist in our banking system—all these, gentlemen, all these varied circumstances and facts, these protective arrangements, all this in its combined operation and its resultant effect causes the German banking world as a whole to present, in my opinion, not an unsatisfactory, but on the whole a thoroughly satisfactory picture. That, in spite of this, we have from time to time very distressing manifestations and very regrettable experiences in the domain of banking, gentlemen, is inherent in the imperfection of all things and all men. No legislation can prevent that.

And now, gentlemen, as to the *Genossenschaften*. Here we are dealing, at least in great part, with a *terra incognita*. Up to the present there have been no comprehensive statistics, at least so far as I know, of the German *Genossenschaft* system, with all its various forms and methods. The total amount of the deposit moneys handled is said to be 2,500,000,000 marks. We have had reliable estimates only in regard to certain States of the Empire, and in these particular regions the *Genossenschaft* system can, to be sure, point to excellent authorities upon the special conditions there. We have, indeed, three such men among us here—Herr Doctor Heiligensstadt, who is not here just at present; for Bavarian affairs my esteemed compatriot, Freiherr von Cetto; and for conditions in Baden, Herr Peter. How, indeed, would it have been possible to get a thorough knowledge of the

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German Genossenschaft system? We can, if necessary, obtain a general view of the few hundred joint-stock banks, but hardly of the 16,000 Genossenschaft institutions with all their various methods, for they are hardly under strict legal requirement to make a statement, not to speak of any obligation of regular publicity. Just at the right time there comes a work giving comprehensive balance-sheet statistics of the German Kreditgenossenschaften, transmitted to us by the Reichsbank; a thoroughly lucid, precise, and fine piece of work, which has filled in the happiest manner a gap in the literature of the subject. This memoir contains much numerical matter and abstains, except on one point, which relates to the rediscountability of bills, from drawing conclusions. The conclusions are obvious enough. The memoir, as a result of its exact investigations, fairly confirms the view which has hitherto, one may say instinctively, been entertained in regard to the fluidity of the German Kreditgenossenschaften.

Everybody has instinctively felt that the fluidity of the Genossenschaften does not stand on a level with that of the banks. The assets are less fluid, the proportion of outside moneys to their own resources less favorable; the liabilities, on the other hand, are less urgent and dangerous because they are for the most part subject to demand only upon notice. Bills less fluid, owing to their origin, and not rediscountable; less cover in the shape of securities; on the other hand, assets in the shape of valuables of various kinds left as collateral, but not always of the first quality. Credits in driblets, granted in large part to people of small means, with the inevitable

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accompaniment of numerous and frequent extensions. Occasionally, lack of careful business management and inadequate training and experience in business matters. And, along with these things, something of local patriotism, some vestry-interests, and what we call in South Germany *Vettermichelei* (cousinly feeling), a certain inclination to act with neighborly and cousinly kindness. All intangible things, which are fostered and heightened by the local, restricted sphere of activity of the small *Genossenschaften*.

Fortunately these circumstances, which are rather unfavorable to the fluidity of the German *Genossenschaften*, are more than neutralized by other factors which have an entirely opposite and a decidedly favorable effect. There is, for one, that most potent and fundamental principle of cooperation, which links the members and the associations in town and country in a brotherly bond and, with its guarantee of solidarity, furnishes the associations to a notable degree with a strong basis for credit. "Each for all, all for each," is a motto not only of ideal potency, but of practical efficiency; and that is the source of the cooperative activity which, meant to affect only a certain circle, is directed toward that end alone; to it is due, furthermore, the obligatory and constant supervision of the affairs of the associations introduced for the protection of the members, which has such a salutary effect; this supervision embraces not only the formal, but the material, character of the business, and is conducted by experts acting as examiners and advisers. It is the cause, too, of the solidity of the cooperative institutions, of their firm hold on the locality in which they are situated,

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and of the intimate familiarity of the members with the circumstances and needs of their fellow-members. And, finally, the development of this idea of cooperative aid has brought about the creation of protective establishments of all kinds throughout Germany, which gather the separate institutions under their wing and cover them like a sheltering roof—protective unions, central loan institutions, clearing houses, exchange brokers' and disbursing concerns, or whatever all these arrangements may be called in the different parts of the country. Though all these organizations are of importance in the regular course of business, they are especially important as bulwarks at critical junctures, when the stress of the times threatens the *Genossenschaften* and their fluidity, for then the potent and well-accredited mediative agencies indirectly affect the access of the cooperative organizations not only to the banking world, but above all again indirectly to the great, powerful central bank. And it is precisely this, as I have already often emphasized, that is of decisive importance in the matter of fluidity. ["Very true!"] The small local *Genossenschaften* can not apply for general bank credit because, as the memoir shows, the bills they hold are not, as a rule, such as can be directly rediscounted. This must be and is done through intermediaries, and in this way the activities and benefits of the central monetary institution, the Reichsbank, penetrate indirectly into the remotest channels and are, in due proportion, of service to those who do business on a very small scale.

I may in this connection refer to my professional experience, and I recognize in the credit-granting feature,

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which I have just described, an extremely important and valuable guarantee of the fluidity of the *Genossenschaften* in general. Naturally I should like to see in addition that the strengthening of their own capital by the individual *Genossenschaften* should not be neglected. An increase in their capital and surplus is doubtless greatly needed and would tend to increase their fluidity.

I now come to the third of the main species of German receivers of deposits—the savings institutions.

On the subject of the German savings institutions, which manage such a vast amount of deposit-capital, nearly double that of the banks, I can express myself briefly.

The moneys in the savings banks are extremely safe and just as extremely nonfluid. They are safe because, as a rule, the communes or districts stand behind the savings banks as sponsors, and there can, therefore, be no question of inadequacy. A case of bankruptcy of a communal savings bank is, indeed, practically inconceivable. The savings banks are nonfluid only because their assets are not as readily convertible as is to be desired in relation to deposits payable on demand.

Of assets in the shape of bills, the savings banks have little or nothing, although more in securities, yet by no means enough; a great deal, on the contrary, in mortgages, 60 to 70 per cent, in which the bulk of the deposits is invested, and, moreover, partly in highly nonfluid second mortgages, in spite of "control" and "pupillary security." In addition to this, the cumbrous bureaucratic administration, the lack of publicity, and the small amount of the banks' own resources must be

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added as unfavorable factors; the obligatory auditing of accounts by the commune and board of trustees, on the other hand, stands as a favorable factor.

This condition of affairs would, but for the subsidiary guarantee of the municipalities and districts, mean not only nonfluidity but positive danger; that guarantee settles the question of security, but not by any means that of fluidity. A certain thoroughgoing modernizing would in the case of the savings banks be really no luxury. I would remark, quite incidentally, since we are engaged upon an imperial inquiry, that the savings-bank system does not at present fall under the imperial jurisdiction, but under that of the separate States. In particular, the savings banks are completely debarred from possible admission to the Reichsbank, a thing which may become very critical in a time of stress. On their mortgages they can not get a brass farthing from the Reichsbank. Securities and other effects upon which money can be borrowed, they do not possess in sufficient quantity, at least in the case of any sudden and widespread trouble. This condition of the German savings banks constitutes a deplorable defect in our financial preparedness for war, and I fully understand the view of the Prussian Government, which wished to compel the savings banks, at first by legislative requirement—unfortunately in vain—to hold a greater quantity of first-class securities, and now seeks to attain the same end by administrative means. I wish this proceeding would serve as a model for all Germany and find imitators; otherwise communities may experience serious embarrassments in critical times.

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For the rest, it must be admitted that even without compulsion the conditions referred to have improved, there having been a considerable increase in the percentage invested in securities. For Bavaria I have characteristic figures at my disposal, which I may be able to communicate later. In Bavaria savings banks have been granted permission to invest in bills, particularly in bills indorsed by certain banks. There are, of course, two sides to this, for the demand for bills becomes steadily greater in consequence, and that is a thing to which there are objections.

I would now permit myself briefly to sum up my views. The deposit moneys intrusted to the depositaries referred to, amounting to perhaps 25,000,000,000 marks, I regard, in the aggregate, as safe. In respect to the degree of fluidity, there are considerable differences and gradations. Here the palm must undoubtedly be accorded to the banks, on account of the nature of their assets. Then follow the *Genossenschaften*, and only after them the savings institutions. However, the *Genossenschaften* and the savings institutions have guarantees in the background which the banks lack. I pointed out, moreover, that in some cases what appears as theoretical nonfluidity when considered in isolation is nevertheless practically transformed into fluidity by intervening circumstances and protective agencies. The degree of fluidity prevailing in normal times may, on the whole, be characterized as satisfactory. In abnormal times, on the contrary, the fluidity of every concern must, to a certain extent, be regarded as diminished, and depends upon the degree of access it possesses, and makes use of, to the

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central bank, at least in so far as it has no realizable international securities at its disposal. The savings institutions and Genossenschaften have as good as nothing of such holdings. The Reichsbank, gentlemen, is and remains the prime sponsor, not only of the fluidity of individual depositaries, but of that of our entire economic system. ["Very true!"] This is my firm conviction, and just because I entertain that conviction I must, in closing, emphasize one point most expressly.

Gentlemen, this guarantor of fluidity must not be misused by the lower concerns ["Very true!"]; the Reichsbank must not be sinned against. If, as sometimes happens, the numberless intermediary credit concerns do not hesitate, when circumstances suggest such a course, to unload everything on the shoulders of the Reichsbank ["Very true!"], then I, as the director of a bank of issue, who professionally stand, perhaps, somewhat closer to these conditions, would call to the Reichsbank: "Landgrave, be stern!" ["Very good! "Quite right!"] In looking over certain recent returns of the Reichsbank, one involuntarily feels somewhat doubtful whether the necessary discretion and the necessary restraint are everywhere observed in relation to the central bank. It is quite needless, gentlemen, to name any individual offenders. I regard that as entirely superfluous, for here it may really be said: *Peccatur intra muros et extra*. For how can one preach self-restraint to business concerns and the banks if the imperial treasury itself sets a bad example by making excessive demands upon the central bank? ["Very good!" "Just so!"] But I refrain from going into further details.

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Gentlemen, from the whole drift of my remarks it may be gathered that I am not inclined toward a great degree of legislative interference in the domain of the deposit system. But by this I do not at all mean to say that in particular instances this or that specific measure, such as those mentioned in the syllabus of the president of the Reichsbank, may not be very useful. But that will be discussed later.

Mr. GONTARD. Gentlemen, I am in agreement with a great deal of what I have heard to-day; particularly with the admirable remarks of the last speaker. If I do not deliver the elaborate opinion which I have prepared, it is only out of regard to your time, and not in any way because I deem it not worth while.

In considering the first question: Does it seem warranted in the public interest (and upon what grounds?) to take care, by way of legislation, of the security and fluidity of the investment of deposits and savings? the further question at once suggests itself as to what legislative measures might be useful. I think I shall eventually give an affirmative reply to that question in one direction or another, but I am fully aware of the responsibility that rests upon this commission. I do not think that it is necessary to settle the matter in such great haste; the whole question must be treated with the greatest calmness and the greatest impartiality.

One reason that chiefly inclines me toward possible legislative regulation does not indeed apply to the security and fluidity of the money institutions at all. But since so much has been said to-day on that point, I, too, may perhaps be permitted to make a few remarks upon it. I

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mean the relation of the power of the great banks to that of the Reichsbank. It has been somewhat painful to me—I am recurring here to what one of the representatives of the banks said this morning—that we have assembled here again after our inquiry developed, contrary to general expectations, into something like a commission of investigation directed against the great banks; and still more painful is it to me that we, in a way, approach the great banks in this assembly with the request: “Be so kind as to furnish us with the weapons with which the Reichstag can proceed against your own interests.” [Assent and laughter.]

However, gentlemen, sympathy for the great banks is perceptibly diminished on hearing assertions such as we heard from Herr Mommsen this morning. I must say that I had a feeling—Herr Mommsen was speaking about the check-system—as if his utterance contained a kind of mild challenge. Increased rights, increased duties! I hope that the great banks are conscious of their mission, to support the Reichsbank in every respect; and I hope, in particular, that the Reichsbank is supported by the great banks in its efforts to attract gold. As regards activity in this direction, I have grown somewhat doubtful, because I have heard nothing further about Herr Fischel’s fine plan concerning the establishment of a gold market here in Berlin.

After this digression, permit me to say a few words as to the relation of industry to the banks, since I am here in their midst as an industrial in a small way. I know quite well that if the power of the banks were to be somewhat curtailed, in one way or another, it might have the

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effect of restricting industrial credit. To be sure! But I say to myself, there might be developed other kinds of money institutions to provide industry with money, and then I say, further, that if measures were adopted which would lead to a greater uniformity in discounts and as a consequence in rates of interest, then the benefit to industry would, under certain circumstances, be far greater than the injury produced by a slight restriction of credit. I am, anyway, of the opinion that it is not well for industry to be too dependent upon the banks. And if I may be allowed another slight digression, I would say that I have already suggested in industrial unions—unfortunately without success—that the industrials should combine for the purpose of placing the shares of the Berlin great banks controlled by them in charge of a central board, which would represent them in the general meetings of the banks, with a view to securing in this way some insight into the bank's affairs and procuring the election of members of the supervisory councils who would not represent merely the interests of the great banks, but who, more than hitherto, would put the economic and the national point of view into the foreground in the management of the great banks.

I hold it a general principle, also, that all legislative measures whose execution can not be effectively supervised are practically worthless. I may say in this connection that I regard it as impossible for credit banks to be effectively supervised by a bureau of supervision. The supervision must come from within. And just here I would request our delegates in the Reichstag to see to it that steps be taken, particularly so far as banks are

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concerned, toward procuring legislation bearing upon the supervisory councils. It has been pointed out to me by various parties, whose judgment I regard as more conclusive than my own, that this question does not belong here. I shall, therefore, not dilate upon it further, but I wished to draw attention to it once more.

The weightiest arguments for the interposition of legislation are so well put in the publication "Zur Frage der Regelung des Depositenwesens" (On the question of the regulation of the deposit system) that I shall only say that I agree essentially with the views expressed under "A," pages 9 to 15. I know, of course, that the managers of our great banks are at present honorable men and open to no criticism, but I am afraid that, under certain circumstances, this might not always be the case.

So far as to-day's debate is concerned I can only say that I am decidedly of the opinion of those gentlemen who hold that it is hardly possible to make any essential distinction between deposits and most other outside moneys.

As regards security, I know very well that our great banks are most remarkably safe to-day; they are decidedly the safest institutions we have. The small banks are not quite as good, although I know quite well that there are a great number of private bankers who are likewise irreproachable in that respect. The Genossenschaften I consider as less safe than the banks. On the other hand, the security of most of the savings banks is quite unexceptionable—placed beyond all doubt. As for fluidity, I feel as if—all this, to be sure, is a matter of individual feeling—the degree of fluidity of the great banks is not

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as yet as great as it should be. The smaller banks often show still less fluidity. The Genossenschaften—in whose case other factors, for instance those that have been cited, must, of course, be considered—occupy a lower position still as regards fluidity, and most of the savings banks have no fluidity at all. But in the case of savings banks the question of fluidity is not so important. I hold, just as the preceding speaker does, that legislation bearing on savings banks is a matter that appertains primarily to the separate States; but still I would point out this lack of fluidity in the savings banks.

I hope, with our honored president, that our deliberations will prove of great benefit to the people; and I hope also that a way will be found that will be satisfactory to all concerned, including the great banks.

Mr. SINGER. I would begin my brief exposition with a remark which bears upon Herr von Wangenheim's communication read to us by the president; the paper was communicated to us officially, and Herr von Wangenheim presumably wishes that his views should be discussed in the commission. As to that paper, I can only say that I have not as optimistic an opinion of the wisdom and power of the commission as Herr von Wangenheim; I have never believed that the bank inquiry commission would have the effect of preventing or averting economic crises. That is a conception of the duties of this commission which betokens, indeed, a great degree of naiveté. I think that Herr von Wangenheim, also, should know that crises are an immanent law and are necessary consequences of the present economic order; if Herr von Wangenheim wants to avert crises he must

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abolish the capitalistic economic order, as Social Democracy demands. [Laughter.]

While Herr von Wangenheim takes the view that we are in a position, within the bounds of the existing social order, to make suggestions and to adopt effective measures to prevent crises, this transcends my horizon; I regard it as quite out of the question and as a futile effort. I merely wish to express the hope that the views of Herr von Wangenheim will be included in the report of our proceedings, so that others, too, may experience the pleasure which I felt while that curiosity was being read to us. [Laughter.]

The question, gentlemen, whether the conditions of the credit system which are under discussion affect the general public, and whether the general interest is involved in the correction of abuses and the putting of these matters on a sound basis, I can, without hesitation, answer in the affirmative. It is, in my opinion, quite beyond doubt that the interests of our entire economic life, and consequently of the general public, are deeply involved in the efforts to remedy the evils which have been and still are to be found in this domain.

It is not a question merely of measures which shall guard the public against losses through mistaken and bad management of deposit funds—which, also, to be sure, is in the public interest—but rather the taking into account of the economic connection which beyond doubt exists between the domain of the credit system and all the other economic domains, and, therefore, the economic interests of the whole people. Thus the general interest is positively involved. Effects and reactions upon industry,

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commerce, trades, and agriculture absolutely demand consideration of the deposit system.

Now, gentlemen, I shall take the liberty of expressing myself very briefly on the question of separation of the deposits. I think a very sharp distinction must be made between the three categories which have been pointed out to us. In speaking first of savings banks, I would say that, from my point of view, I do not consider it the business of savings institutions at all to engage in credit transactions; savings institutions have an entirely different object. Nor can I admit that the single example that has been brought forward—where the watchman goes to the savings bank to draw out his deposit, but can not get it—should induce the savings banks to invest their moneys in any way but that which is absolutely safe. I believe that precisely because the maintenance of the savings banks and their security and fluidity are of essential, great, and general interest, it should be provided that the savings banks shall, as respects fluidity, receive support from the State. Their activities should, as far as possible, be promoted, and competition with them avoided; but the savings banks should, on their part, stick to their own business. If, then, it is possible to keep savings banks out of reach of the effects of a crisis, I should consider it very desirable. But in order to make this possible the savings banks must, naturally, not be granted freedom to enter into all sorts of transactions in which it is not so much a question of insuring the safety of the deposits for their depositors as of making bigger profits and assuming the risks connected with them. I should, therefore, be not at all sorry if the savings banks would withdraw from the “Konzern,” and

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not occupy themselves with the investment of deposit moneys. The savings-banks ought to be left to work quietly by themselves; their security should not be impaired by credit and other money transactions. If defects appear in the savings-bank system, it is the place of the communes and of the Government to see to it—and by legislative means if necessary—that those defects be corrected. But to draw the savings banks also into the public credit system I do not consider right, because their business does not lie in that field at all.

The case is quite similar as regards the *Genossenschaften*. One may be a great advocate of the *Genossenschaften*, as I am, but he need not for all that approve all the manipulations and transactions that the *Genossenschaften* engage in, in their endeavor to handle millions. It would be very desirable in the case of some *Genossenschaften* if they were somewhat more restricted in this respect. And if we must finally perceive from the opinions of the experts and from the statistical tables which we have received that some *Genossenschaften*, with a capital hardly worth mentioning, engage in transactions involving hundreds of thousands and millions, then, gentlemen, how do you propose to take measures which will, on the one hand, guarantee the security of the deposits placed with the *Genossenschaften*, and, on the other, provide for fluidity?

The main question, after all, then, with which we must concern ourselves relates to the banks—the middle-sized and great banks; perhaps also the small banks. And here it appears that in general as regards security and fluidity there is much less danger in the case of the great banks than in that of the small institutions. For the great banks are in a position, by reason of their surplus, their

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accumulations, by reason of the credit they possess, by reason of the seriousness to the community of the collapse of a great bank—in short, the great banks are in a position to obtain assistance from outside much more readily at a critical time than any single small institution whose security and fluidity do not affect such wide interests. If, therefore, measures in that direction are to be adopted it must not be forgotten that if there is danger to the security and the fluidity of deposits at all it is likely to be fully as great in the small institutions as in the great banks. Perhaps the great banks and their management may, in general, even be credited with a broader view and superior sagacity in the investment of their own and outside moneys.

In answering the question, gentlemen, whether it is in the public interest to resort to legislative measures, one must be extremely cautious. In my opinion, you will not be able to devise a law that will satisfactorily accomplish its object, and least of all will you be in a position effectually to enforce the observance of the law through an official bureau of supervision. We certainly are not suffering, gentlemen, in public life and in public administration from a lack of supervising officials, and yet these arrangements often prove ineffectual. The phenomena which are the occasion of our discussions are inherent in the prevailing system, are the attendant manifestations of the capitalistic economic system. I must say that from my standpoint there are only two ways: Either one is an opponent of the present social order and its institutions, and then one is bound to advocate the creation of other, and that socialistic, foundations for society; or one is

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satisfied with the ruling principle of our economic order, and then the phenomena against which complaint is made here must be taken into the bargain, for they are only a consequence of the capitalistic method of carrying on production and business, and inseparably connected with it. If the present economic system is to fulfill its functions it must be free from fetters, which can not affect the essence of the matter, but only the outward manifestations. It seems to me, too, that a so-called bourgeois policy is sought to be followed here, which—with the best intention of shielding the small people from the injuries of capitalistic development—vainly searches for legislative remedies, and, in ignorance of the real relations of things, sees the remedy in the creation of a new governmental authority. I can not possibly conceive that a bureau of supervision could effect anything. How, for instance, do the gentlemen imagine the accounts of the Deutsche Bank are to be examined? How should the Deutsche Bank, which has, I suppose, several hundred thousand accounts, be examined? What is your idea of the organization of this bureau of supervision? How many hundreds of officials are to constitute the force of the bureau?

Herr von Gamp has suggested that safety should be secured by depositing a portion of the capital with which the banks operate in the Reichsbank as a guarantee.

Well, I don't know what gentlemen hope to gain by that. Let us assume that it is a considerable part of the capital; then this capital will, of course, be withdrawn from general business. For, if I am not mistaken, it is intended to strengthen the gold reserves at the same time by this measure; the Reichsbank would, therefore, have to simply

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let it lie in gold, and that part of the capital would be withdrawn from business. If, however, it is an inconsiderable portion, where is the security for those for whom this thing was planned? If you do actually tie up one or two per cent of the bank's capital, then those that first lay claim to it, or who have a preference, may perhaps have their demand satisfied out of the capital and surplus. But if one starts out with the idea that these deposits with the Reichsbank will be sufficient and will answer the purpose of settling any possible losses of the creditors, then, gentlemen, I think you yourselves must see that such small deposits can not accomplish that object. I have, besides, no intimation whatever as to how, when, and by whom the amounts to be deposited could be collected. I think that one view—assuming that legislative experts would succeed in doing something with it—might perhaps be entertained. It might be said—there are average computations for such things—that in granting institutions that do a credit business a sort of concession, the condition should be imposed that they shall not go beyond a limit conformable to their capital, in their credit and business transactions. If an institution, for example, is working with a capital of a million marks, it might perhaps be provided that it may not extend its business enterprises beyond 3,000,000 marks. I mention these figures merely by way of example; whether it would be possible, I do not know; for the present it seems doubtful to me. But I can imagine that it would afford a certain protection, because, in my judgment, the possibility of loss is undoubtedly increased with the expansion of the operations of these institutions without their having an

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adequate surplus, sufficient resources of their own. One might assume the position that if a certain legal restriction is prescribed here, which must be observed, and the observance of which can be actually enforced, it may perhaps serve to mitigate some evils; but of much use this will not be either.

I believe, therefore, to sum up briefly, that unless legislative measures that can be easily executed are devised we shall have to leave a bureau of supervision and legislative interference out of consideration. For, gentlemen, mere general desires do not get us forward in this kind of question. One may be filled with sympathy for those who lose money through the fault of others. If, for instance, it is now said that measures should be taken that the public shall not be allured by agents, advertisements, etc., it must be borne in mind that the boundary lines between legitimate and illegitimate business are very faint, and it is difficult to distinguish them. And then he who wishes to get a high rate of interest or to make gains on the stock market must take the possibility of loss into the bargain. You will, in my opinion, then, accomplish nothing by means of legislation. It will not be possible to exercise effective control of the working of such legislation, and at the utmost the question will be—one that will probably be discussed in taking up subsequent points—whether it would not be possible to establish regulations which will have to be observed by the institutions engaged in money transactions. But even here I do not conceal from myself the fact that any control of the execution of such regulations will be excessively difficult. The opinions delivered to us by the experts are

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so contradictory that I, for my part, have not been sufficiently enlightened by the study of these opinions to be enabled to say what really should be done. I can only find one thing in these expert opinions—that those gentlemen endeavored to make clear such evils as had come to their knowledge, and that they tried, each from his own economic standpoint, to suggest changes, but that their suggestions really offered no remedies for the evils they deplored. These views are indeed so bound up with the general economic life of to-day that no special medicine, at least no effective one, can be found among them. I am very ready, should our deliberations crystallize into definite propositions, to support all efforts calculated to lead to economic improvement. But I can not convince myself that the suggestions that have been made will supply a remedy.

Doctor LEXIS. I should like to say, in the first place, in relation to Herr Mommsen's remarks, that in expressing my views this morning I had by no means the intention of advocating decisive measures at this time. I wished merely to sum up the points in the questions before us, which, in my opinion, touch the public interest; these points can, I believe, then be brought up for discussion. But, as I have observed, I had no intention of expressing my opinion at this time and saying that I favor compulsory measures or any special supervisory regulations. I do not wish to enter into that at all.

I discussed, for that matter, only the first point of the first question, and shall right here add my opinion in regard to No. 2 of question 1: "The meaning and nature of deposits and savings, and their relation to outside

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moneys in general." I indicated this morning that it seems to me that it is possible to distinguish between those deposits or outside moneys which proceed from merchants who are entered in the commercial register—that is, between current-account credits of registered merchants—on the one hand, and on the other hand deposits which proceed from private individuals, from such, then, as are not entered in the commercial register. Under the latter, again, the distinction could be made as to which are savings properly so called—such, namely, as are deposited by nonmerchants, subject to at least a week's notice. It might be declared, too, that all those moneys that proceed from private individuals, not merchants entered in the commercial register, are savings if they are not intended to serve as a basis for checks. Now, it has been said that this differentiation according to the mercantile quality would not be practicable, would be much too complicated; but still I would assert that there is in any case a certain group consisting of private persons who are not entered in the commercial register and who bring moneys to the banks which they do not wish to consider as a basis for checks. That seems to me to be a clearly definable class of people, and precisely the kind of people that are more or less in need of the protection that is claimed for them—that is, the small people who are allured by advertisements, etc., to take their money to the bank. I do not say that protective measures would be expedient and feasible; I only say that the category can be distinguished and has a special significance.

That would be one category, and a second would be formed by all those—I leave out further differences—who

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have an account current with a bank. They form a class by themselves, and may be private people who are not merchants. For there are private capitalists who have regular account-current transactions with the banks. There is still a third category: Such private persons, or merchants for that matter, as have a check account which is to be used solely as the basis of check transactions. Thus it seems to me that at least three categories could here be distinguished, namely, the pure savings deposits, according to my conception of them, then the account-current deposits or account-current credits, and, finally, the check deposits. These three different classes could be variously treated, but it is not at all my intention to advocate measures to that effect.

As regards the check system in general, however, it seems to me that it would be in place here to discuss a general question, for it has been repeatedly said that the check is more and more taking the place of bank notes, and that it will be necessary, therefore, to regulate, and perhaps limit, the check system as the note system has been limited. The check, it is urged, is becoming more and more a bank note, or a means of payment like the bank note, and, therefore, measures must, of course, be taken to safeguard the interests of the public here as was done in the case of bank notes. Now, I would reply that the check will never be anything like the bank note; the check is not a means of payment; the Reichsbank note is legal tender; the check, on the other hand, is never a means of payment but an order for a payment, which the bank may carry out in any way it pleases. And there is the additional consideration that, if not exactly in

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contradiction, it is not in harmony with the check system for the check to be used as a circulating medium in the broader acceptance of the term; to be circulated and go through various hands until it is either taken up, or—a thing that would be the most desirable—balanced in the clearing house. That is not at all in harmony with the real essence of the check, and consequently, it will never be possible to say that the check is a medium of payment in the same way as a bank note, and that, therefore, a limitation of the check system—and therefore likewise of deposits, which serve as the basis of the check system—would be desirable. That in America the banks of issue are so stringently regulated, while, as a matter of fact, the deposit debt of the banks of issue is about three times as great as their issue of notes; that there the national banks are obliged to keep constantly a reserve covering 25 per cent of their deposits—the special reason of this is that the national banks are banks of issue; they circulate \$600,000,000 in bank notes anyway, even though they may have \$1,700,000,000 to \$1,800,000,000 in deposits. A special safeguard had to be established for the \$600,000,000 of notes, which, though they are covered by the deposited bonds, must, nevertheless, be redeemable at any time; no conclusion, therefore, can be drawn from this in respect to pure deposit banks. This appears to me, then, a general consideration, which may be well worth discussing at this point, since, as has been said, even experts have remarked that checks are more and more taking the place of bank notes, and that, therefore, the pure deposit banks that carry on a check business must be treated like the banks of issue.

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Doctor WEBER. Gentlemen, to-day's debate has presented the interesting spectacle of the gentlemen of the commission arguing upon an entirely different basis from that upon which the experts proceeded as regards the main issue. According to the opinions presented by the experts, their attention was turned chiefly upon the great banks, and the great banks, as far as the security and fluidity of deposits and other outside moneys are concerned, are to-day entirely eliminated. Some of the experts explained their position upon this whole question of the public interest by saying that the concentration of capital in the great banks had steadily put more and more power into the hands of the great concerns; that these great concerns had, in part, not employed this power in the right way; that this capital had been "crammed"—as some one remarked—above all into industry and commerce, and that this sort of activity of the great banks required counteraction through governmental measures. If, in the first place, one fixes one's attention upon this question—and I can, perhaps, do that—it must be admitted that in the opinions of the experts there is a great error, and it is the following. The gentlemen say that the great banks have "crammed" capital into industry and commerce. Now, I believe that the problem presented to the Germany of to-day is a quite peculiar one. Our great increase in population demands that capital shall assume an activity which shall bring bread and sustenance to this increase in population. ["Quite right."] We can not, therefore, speak of a "cramming" into industry and commerce, but must say that it has been precisely the great banks, perhaps, that rightly conceived and

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rightly accomplished the solution of this great problem, and that without this concentration and the far-seeing leadership of these great banks we should not have been in a position to give the increase in our population the employment, the sustenance they have had, keeping Germany thereby upon its old level. ["Very true."] It must, indeed, be admitted that Germany's level—due in no small measure to the activity of the great banks—has not sunk, but that in spite of the great increase in population it has been raised. I interpret a number of these opinions as indicating that a great many opponents of the activities of the great banks had been actuated by a certain animosity to mobile capital. I take it that we have in all this rather the manifestations of a political movement than a discussion of purely economic questions. The case is, indeed, very clear, gentlemen. In the last few years, and this year as well, it has been again and again pointed out, particularly by the representatives of agriculture, that not sufficient money at suitably low rates of interest is placed at the disposal of agriculture. Gentlemen, a great error is involved here. There is truly no country on earth where the mobility of the ownership of land is as great. The ownership of land is mobilized in the highest degree by means of negotiable securities, and I do not regard it as desirable to provide agriculture with still more capital. I would declare quite openly, too—even at the risk of its being made public—that I estimate the danger that here and there 100,000 or even 1,000,000 marks may be lost by some individuals as far inferior to the great danger there would be in checking and restricting by legislative measures the present

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development of the movement of capital. It is quite beyond dispute, for example, that if you consider the measure proposed by President Heiligenstadt and Herr Bernhard, if you decide to have a certain part of the outside moneys deposited by the banks in the Reichsbank, then you withdraw it directly, in the first place, from the economic uses which it has hitherto served; and if by this means the Reichsbank is put in a position to increase its stock of gold and to prevent this money from entering economic life, then I would ask, How would it be possible with our growing population to give people employment? What is to become of industry? How will it be possible to satisfy our increasing needs, remembering, as we must, that we are under a great strain, owing to the excess of imports over exports and that, altogether, our circumstances are such as can not be compared with those of other countries which people are so fond of citing as examples. To-day, for instance, our attention was called to the example of England, which is always held up to us, but not to that of France; but no one complains in France, which has no laws in this domain. And if you say, further, that you here in Germany will have to establish a bureau of supervision—perhaps a bureau of control, such as Herr von Wangenheim has described in writing—in order to supervise the entire business of our banks and to lead them into other channels, this measure would, considering our entire situation, be likely to prove an absolutely futile beginning. And the man who would be placed at the head of such a bureau of control would, my word for it, never be in the position to do what Herr von Wangenheim would require of him to prevent a crisis of any consequence,

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and even should there be a change of heads, a crisis could, for that matter, not be averted by anyone occupying that position.

Now, I would, as a matter of principle, eliminate the savings banks from the discussion. Gentlemen, a person who takes his money to the savings banks wants to deposit it there, merely wants to draw interest; only exceptionally does he draw the money, or he draws it only temporarily and puts it back again. And if in critical times demands are made upon a savings bank it always has securities in its possession which enable it to help itself in one way or another. It has also been asserted in the opinions presented by practical men who are intimately acquainted with the conditions that there has as yet been practically no deficiency of fluid resources in the savings institutions. I eliminate them, therefore—only in so far, of course, as they do not engage in pure banking business. Unfortunately, some savings banks, notably in the Kingdom of Saxony, engage in such business. For example, there appeared some time ago in the Chemnitz *Allgemeine Zeitung* a long article about a Saxon savings institution, in which emphatic objection was made to this institution engaging on a large scale in bill transactions, thereby destroying its qualification as a savings bank and passing over to pure banking business.

I should, however, like to see the Kreditgenossenschaften brought into our discussion. If, on pages 28 and 29, gentlemen, you compare the statistical figures given, you will be surprised at the proportion that their own resources bear to the outside moneys of the

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Genossenschaften. In the Imperial Union of the German agricultural Genossenschaften it is 4.4 per cent! All the safeguards, gentlemen, that President Heiligenstadt has referred to can not do away with the fact that this is a dangerous condition, and if a supervising authority were to be established it would have to take cognizance of this; the Kreditgenossenschaften could not be exempted from its operations.

Then, gentlemen, the check law has been under discussion. Herr Gontard, if I am not mistaken, misunderstood Herr Mommsen. Herr Mommsen's remarks did not by any means convey the idea that he wished to make a threat against the check system. What he said was only that the passing of the check law ought not, on the other hand, call forth legal measures on the part of the Government or the community, directed against the great banks or the banks in general; for if it did, the enactment of the check law would turn out a failure. For the banks the check law is really no joke, of that I can assure Herr Gontard; for in the check business there is no profit under any circumstances; most banks, on the contrary, lose by it.

I should say, also, that Herr Lexis has slipped into an error. Check deposits are put out at interest exactly like other ordinary deposits; there is no difference between them.

Doctor LEXIS. In America.

Doctor WEBER. But here in Germany it is not the case. From the fact, too, that checks are entered under credits you can see that they bear the same character as other deposits. Then, another point: You [to Herr Geheimrat

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Lexis] stated that at times $4\frac{1}{2}$ per cent interest is paid on check credits. You must not forget, however, that we had at that time a discount rate of $7\frac{1}{2}$ per cent. I would remark further that if we have a low rate of discount in Germany, Austria usually enters into direct competition in Silesia and in the Kingdom of Saxony. I can demonstrate to you that German money in Austria, subject to withdrawal on demand, is yielding as high as $4\frac{1}{2}$ per cent, reckoned from the day the deposit is taken; and the manager of an Austrian savings bank recently said to me that on certain days he simply could not keep out German deposits offered in German money. This, gentlemen, is another great objection to any legal measures whatsoever. If you make regulations that impede the free action of our German banks, you may depend upon it that the money will go out of the country, just as it did after the bourse law of 1896. The bourse law of that year undoubtedly did have this effect; any expert will tell you so, and the Reichstag itself recognized the fact. The very same thing will happen in the present instance if any such law is passed.

Then, too, Herr Geheimrat Lexis has adduced the relation of this matter to the question of foreign loans. You said [turning to Geheimrat Lexis] that no deposit moneys would be invested in foreign loans except temporarily. I should rather say that even as it is our dealings with foreign loans are to a certain extent under government supervision. At present, even though a foreign bond issue may be offered for admission at a given bourse, yet the Government has it in its power, through its right of supervision, to forbid such admission. When the Government wishes

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to do so it can adopt this measure. We need not, therefore, make any further legal provisions. I admit that a bank here and there has made a mistake; there have undoubtedly been occasions on which money has been turned into wrong channels. But, gentlemen, if the Government wishes to prevent an excessive flotation of foreign loans, it has it in its power to pronounce its veto at the proper time.

Herr Geheimrat Lexis made a distinction between deposits made by private individuals and such as come from people who are entered in the commercial register. I do not think this distinction could be legally established. All those small tradesmen, for instance, who now have themselves entered in the commercial register would be discriminated against as compared with those who are not entered, and I think this can not be the purpose of the legislation. The only important effect of this measure would be an injurious one.

Now, gentlemen, with reference to the statistics that have been submitted about the small banks, it has been said that there are banks that have ten times as much in deposits as they have in capital. I, too, know such a bank; the Oldenburg Spar- und Leihbank has to-day a capital of 4,000,000 marks and deposits of about 45,000,000. But if you look closer into the matter, you will be obliged to admit that not all of this consists of savings; for it consists also of temporary investments, and from statistics like these surely no general conclusions can be drawn with regard to the administration of the whole banking business.

Freiherr von Gamp, who, by the way, contradicted himself by leaving out the savings banks altogether in

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one part of his discussion and making them the cornerstone of the whole matter in another part, approved of the suggestion that a certain sum be deposited at the Reichsbank, and then, on the other hand, recommended that if occasion should arise the bank should have the right to withdraw the money. But, gentlemen, in that case no end would be served. What is it that he has in mind? Certainly this will give the people who have deposited their money in the bank no assurance whatever of its being safe.

And the suggestion made by Herr Singer that a bank should not receive more than a certain amount of deposits in excess of its own capital seems to me quite out of the question. If you wish to make such a rule, you must fix upon a certain sum—let us say twice as much as the bank's capital. If you do this, you will bring immediate and complete ruin upon 11,780 agricultural Kreditgenossenschaften. And the Deutsche Bank, which, if I remember correctly, has a capital of 200,000,000 marks and a surplus of 100,000,000, will be permitted to receive not more than about 600,000,000 marks of deposit moneys [interruption]. I simply take these figures as good enough, and finally you will not be able to make any distinction on the ground of prudence of management; whereas the capital of one great bank may be administered with extraordinary prudence, and that of another may not be managed so well.

Doctor RIESSER. The surplus must also be taken into account.

Doctor WEBER. Yes; but counting the surplus, it comes to only 600,000,000 marks, and there is no telling

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what would be the result upon our economic conditions if this scheme were put through.

Gentlemen, we are on the way toward putting everything under supervision, under control; you yourself [to Herr Singer] have referred in a jesting spirit to that written proposal of Herr von Waggenheim's about a "bureau of crises." We want to put everything under control, and imagine that if we do so, everything will be in good order. Gentlemen, if we do not have confidence in the managers of our great banks, although they have always shown themselves in every way worthy of it, then we shall not have confidence in a supervisory bureau, if such a thing is instituted. In the opinions of the experts, and in to-day's discussion, too, the talk has all been about the interests of the public, and we have acted as if these interests had been in some way or other not sufficiently considered. If you will look up the statistics for America, and even for England, you will find that wherever you look there have been more failures than there have been in Germany. And why should we chase after laws of this kind, we who have not a single valid reason for doing so, when we know that any such law is bound to have unforeseen economic consequences? When we consider our whole economic development, there is really no reason for our adopting any such legal measures. At the very most, one might maintain that the overextension of credit stands in need of a remedy. But, gentlemen, is it not true that this overextension of credit must have been brought about by our general condition? Must not technical improvements have advanced more rapidly than the formation of capital? And this is why the

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formation of capital, always called forth by an increase in the population, has not kept pace with industry and trade. Now I am convinced that the consequence of all this will be that we shall do just what we did in the seventies and eighties; we shall send our excess population into other countries, and thus create competition against us abroad. I believe we should give up all idea of arbitrary interference, and that we should never institute legal regulation when there is not the slightest occasion for it. After all, some sound reason must be adduced for such a policy; it will not do to go back every time to the case of the Leipziger Bank (in point of fact even there 70 per cent was finally distributed) and to demand on that score that everything be put into fetters.

Then, too, it has been said that we should consider the possibility of instituting a system of supervision modeled after that of Austria. I believe, on the contrary, that through the bills that are presented to it, the Reichsbank can even now exercise a most extensive control over business, and that this control, if made use of, may in certain cases be very opportune. I think, therefore, that any legal regulation in this domain would be a great mistake, and that any additional protection it might confer upon this or that deposit creditor would be more than offset by enormous economic disadvantages.

Gentlemen, I must say just a few words about the distinction between savings and deposits. My view is that no distinction can be made. Deposits and savings merge into each other in all sorts of ways. I should say that this question can not be settled at all. I don't think there is a man here in the commission, either a theorist or a

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practical man, who can give an exact definition of the terms deposits, credits, and savings.

As for safety of investment, I have been delighted to find that the members of the commission agree in thinking that there has been on the whole very little complaint in this regard, and I have been much interested in learning from the proceedings of the experts that a large number of them are of the same opinion.

I wish to make objection, however, to one remark. It has been stated that the power of the great banks develops at a constantly increasing rate and takes under its wings industry and trade. Gentlemen, in a certain report of business—I think it was that of the Dresdner Bank—it was quite correctly remarked last year that the power of the great banks will not increase, but, on the contrary, will show a falling off, inasmuch as the industrial interests can confront them with another power by combining into cartels and syndicates. I do not think that the power of the great banks can be shown to have increased in relation to industry and trade. Indeed, I believe that industry and trade are in a position to counteract the power of the great banks by means of cartels and syndicates. Doctor Schmidt shakes his head. It was, I think, the Dresdner Bank that expressed the very opinion that I have just brought forward.

In summing up I will say that I am opposed to every kind of legal restriction and regulation in the domain of the deposit system, especially when this would encourage an investment of money in state paper. And the resolution passed by the Reichstag, besides being in itself of very little value, has very little relevance to the case of

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Germany, since it can be proved by the statistics for all bank failures within recent years that in the last five years at most 3 per cent of the failures among banks and bankers of any magnitude worth considering can possibly be included in this class of soliciting bankers or the like. I am therefore of the opinion that we should refrain from trying to alter arbitrarily the movements of capital in Germany, especially as there is no sort of need of our doing so.

Mr. ROLAND-LÜCKE. It is of the utmost importance to the community that the savings of the general public be invested in ways that will secure practical fluidity, and also that they be so used as to subserve the economic interests of the country at large; but it is just as important for the community that we should persistently refrain from allowing laws to be made which, while they are designed for this purpose, do not really have the desired effect, laws which, on the contrary, are harmful to the community and finally are a direct cause of danger to the depositors, as I shall later on show them to be.

I will now take up a question which has already been almost fully settled. Can we or can we not determine just what, in the different depositaries, should be accounted as savings—can we determine it, I mean, with such precision as would be necessary for the formulation of an actual working law? The gentlemen that I have listened to so far are on the whole at least doubtful whether this could be done—if, indeed, they are not agreed that it would be impracticable. My honored neighbor [Geheimrat Lexis] suggested that the distinction might be drawn between money deposited by firms that

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are entered in the commercial register and money from other depositors. Well, gentlemen, just look about you in this very room. I think there are few among us who are entered in the commercial register, or who belong to firms that are so entered. Are we who are not among these few—are we the persons who for the sake of the national welfare must be protected in the employment and investment of their money? And the great number of agriculturists, officials, scholars, artists, and men who live on their incomes, can they be relegated to an inferior class in respect to the ability to turn money to account? I do not think that this was Herr Geheimrat Lexis's intention. Indeed, he afterwards modified his proposal and said that we may leave it to the public to find a method; people will make the decision for themselves when they deposit their money; a man will say, "I should like to have a sort of guardianship account." Let us just look closely at this point for a minute; how did these terms—deposit account, giro account, check account—really arise in Germany, and how are they used by the bankers? All the profound expositions that scientific writers have made of them are not really borne out by practice. That which in Hamburg is called *Girokonto* is called in Berlin *Depositenkonto*, and in Braunschweig *Scheckkonto*. Since some of you are in a manner laymen as regards the banking business, I will give you a rather useful formula: As a general thing, a man carries a deposit account, a giro account, or a check account when he can transact a considerable part of his business with the bank orally, either in person or through a deputy. If he can not do

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this, he generally has an account current; but this does not prevent his having at the same time another account current, which is also called a check account. Thus the two things can not be kept apart in practice. It has been stated that one gets higher interest on an account current than on a check account. Of course that is so. The whole management of a check account is in some respects comparatively simple. Certainly there is higher interest in the case of a current account, but then one has to pay commissions. To sum up, I should say that no definition of the term "savings" can be found which shall be practically applicable by law in the case of the great banks or the middle-sized banks, but that such a definition is practicable in the case of the small banks, the *Genossenschaften*, and such institutions as are authorized to act as depositaries of moneys thoroughly secured, for the various classes that form the clientèle of these institutions.

Now, it has been asked whether we can imagine a method by which safe and fluid investment of their holdings by the different classes of money institutions can be brought about and made sure by law. Least of all can we make it sure by a law requiring that a safety fund, bearing a definite ratio to the total of demand liabilities at the time, shall be deposited at the Reichsbank. So far as the Reichsbank is concerned, or the monetary circulation, the effect of this would be simply zero. Any institution that had occasion to make up its required safety fund would take the proper amount of its bill portfolio to the Reichsbank. The Reichsbank lets these bills expire; when they fall due, it must renew them

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directly or indirectly by accepting other bills, with the effect that the portfolio of the Reichsbank is permanently enlarged. The only thing that might be subject of dispute is whether the discounting of bills by hundreds of banks instead of by the Reichsbank is to be looked upon as a system economically less desirable.

Would the security of the bank be increased even in a general way? The safety fund is of course a fund that can not be got at offhand. If a bank wants to get at this safety fund it has to enter into special explanations with the Reichsbank. Otherwise this safety deposit would in large measure fail to fulfill its purpose. Suppose, for example, that a provincial institution finds itself confronted with this question: In the next few days heavy demands will be made upon us; shall we go and ask the Reichsbank for the use of our safety fund? In a great many cases the result will be that the mere discussion of the question will itself create in the public an attitude of anxiety and distrust toward the institution.

Herr von Gamp also suggested that it might be specified that a certain percentage be held in government loans (I assume that he meant to include loans of the separate states of the Empire), because these loans are better adapted than bills for the raising of money when needed. I think, gentlemen, that those of you who are merchants will question this statement, except as applied to certain exceptional cases. When I have a bill in my pocket with sufficiently well-known and unimpeachable signatures, I have an absolute assurance of receiving money in six weeks or twelve weeks. Now, if times are hard and I need money, it will take me much less time to find someone

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who will buy a claim that will soon be converted into money than one who will buy a paper when he has no means of judging its future market price and knows that he is taking a risk. In the case of such a bill as I have described the question of the rate of discount is absolutely the only thing that has to be considered. Herr von Gamp says that all this is no concern of the general public—if a bill is handed in, the Reichsbank is obliged to discount it; but if a government obligation is offered for sale, the Reichsbank need have nothing to do with it. Gentlemen, I do not know whether I had better say anything more on this subject. The effect on the Reichsbank is exactly the same in both cases. Herr von Gamp always makes what seems to me to be a very strange assumption—that in Germany large numbers of people go about with 10,000 or 20,000 marks in their pockets which they have no intention of using at an early date. I have very seldom come across these people. Of course there are people here and there who are occasionally found to have kept very considerable amounts of cash in their old stockings. But these are certainly not cases to be considered in connection with the subject of bills or government loans. But let us suppose for a moment that an investment in government loans were legally required. In point of security certainly an excellent arrangement; but here, too, if you think of how the law is to be formulated and how it is to be carried out, you will at once come up against the drawback that has already been pointed out. If the thing is to be of any use, it will not be enough to prescribe that a certain proportion be held in government loans, for of course this paper will have to be deposited in a safe place. If you

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do not make this provision, you must expect to find, when at some future time you look to see whether these holdings are on hand, that in a great many cases they are no longer at the institutions in question, but are at some larger bank that acts as a reservoir from which the smaller banks can draw. Well, then, the holdings must be deposited somewhere. If they are so deposited, the question naturally arises, What happens in case of need? Herr von Gamp is surely not thinking only of those cases in which a bank has suspended payments and in which as a matter of course these holdings would furnish a definite security for all depositors. Surely, in order to protect the credit and fluidity of the bank he will wish to make sure of its having these reserve holdings at its disposal in case of need, without rigmarole and without uncertainty. I come now to the point I referred to above. Here you at once create a danger for the bank. If the bank goes to the Seehandlung or the Reichsbank, or whatever other institution you have fixed upon for this function—goes and demands the money it has deposited, negotiations must be entered into, and the same thing will happen that I spoke of above in connection with the disposal of the safety fund at the Reichsbank. Either there will be a run on the bank because it was not aware a day or two beforehand of the danger that threatened it (otherwise it will have the outward appearance of being prepared); or else it is anxious and foresees the danger and begins negotiations with the depositary in question in order to obtain the securities it has deposited, in which case the rumor at once arises that the bank is in difficulties. Through this rumor you will bring about that very run on the bank which your

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measure was designed to prevent; only the run will be more serious, and sometimes the bank will suspend payment, and the depositors will be in danger of loss.

I think that in this division of the subject we should confine ourselves strictly to the consideration of such legislative measures as are feasible and suited to the purpose. I have said what I could on these lines. As for what it is possible and advisable for us to do, apart from legislative measures, we shall come back to that later on, and we shall then consider the various proposals and suggestions. And I take my stand firmly on the ground that if we have any opportunity of this kind—even if there is only the slightest chance for an improvement—we ought by all means to make every effort to contribute toward any such improvement.

The CHAIRMAN. Gentlemen, do you wish to continue the sitting? Count Kanitz is also on the program for to-day.

[Motion to adjourn.]

Count KANITZ. Your Excellency, I beg that my speech be put off till to-morrow.

The CHAIRMAN. Then I will close the meeting for to-day, and request you to assemble to-morrow at 10 o'clock.

[Close of session, 5.44 p. m.]

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WEDNESDAY, NOVEMBER 24, 1909—10.45 A. M.

The Chairman, Wirklicher Geheimer Rat HAVENSTEIN, President of the Reichsbank direktorium. Gentlemen, we shall take up our discussion where we left it yesterday, and I give the floor first to Count Kanitz.

Count KANITZ. There are two principal reasons, to my mind, for answering in the affirmative the question of whether the safety of deposits and savings is a matter for public concern. In the first place, it is unquestionably a matter of interest to the community that the deposits, the hard-earned savings, of the man of small means should be protected against careless or fraudulent use. Misfortunes of this kind, though lately, to be sure, of rare occurrence, were formerly quite frequent. Fifteen or sixteen years ago there was a case in Berlin where two great banking houses went into bankruptcy, and countless depositors, especially the lesser ones, lost their money. These happenings were the occasion of the Bourse Inquiry Commission, which met at that time, and held its meetings for two years in these very rooms, under the chairmanship of the worthy predecessor of our present Reichsbank president. I am just now the only person here who was a member of that commission; Herr Geheimrat von Gamp has not yet arrived. Even at that time the chief problem before us was how distressing occurrences of this kind might in future be prevented; but we could not at that time make any attempt at a law regulating deposits; the possibility of doing so was always dismissed and regarded as a last

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resort, and the final result of our deliberations was the bourse law of 1896.

Gentlemen, the bourse law does not concern us here, but some of the speakers, especially Herr Wachler and Herr Mommsen, spoke of it yesterday and laid special stress upon the harm it has done. I hope, therefore, that you will permit me to say a few words on the subject, since I was not without some share in the drafting of it.

Gentlemen, I do not agree with Herr Mommsen in thinking that the bourse law has forced our money into other countries. On the contrary, I am inclined to think that in the whole history of the German bourse there has been no such flourishing period as that of this very bourse law. If it were true that the bourse law has had the result of sending our money into other countries, then this money would now be flowing back, and the German bourse would be better off than it is. All that is now left of the work we did then, all that is left of the whole bourse law, is simply the Staatkommissarius. [Laughter.]

So much, gentlemen, for the bourse law.

Gentlemen, I come now to my second reason for believing in the necessity of a legislative measure to secure the safety of deposits for the community. I do not think it is a good thing that many capitalists, large and small, should intrust their fortunes to banks and bankers that promise high rates of interest, and should thus be prevented from investing their money in paper that is safe, even though the rate of interest be lower. The low market prices of our imperial and state loans, and

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of obligations incurred by our provinces, districts, and cities, are in my opinion due in part, though not of course altogether, to the fact that a great many small capitalists are persuaded to invest their money in banks that offer high rates of interest. In this way the demand for safe paper is considerably decreased. Herr Oberbergat Wachler said yesterday that in agricultural districts the need of credit is fully satisfied even as matters now stand; I should like to remind him that in Prussia $3\frac{1}{2}$ per cent mortgage debentures stand on an average at 91 or 92. The agricultural landowner, therefore, gives up the best part of his credit, the surest things in his land holdings, in order to obtain a loan on which he loses at the outset 8 or 9 per cent. This being so, I doubt whether the agriculturist's need of credit is altogether satisfied.

It was stated yesterday, especially by Herr Geheimrat von Gamp, that a distinction must be made between savings banks and cooperative institutions (Genossenschaften) on the one hand and the regular banks on the other. That is true; public savings banks are as a rule on a sound foundation, being backed by the whole resources of the district, the province, or the city, so that one may regard them as absolutely safe, and I believe the cooperative institutions are also perfectly safe. A distinction may properly be made, therefore, between the treatment of the regular banks and the treatment of the savings banks and cooperative institutions.

On the other hand, I think no distinction need be made between savings and deposits. I see no reason for treating them differently. What are savings anyway, as

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distinguished from deposits? Whether the little business man or the working man has carefully saved up his hundred marks or has won them in a lottery (in which case they certainly are not savings), it comes to the same thing in the end—in either case it is to the man's interest to have his deposit safely placed.

I come now to the question of fluidity, on which some of yesterday's speakers laid special stress. I do not in the least underrate the importance of this point, but I think that here too we ought to proceed with caution. Those institutions which have invested their holdings chiefly in mortgages will be obliged to stipulate for longer notice since, as you know, it is customary to make mortgages calling for a three months' or six months' notice; and when an institution finds itself in the situation of having to pay back a large deposit within a very short time—to pay back money that it has invested in mortgages, it may fall into difficulties. I think, therefore, that this, too, is a matter of interest to the public. The mortgage business ought not to suffer injury. We have here a matter that concerns not only country real estate, but city real estate as well. The city savings banks, as you all know, prefer to invest in city mortgages, and I should expect injurious consequences to both country and city real estate if this negotiation of mortgages through savings banks and Genossenschaften were in any way interfered with.

I lay no special stress, then, on the question of fluidity. The man who brings his money to the savings bank knows, to start with, that he can not get it out again very quickly. I am inclined to think, therefore, that we

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should not lay very much emphasis upon the question of fluidity.

As for the question of checks, Herr Mommsen, as well as Doctor Weber, said yesterday that the check business was not of the slightest use to the great banks. I am extremely sorry that Herr Kaempf is not here. Doctor Weber knows, he having been in the Reichstag, that Herr Kaempf advocated the check law and the establishment of the check system with the greatest zeal—not only because Herr Kaempf himself is the chairman of the Berlin Kaufmannschaft [Merchants' Guild] but simply on public grounds, since he believes that the check system and the check law would considerably facilitate the whole of our financial and mercantile business. If that is so—and I think I must agree with Herr Kaempf—I should think that the great banks, too, would derive no harm, but even a certain advantage, from the check system, just as from any other means of facilitating and simplifying the operations of finance and trade. I can not, therefore, agree without reservation to what was said on this subject by the gentlemen who spoke of it yesterday. Moreover, I do not think we are here called upon to examine very closely the workings of the check system; the check law is already in existence and is not to be changed in a moment.

A good deal of consideration was given yesterday to the relations of our great industrial concerns to our great banks. Herr Gontard deplored, and to my mind rightly deplored, the excessive dependence of our industries upon the great banks. Doctor Weber, on the other hand, expressed the opinion that the increase in population has given rise to an enormous increase of activity in our

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industrial world, and that if, in spite of the tremendous increase in population, it is true not only that our industries have been fully equal to the occasion, but that our whole standard of living has actually risen to a higher plane, these developments are to be attributed primarily to the fertilizing activity of the great banks, by which he meant, of course, only their fertilization of the great industries. In a certain sense I admit this is so; I fully recognize the fact that the great banks furnish the great industries with the necessary capital; for it goes without saying that, when the industries are obliged to supply the wants of a rapidly growing community, they must expand. For this expansion money is necessary, and this money must be obtained through the medium of the banks. Much as I sympathize, therefore, with Herr Gontard, I must admit that the attitude of Doctor Weber has a certain justification. We can not dispense with the activity of the great banks in supplying the industries always and everywhere with the necessary funds. I merely deplore the difficulty we shall have in keeping this dependence within bounds. Gentlemen, it is nowadays absolutely impossible for our imperial loans, our state loans, our safest papers and bonds, to be brought upon the market without the mediation of the banks. Unhappily, therefore, it would be no simple matter for the industries to escape from their dependence on the great banks. I should be very grateful to Herr Gontard if he would some time explain how this relation of dependence could be modified to its betterment.

Gentlemen, we were told yesterday—and that by Herr Roland-Lücke himself—that our industries are most

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likely on the eve of hard times; he spoke of England and the new elections that may take place there, at which the English people will have to decide whether to keep up free trade or to adopt a protective system such as other countries have. Herr Roland-Lücke might have referred also to America and the Payne tariff. ["Quite true."] But as for England, we shall probably have to consider that question very carefully in the Reichstag in the next few weeks; we shall then have to take up the question of the extension of the provisional commercial agreement with England. For my part, whenever this provisional agreement has been extended, I have been unreservedly in favor of it. And in the economic committee, in which I always had this matter to report on, I advocated the simple extension of the agreement. Herr Roland-Lücke is perfectly right when he says that the present situation is a very good thing for our industries if the English free-trade system is retained. But, gentlemen, I am afraid that system will not be retained much longer. Whether there is a general election in England or not, the English are at any rate finding out that the present system can not be kept up, that England can not remain a free-trade country when almost all the other countries of the world have gone over to the protective system. Gentlemen, the state of affairs in England seems to be in many ways desperate. The number of the unemployed is already reaching the hundred thousands, and Englishmen are naturally asking, Why are these hundreds of thousands running around without work? The millions of English laborers who used to find employment in farming are now without a trade and are

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being driven to emigration. Even the Englishman must see that this situation can not go on; I think, therefore, that there is nothing for it but that England should adopt a protective system—a very moderate one to start with, of course.

Gentlemen, it was said yesterday that we should take care that we do not revert to the condition of a purely agricultural country. What is meant by a purely agricultural country? Let me remind you of the saying of England's greatest political economist, Adam Smith—the home market is the best market. England has injured her home market; she has absolutely cast aside the teaching of her greatest political economist; now she is taking the consequences, and at last she is beginning to perceive that the home market is the best market.

And as for us, gentlemen, I think that, in view of the possible injurious consequences that threaten us from England's adoption of a protective system and from the Payne tariff, we should make it our business to increase the purchasing power of our own people and to improve the home market. This is the easiest way of enabling our industries to look with equanimity upon the possible diminution of their exports.

Doctor Weber also expressed an opinion with which I can not but agree; he said that in Germany the creation of capital has not kept pace with the increase in the population. That is true, but it remains for us to ask why it is. I am inclined to think that here in Germany too large a fraction of the values that are created by the national labor are absorbed by taxes and expended in unproductive activities; I believe that the weight of taxes

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upon the German people is too heavy. I believe, furthermore, that the boundless projects of social improvement that we undertake must also militate against the creation of capital, so that what Doctor Weber said on this point was fully justified. I think that the enormous burdens that our social legislation lays upon us, especially upon our industrial enterprises (I say nothing whatever about agriculture)—I think these burdens are certainly a factor to be taken into account in this connection; I think they are directly prejudicial to the creation of capital.

Finally, gentlemen, we must, after all, take up the question of what is to be done about it. Most of the gentlemen that spoke yesterday will not hear a word of any legislative measures with regard to the deposit system. Ah, gentlemen, but the question can not be dismissed so easily. Let me remind you of the resolution passed last May by the Reichstag, asking that the imperial chancellor draw up a bill for the Reichstag to consider. You know the resolution; it is among your printed documents. The chancellor, therefore, will have to comply with this decree of the Reichstag and submit some sort of bill; the question then arises, Shall we declare at the outset that no legislative measures of this kind are worth considering, or shall we make some suggestion in the matter? Gentlemen, do you realize that this resolution was carried in the Reichstag by a very large majority? In the committee the vote was 17 to 4, and in the general body of the Reichstag the proportion was about the same—only the Freisinnigen and the Social Democrats voted against it. If you keep this in mind, you will see that in face of this large majority the chancellor

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is surely obliged to submit a bill, and I think it should be our task to shape this bill in such a way that it will conform as much as possible to the interest of our industries, and also, I gladly add, to that of the banks.

Now, of course, if we are to make any preparations at all for meeting the evils that undoubtedly do beset us, the simplest way of doing so would be to adopt the proposal made yesterday by Herr Singer, and revolutionize the whole order of society. Then, to be sure, the banks and bankers would be got out of the way; then we should have a *tabula rasa*; then there could be no more talk of abuses in the banking world. But I should prefer not to try this cure *à la Doktor Eisenbart*; I should prefer to reckon with the facts as they stand. It is our duty, gentlemen, to make definite proposals, and I hope we are not going to dismiss this duty with a simple negation.

I should think that the very smallest measure we could possibly propose would be that the balance sheets of the banks and bankers be published. In fact, the Reichstag did not look for much more than this, since it knows very well how dangerous it is to interfere by means of legislation with the independent activity of the banks. But this small measure, gentlemen, is not a thing to be lightly dismissed. To be sure, I do not expect it to have very far-reaching consequences. If you will glance over the compilations that we have before us in the documents—if you will look at the published balance sheets of the great banks, you will see that even if the balance sheets were published there would be very few people among the general public who would know how to read them. Whatever the balance sheets may contain, the

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general public, and especially the great number of small investors, is perfectly helpless when confronted with these balance sheets; it does not know what to do with them. Only here and there, when a man obtains the advice of an expert, will the balance sheets occasionally be of some use; the expert may say, "Take care; I do not feel quite sure about this." Well, then, as I have said, I do not look for great or far-reaching consequences from this measure. But this is, to my mind, absolutely the only proposal that we can make. I do not think that a board of supervision in connection with the publication of the balance sheets would accomplish much. ["Very true."] It would only lead to a further enlargement of our already overgrown bureaucracy. ["Very true."] But, gentlemen, I know of no other proposal we can make, and I therefore entreat you to set your approval upon this one, so that we may not disperse without having accomplished anything at all. ["Applause."]

Doctor HEILIGENSTADT. Gentlemen, according to the wishes of our president, our discussion should in the first instance pertain to the general aspect of the question before us. Most of those who have spoken hitherto, like the gentleman who has just been speaking, have treated it chiefly in its general aspect; but I think it would be a very good thing if we were also to discuss its more strictly economic side. I think that many questions may come up that can not be settled until we have a fairly thorough grasp of the technique of the banking business as it has developed in Germany.

Gentlemen, I have concerned myself for some time with questions of banking theory and practice, and what

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I wish to tell you about now is chiefly the impressions and experiences that I have collected in my twenty years or so of practical activity in the banking business. I refer especially to observations that I have been able to make in the post that I now occupy—observations with regard to the credit system of the *Genossenschaften*—which has a great influence upon the credit business of the great banks, the bourses, and the general money market.

If, before going into the question in detail, I were to say at the start whether I consider some regulation or ordering of the deposit system to be to the interest of the public, I should have to reply in the affirmative, and indeed you will not expect me to do otherwise, since I have already expressed myself in public on this subject. I believe that in a political and economic system such as we have in Germany the money and credit system is eminently a public affair. The classes that are directly affected by the public money and credit system are becoming larger and larger, and more and more people have an interest in the effective handling and regulation of this system. The greater the concentration in industry and in the whole business world becomes, the more progress the state makes in this direction and the more bureaus it inaugurates, the more necessary will it be in the interest of the public to have adequate banking arrangements for the effective maintenance and further development of economic production.

As I have said, I regard a proper organization of our money and credit system as distinctly a public matter—a matter that ought constantly to be submitted to public

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criticism. At the same time, I do think that in this sphere, in which the activity is and should be chiefly that of private individuals, there ought not to be very strenuous legislative interference if it can possibly be avoided.

It would be superfluous for me to take up this whole question in more detail, since my views on the subject have already been set forth in an article that appeared some time ago; nor have I found any reason to revise my opinion since that article was written—it was about two years ago. In particular the economic developments that have since then taken place have not caused me to change my mind; on the contrary, I think that what has happened in the money and credit market has shown my view to be justified.

Gentlemen, under this same general question there is in the list a subsidiary sentence (sec. 1, No. 2), in which the commission is asked to express an opinion with regard to the safety and fluidity of the investments of deposits and savings. In the first place, we have to consider, in my opinion, not only savings and deposits, but also—as appears from the monograph before us, which I must say has made a very deep impression upon me—the so-called credits. On page 27 it is stated that the credits are no less important than the deposits. I am convinced that the credits, pure and simple, have a much more important bearing on the public interest than the deposits, especially than the savings deposits, which to my mind do not properly fall within the limits of our discussion.

This section speaks of the safety and fluidity of investments. Much more important to my mind than the question of the safety and fluidity of deposit moneys is the

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question of what part the so-called outside moneys shall play in the general economic life of the country, in our whole system of production. Gentlemen, as for the safety of deposits and savings, I have already had occasion earlier in the summer, at a convention of agricultural Genossenschaften, to observe that, on the whole, no fault can be found as to the safety of the deposit moneys, and that the criticism that is often made in country circles, especially in communities where there are agricultural Genossenschaften, of the use made of deposit moneys by the banks and money institutions is not altogether well founded. In my opinion we should not draw large inferences from single cases. There is no safeguard in the economic world against dishonesty and deceit. I do not approve of the severe criticism often made in banking circles of the conduct of the Genossenschaften when some one of these institutions has happened to go into bankruptcy, and I disapprove just as much of a hasty criticism of the banks. Surely we are a conscientious people; in our business circles, as well as elsewhere, sound conscience and a true sense of duty prevail, and we may depend upon it that most of our business is conducted in a conscientious way.

As for the fluidity of the banks, I have often on other occasions had an opportunity of giving public expression to my opinion on this point. On the whole, I agree with the view expressed some time ago in the Bankarchiv by Herr Geheimrat Müller. Fluidity consists in the preservation of a certain arithmetical relation between assets and liabilities. With the modern organization of the money and credit system as it exists in Germany, England, and France, it is impossible to keep on hand an actual

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cash cover for all liabilities. It is the function of the credit system to convey capital to the places where it can be rendered most productive, and to do this so far as possible without the use of actual cash. The whole money and credit system of a country may be compared to a modern suspension bridge, the very existence of which depends on its holding itself together. If you take out a single portion the whole thing falls to pieces. So it is with the modern money and credit system: If you take away one link from the chain of credit connections the whole edifice may be endangered. Therefore in such cases everything depends upon our at once repairing the slightest break in our credit system, so that the construction may remain an organic whole. This is proved with special force by the history of the English crises. The history of the Bank of England may serve us as an example to show that in critical times the best thing that can be done is for every person or institution concerned to preach tranquillity—each, from the top downward, affecting in this way those lower in the scale.

I do not by any means wish to imply that what is generally designated as fluidity is really unquestionably fluidity; on the contrary, I think that this is a matter that constantly requires the greatest watchfulness on the part of those concerned. But, gentlemen, I regard legislative interference in the matter as impracticable, since most of the elements in the case are not subject to control. The character of the assets in a balance sheet can be judged—and here again I speak from my own experience—only by one who has himself closely examined the specific investments. What is needed is that

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criticism should bring about a general understanding, accepted by all as binding, as to what shall be regarded as a lower limit for a margin of safety. For this reason I consider the publication of balance sheets a matter of urgent necessity—and publication in such form as will enable the financial journals to give them effective criticism. Any man through whose hands many balance sheets have passed knows very well how extremely difficult this is. At the same time, publication of the balance sheets and the public criticism that would go with it are not for this reason superfluous; on the contrary, they are all the more necessary, since they will educate a larger and larger public in matters of banking practice and make them more competent critics than they have generally been hitherto—and this, again, is a thing which I am convinced would also be to the advantage of the banks themselves.

Gentlemen, in section 1, No. 2a, there is a question about the nature of deposits and savings and their relations to outside moneys in general. I consider this to be a very important point.

In the paper before us—and if I am not mistaken mention has been made of this point by Herr Geheimrat Müller, of the Dresdner Bank, and by others also—it is stated that at the Dresdner Bank, and I think also at the Deutsche Bank, those moneys are designated as deposit moneys which are paid in at the so-called deposit offices. This is a purely arbitrary distinction. The accident of a customer's coming to the deposit office or to the central office determines here the classification of the moneys that are paid in.

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Now, how is it in actual practice? A customer—a manufacturer, for instance, living on the Oranienstrasse, which is the habitat of the metal industry—goes to the near-by deposit office. Why does he go there? Because his business is small; he is just a small manufacturer and he has need of the bank and its credit only within certain narrow limits. That is why he uses the deposit office that is close at hand. On the other hand, a large metal firm, with considerable export business, will go to the central office, which can also manage for him without loss of time his business in securities and the collection of international claims. In both cases the persons in question are manufacturers; the economic nature of their business is the same; it is only in point of quantity that they are distinguished.

An exact knowledge of the character of moneys deposited in banks is often of great importance. I have often found it to be of great importance in relation to my own official activities. For many years I have tried to make up my mind as to what is the distinctive character of the so-called outside moneys with which we have to do in the credit business. My chief purpose in doing this was that I might decide to what uses these moneys ought to be put. I hope you will permit me to tell you now about the experiences I have had and the theories I have built upon them. Of course, I must leave it to your own judgment to decide whether you agree or not with what I shall say. For my part I can only say that for about ten years I have held to this classification; that during this time I have passed through a great many very difficult situations in the conduct of my official business; that in the light of this theory I have examined many ques-

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tions that are to-day in the foreground of public interest, and that in my opinion this theory has provided me with a very good basis for the answering of these questions.

In order to understand the nature of outside moneys, it is best, I think, to start with a classification that is based upon the nature of man's economic activity. The economic activity of men has two poles, production and consumption, and the interests of producers and consumers often conflict with each other to a very great degree. Now, if you will permit me to classify the outside moneys of the banks according as they have their origin in the ranks of producers or in the ranks of consumers, then I think I shall be able to adduce many considerations that will throw light upon the whole situation.

First, gentlemen, I will take up the moneys that come from the ranks of what are called the consumers. There is now everywhere a propaganda in favor of the use of the check system for the making of deposits by the class of people who are not themselves directly engaged on their own account as entrepreneurs in the production of goods as a business. The number of people in this class is constantly increasing in consequence of the growth of large-scale industries. The sums in question are extremely large; I need only remind you what enormous sums the Prussian Government has to pay out in salaries four times a year. Then there are also the salaries of private employees and officials. Gentlemen, the primary fact about these moneys is that they represent the means by which the recipients of them support themselves for considerable periods of time. They are moneys of which the chief function is to minister to consumption. Whether in the

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form of interest, of salaries, or of professional fees, these consumption moneys, if I may use the term, constitute the recompense for economically valuable services of all kinds. Moreover, in many instances they come in at fairly regular intervals and in fairly equal amounts; mostly, too (and this is a very important point), in the form of cash. This last fact involves, in case there are not adequate banking facilities, the frequent withdrawal of large amounts of cash from economic production. This cash—and on this point there can hardly be any doubt—forms a part of the national working capital, as to the necessity of which for the maintenance of our national production there can certainly be no manner of question.

The larger these sums become the more imperative it is that they be conveyed back again as quickly as possible to the sphere of production. This is to the interest, not only of production, but of the whole economic system. Therefore the efforts that are being made by the Imperial Government and the Prussian Government to persuade their officials to open deposit accounts can but be welcomed as in the interest of the whole economic life of the nation.

I might discuss the matter at greater length, but I think that all that was necessary just now was to offer this basis of distinction. I should like to add, however, from the purely technical standpoint of the banker, that these moneys actually have the character of pure *depositum irregulare*. And in the so-called deposit conditions, which the bankers get people to sign when they open accounts, there is from a technical standpoint nothing but a stipulation about a *depositum irregulare*,

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and, apart from promises of interest, about which I shall speak later on, there are no subsidiary stipulations of any kind. And technically the account has no debit side, but only a credit side. If any loan business happens to come up, it is generally treated as *Konsumtivkredit*, which is entered on an entirely different page, and with which we have at present no concern.

To be sure, the private individuals who engage in speculations occupy a peculiar position. My view of the matter is that since speculation creates time-and-place values, it is in so far a part of production. The accounts of *professional* speculators, therefore, should unquestionably be treated as production accounts, whereas occasional speculations in connection with the management of property should unquestionably be entered on deposit account.

In contradistinction to these moneys we have the deposits of all such persons as are engaged, on their own account, as entrepreneurs, in the production of commodities. The moneys that come in in this way are the proceeds of productive economic enterprise. They are distinguished from those that come from the consumer and nonentrepreneur class by the fact that they do not often come in as cash. They generally come in directly or indirectly by way of the discounting of bills, especially in Germany, where, as has often been emphatically pointed out in the inquiry commission, the discounting of bills plays a particularly large part. That these moneys are working capital is an incontestable fact.

Now, gentlemen, these deposits are technically known as account-current moneys proper. Their deposit is

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made on the basis of a special form of contract, the account-current contract, which is distinguished from the contract of the *depositum irregulare* proper by the fact that it is fundamentally connected with a credit contract. In the French statement of the terms this point is made particularly explicit. The account-current contract is there designated as "comptes courants avec faculté d'escompte," or "d'avance." Naturally, therefore, the entrepreneur account, the account-current account, has a debit side also; must have one. For it is the function of the entrepreneur to unite capital and labor in productive activity.

In another respect also the moneys of these two provenances are somewhat sharply distinguished. In the case of moneys paid into the banks by consumers it is not the bank that performs any special economic function, any special service. But in the account-current business, on the contrary, the bank does perform a special economic function in giving credit to the man that has an account; in this case, therefore, it is not only the right, but even the duty, of the bank to charge a commission. For this reason the account-current account is naturally always an account for which a commission is exacted, whereas the deposit account is an account free of commission. And this rule is not infringed by the fact that for certain reasons some account-current accounts are carried on that are said to be free of commission—for example, check accounts. These apparent exceptions are merely a kind of account-current account entered into by business people who, having large numbers of payments to make, wish to make the charges on these ostensibly

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less. In such cases the bank receives its commission in the form of a lower rate of interest paid by it.

Gentlemen, it may be said that this distinction can not be made in practice, but I do not think this objection can hold. One can determine with a fair degree of accuracy whether the parties in question are entrepreneurs—that is, business men; that is, producers—or whether they are, as I have expressed it, consumers. A banker will not open an account for anyone without his signing the account-current agreement or the deposit agreement. In view of the many things that may happen in transactions with a banker this is absolutely necessary, and a banker would be neglecting his duty if he did not require people to sign their names to some such agreement. This being so, he can tell whether in any given case a person is actively engaged in productive business or whether he receives an income of wages, salary, or interest, upon which he lives. In view of the large sums here involved, it does not matter if a small mistake occasionally creeps in. If only the moneys are on the whole rightly classified, a great deal will have been accomplished.

Gentlemen, I have already permitted myself to remark that, in my opinion, the moneys that come in in both these kinds of accounts have the character of economic working capital; but, as has already been said in this bank inquiry, there appear also, in both kinds of accounts, savings, or, as Herr Geheimrat Lexis calls them, savings deposits. When the productive activity of a period ends with a surplus and the party in question does not use this surplus in his business, or when a consumer finds after a while that he does not need the whole amount of

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his income for purposes of consumption, then these moneys lose the character of working capital. They become savings capital and investment capital, and it is no objection to this view that these moneys are thereupon also invested, that they find a fixed investment. But, gentlemen, these so-called savings deposits on deposit accounts or on account-current accounts are distinguished in this way from savings proper, the moneys that the little people keep in the savings banks. In the former case we have to do for the most part with large sums and with men of business experience, who, as soon as they come to look over the condition of their account, will decide to make the investment it makes possible themselves. This is an important criterion. The savings investments (savings deposits) on the bank accounts are the final result of some economic activity or of a process of saving in consumption.

The savings moneys of the savings institutions, on the other hand, have a very different character. These are the moneys of little people. These savings moneys proper are never, or at least very seldom, found in the great banks, though of course it occasionally happens that a sum of money of this kind gets into a great bank by mistake, and vice versa. The places in which they are chiefly to be found are the Genossenschaften and the savings institutions, and of the Genossenschaften it is chiefly the rural ones—and this is a point I wish to emphasize—at which the genuine savings of little people are collected to a great extent.

Moreover, these moneys are collected in small individual occupations. Where people obtain their income or their

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wages at very short intervals they can easily provide for their affairs in advance, and if you look at any public savings institution you will see that people go and make payments on the day on which they receive their wages or the day after. In this way the savings of the little people possess the character of savings capital, not in consequence or in virtue of a preceding period of economic production, but because they have from the very first—from the time of their being deposited—the character of savings capital, and because they have from the very first the character of capital that can, I am convinced, be invested in permanent form without fear of harm. That this investment, however, as distinguished from that of the savings capital of the upper varieties of savings deposits, is not effected by the saver himself is a necessary part of the case, since in dealing with the savings of the lower varieties there is no question of any but very small sums, and further because the people concerned are persons unskilled in business matters or completely ignorant on the subject.

It was therefore by a natural development that a special organ was created to take care of the investment of the savings of these little people. But the consequence of this is that the arrangements of the owner of savings moneys and those of the organ that made the investment may clash with each other. Practically this may come about when the depositor withdraws his money in order to make a different investment. For this reason, although the whole nature of savings moneys is that of investment capital and not working capital, nevertheless the savings banks must take care to have a certain

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fluidity. I am not of the opinion that the deposits of the savings banks are actually, in their economic aspect, to be looked upon as demand obligations, moneys that are daily falling due, but they are, of course, such in the legal sense, since they may be called for without notice. For this reason I do not feel justified in criticising, as severely as many people have lately done in public channels, the conduct of the savings banks in seeking to invest the greater part of their moneys in mortgage loans. If you consider what it is that the small customer most often thinks of in connection with the money he saves, you will find that he is very frequently saving in order that he may some day be able to purchase a little piece of ground. The land hunger of the little people is proverbial; in my opinion it is entirely logical for the savings bank to turn to that kind of investment which the little people would themselves choose if they had command of sufficiently large sums of money. I am inclined to agree, therefore, with the view that savings-bank moneys are essentially economic investment capital, and that savings—that is, savings in the *Genossenschaften* and the savings banks—should be managed on entirely different principles from deposit and account-current moneys, which in my opinion are working capital.

I should like to make one more remark about savings or outside moneys at the little country *Genossenschaften*, since on this subject mistaken notions are very common. If you will only try to realize the situation in country districts, and if you will keep in mind my classification of outside moneys into production moneys, consumption moneys, and savings, you will agree with me when I say

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that in the country there are as a general thing no deposit moneys at all, properly speaking, that if there are any they do not amount to anything worth considering, and that this not only is but must be the case. For in the country districts there are, generally speaking, no persons who can make deposit investments. The only persons there who receive salaries are the minister and the school-master and sometimes, perhaps, a doctor and a head forester. The money that is invested in the country *Genossenschaften* is for the most part, therefore, either account-current money coming from the members of the association, money acquired by the sale of agricultural products, or else true savings deposits—deposits from the servants, the children, and the farm laborers.

Gentlemen, if I may say a few very general words on the subject of the measures that have been suggested, I am, as I have often publicly declared, very decidedly opposed, for the present, to a separation of deposit banks from general banks. I consider this to be a measure which, so far as the present time is concerned, could work nothing but harm to our economic development. I think that in this matter we may as well let the historical development take its course, and I believe that after all we may some day have deposit banks. I do not think that the time for the formation of deposit banks is past; on the contrary, I am of the opinion that it may yet come.

I see germs of the development of pure deposit banks, for example, not only in the well-known text-book example of the *Oldenburger und Osnabrücker Bank*, but also and particularly in the activity of many *Schulze-Delitzsch* co-operative institutions (*Genossenschaften*) in small and

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middle sized cities. A large number of these cooperative institutions will certainly develop into pure deposit banks so efficiently conducted that no fault can be found with them in point of the security and fluidity of their investment of deposit moneys. In the same way—and here I have only to agree with the expressions of opinion that are to be found now and then in banking journals—it seems to me that the Deutsche Bank is also, perhaps, tending more and more to become a pure deposit bank, as the Crédit Lyonnais quite consciously is. It looks as if the Deutsche Bank were doing much less business than it used to do in flotations, especially foreign flotations—

A VOICE. Wait and see.

DOCTOR HEILIGENSTADT. At least this is the impression received by the general public.

I think, therefore, gentlemen, that the harm that might be done by a separation into deposit banks and stock banks would be greater than any good that might come of it. I should therefore regard such a measure as objectionable. I think it would be better to let things take their course.

Nor do I think it would be a good thing to establish state deposit banks. I do not wish to go into the matter in detail. I will merely say that I hardly think the state deposit banks would grind much grist, and I think that the risks involved are not to be lightly estimated.

Furthermore, gentlemen, I am not in favor of reintroducing interest-bearing deposits at the Reichsbank. I have often expressed myself in public on this question. Even supposing that there are no legal considerations against it and that the Reichsbank would be acting entirely within the sphere of its legal function if it should

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receive interest-bearing deposits, I still think that in times of rapid change in the condition of the money market, which are sure to recur, they would greatly increase the difficulties of a sound banking policy. I think that from the point of view of the general interest it would be much better for the bank to carry on its discount policy with a free hand, without being influenced, as it certainly might be, by the consideration of having to pay interest on deposits. It is possible, in my opinion, that if interest-bearing deposits were again introduced, the seeds might be sown of developments that would put the Reichsbank in danger.

As for the plan of changing the Seehandlung into a deposit bank, the Prussian minister of finance spoke of it in the Prussian Landtag, and declared that for various reasons he was opposed to it.

It has also been suggested that the Preussische Zentral-Genossenschaftskasse be assigned the functions of a pure deposit bank. The consequence of this would be that the Preussische Zentral-Genossenschaftskasse would have to institute branch offices in the provinces, and this is a development that could not be reconciled with the limits and sphere of the functions that are assigned to the Preussische Zentral-Genossenschaftskasse in the law by which it was organized. The Preussische Zentral-Genossenschaftskasse can not establish branch offices in the provinces, because the business it may carry on in the provinces is restricted by law to transactions with *Verbandsgenossenschaften*, that manage their business on their own responsibility and on their own initiative, an arrangement which is certainly much more in the interest

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of the public than would be the establishment of branch offices in the provinces by the Preussische Zentral-Genossenschaftskasse.

I should like to make one final observation. I think that, if all the essential factors of the case are taken into consideration, we may some time, after all, establish certain regulations which will call for the drawing up and publication of balance-sheets, in which also a certain fixed minimum cash cover for outside moneys—but in that case *all* such moneys—will be prescribed, and in which perhaps the extent to which bills may be accepted will also be regulated—regulations, however, that must be so carefully constructed that they will take account of the local conditions of individual banks, and of the manner of their historical development. I think, gentlemen, that this is quite practicable, and that in this way much would be accomplished and much good might be done.

Doctor WAGNER. Gentlemen, the list of questions set for us to answer gives first and chief place—and rightly so—to the question whether it would be to the interest of the public that legislative measures be adopted with a view to effecting the security and fluidity of the investment of deposits and savings in credit institutions, cooperative institutions (Genossenschaften), and savings institutions. I wish first of all to say that in my opinion this question, taken in an altogether general sense, should be answered in the affirmative, and I shall try to establish this opinion by bringing forward a number of considerations.

Even the gentlemen who have already spoken, who have for the most part held themselves averse to any

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such plan, must admit that it is at any rate an open question, and it is precisely one of the duties of this commission to give it a close and careful examination. From the assertion, therefore, that was made at the beginning of last year's sittings—namely, that the Government is not going to rush headlong into a separation of deposit banks and stock banks—I do not conclude that it is not our business to concern ourselves here with this question. The Government may hold this view, but any number of considerations may conceivably come up which may convince the Government that this question should at least not be dismissed at the very start and without qualification. For my part, I do not answer it in the affirmative, but I wish to persuade you to regard it as an open question.

Gentlemen, when I look at the matter from this point of view, I should like to distinguish between two kinds of interests. In the first place, there are private interests, above all the interests of the depositors, which are of general significance and may be regarded, even if only to a slight extent, as public interests (I refer especially to the interests of those who belong to the small and middle capitalist classes); in the second place, I ask whether, besides these interests, which are, after all, those of private individuals, the question does not involve also a large and general public interest?

As for the first point, it is to my mind much less important, but it must of course be considered. It will be admitted that here we have to do with classes of people that can not always look out for themselves; that we wish to see them conduct their economic activities—

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those that relate to consumption as well as those that relate to production—in an efficient manner; and that we wish to make them as safe as possible when they enter into relations with a bank. In this matter it is chiefly the savings banks that are concerned, and no one has made any objection to the fact that in the conduct of the savings banks there is a very considerable admixture—gradually evolved, it is true, and already existing—of legislation, supervision, and administration. Whether this is in every instance of the right character is another question.

But the objection is made that in the case of the other banks, in the case of the Kreditgenossenschaften, and above all in the case of great banks, there is really no question of great danger of heavy losses; it has been estimated by several people how small the losses have actually been, taken altogether. I am willing to admit this, but I do not consider it decisive. It is poor consolation to the small depositor to be told, "You have lost your money, but only a small fraction of all deposits is lost—this time the loss happens to fall upon you." The man on whom the loss falls will in point of fact always ask himself the question, "Was everything possible done for my safety?" And so we come to the factor of guardianship, which we can not altogether eliminate from our modern political economy unless we go over to the other extreme and tell each man to look out for himself, which he simply can not do.

It has been urged that even the simple statement of the balance sheets of the banks would be understood only by a few people, that questions of qualitative as well as of quantitative values arise, and that even quantitative

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statements are not fully comprehensible. How, indeed, can one expect this of the average man? And in this class I mean to include the whole of the lower classes and a large part of the middle classes—all those, in short, whether officials or private individuals, who can not properly look out for themselves. And the question then arises, "How can we take care of them?" Here we have, then, an interest, the interest of security; the people should be, so far as possible, protected from losses, and I do not think that the state can continue to maintain in this matter an attitude of unqualified negation. It is the same way with the banks; I will remind you, for example, of the fact that in the interest of the check system efforts have rightly been made in government circles and by our highest authorities to induce the officials to draw their salaries so far as possible in the form of drafts on the banks, etc. If this comes about, it must be made absolutely certain that the person in question shall know beyond peradventure that the amount represented by the draft will not only be paid to him sometime in cash—I will say nothing about any danger in this direction—but that he can get that cash at any moment. Here, therefore, lies an absolute necessity for a certain degree of fluidity of bank investments; for a recommendation like this, which is made in the interest of the whole money, credit, and banking system, of itself places an obligation on the government not to dismiss these matters offhand.

Yesterday, to be sure—unfortunately I was unable to be here yesterday afternoon, since my professional duties keep me at the university in the afternoons—it was

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maintained, especially by Herr Geheimrat Wachler, that all such interference is either useless or harmful.

Everything he said reminds me of the situation thirty, forty, and fifty years ago, when the catchword everywhere was, "No state interference in matters of economics." That was the principle by which free trade was brought about in the North German Confederation and afterwards in the German Empire—a principle which has long been abandoned in theory, and has by this time been abandoned in practice too. We have seen that it does not do to tell everyone to look after his own interests. If, then, and in so far as, private interests are here at stake, the question whether in the public interest a certain amount of legislative control should not be permitted, is nevertheless a question that deserves to be discussed.

But now I must explain just what I mean by a public interest. Many things are here comprised—in the first place, the question of security, and not only the question of security in the narrower sense, but also the question of fluidity. For just suppose for a moment that a great crisis should arise—and I think our business world does not take nearly enough account of this possibility. We Germans especially ought to remind ourselves over and over again that what chiefly should concern us is not economic crises—in fact, we have not lately had any really big economic crises, for even the crisis of 1907 is no exception; what should chiefly concern us is political crises. It is with these we must reckon; the actual circumstances of the time positively demand it. And we do, in point of fact, reckon with such things, since we have defenses that we should not need if we did not

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have to reckon with them. We reckon with them also in the domain of banking legislation, of the Reichsbank, etc.; in these domains there are far-reaching legal prescriptions, since we feel that conditions here in Germany call for greater security in these domains than is demanded by the very different conditions in England, for example, or in the United States, or—to give an instance of a continental country—in France. All this is simply the result of our historical development and of our geographical situation.

I think, therefore, gentlemen, that in point of fact a public interest is here involved, and that our credit and banking system ought to afford at least as much security and fluidity as can be reasonably expected or even possibly attained. It goes without saying that absolute security is unattainable. If we were to demand absolute security, we should have to give up the credit system altogether; the foremost house in the world may fail under some circumstances. But to strive for the very best and fullest security that can possibly be attained is, in my opinion, our duty. And this being so, the question again arises whether the state should interfere in this matter.

Besides cases like that of the Leipziger Bank and that of the Dresdner Kreditanstalt, there have been cases like that of the great bank which a few years ago was admittedly in a situation in which it had difficulty in returning deposits—a situation aggravated perhaps by the Leipziger Bank affair; at any rate, the fact remains that there arose a small economic crisis, and that help had to be furnished, partly by certain other banks, which had a reciprocal interest, and partly by the Reichsbank, to

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which, after all, resort is had in such cases. The gentlemen who are opposed to any state interference must in consistency object outright to help from the Reichsbank in time of need. But it cannot be denied that help is accepted.

The following consideration is another argument in favor of my view that a great public interest is involved in this matter—especially in the attainment of a real and impregnable security for our so-called stock banks, in so far as they are deposit banks, and for all similar institutions. Just imagine what an effect it would have on foreign countries if cases like that of the Dresden affair were to arise here in Berlin, if it should be a matter of common knowledge that some bank here could be saved only by the support of the other banks, and if besides this it should have to beg for special help—and this is a thing that could not be kept secret—from the Reichsbank. And to my mind these are possibilities to be reckoned with. But even leaving them out of account, I think that precisely in the matter of fluidity even the great banks, to judge from their statements—and I can not persuade myself that this has been successfully contradicted by anybody—even the great banks still leave much to be desired. If the great banks have only about 3 or 4 per cent of all their assets in cash—and even if we include their outstanding credits with banks and bankers, it would come to only about 6 or 8 per cent—well, that certainly isn't very much; and if all the rest of the credit banks have a percentage of cash even lower than this—only 2 or 3 per cent, that is—I do not think that the whole outlook is a particularly cheerful one.

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Now for another point: What will be the result of the modern development of the deposit system, especially as it shows itself in the large stock banks? Larger and larger sums are being collected. It is no longer a matter of hundreds of millions; it is a matter of thousands of millions. This money comes from all classes of the community; the greater part, to be sure, comes from the so-called producing classes and business classes, but a considerable part—though it is hard to make accurate distinctions—comes from the classes that President Heiligenstadt has comprised under the name of consumption classes. All this money now flows into these banks, and how is it employed? I think this is a point to be considered. It is employed, as has often been remarked by others, in the great business transactions effected by the great stock banks, and it is eminently advantageous to manufactures and mining and conducive to the larger undertakings in these departments. To be sure, in a way, this is not undesirable—I do not deny that it is even in a way necessary—but the question remains whether too much is not consigned to this use, and whether the development in this direction has not consequently been too rapid and unrestrained.

I come now to the point which seems to me in many ways the most important of all. In the speeches that were made yesterday morning—I think especially in the speech of Herr Geheimrat Wachler—reference was made to an utterance of the *Frankfurter Zeitung*. The *Frankfurter Zeitung* said that, although perhaps nothing could be done to prevent crises, still we have to assume that crises are the result of an incontinent haste to acquire

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wealth. I repeat this with heartfelt agreement; here, to my mind, lies the prime fault. I think that a certain up-and-down movement in the condition of business is to be regarded as not only natural, but even in many ways beneficial; but here, too, we must constantly remind ourselves that we must keep within bounds. Now our whole modern tendency in this matter is not to keep within bounds at all, but to go as far as we can. As soon as some particularly favorable opportunity arises, everyone rushes in to exploit it first, and then come the familiar stages of development; first proper promotions in proper measure, next promotions on an excessive scale, and then—even to-day it is so, though less often than formerly—come many kinds of promotions that are altogether undesirable. Thus too much capital is invested. I have heard something to this effect said even by men of the industrial classes. They themselves admit that at any favorable moment our manufacturers, miners, and the like increase their investments at once as much as they possibly can so as to make them yield enormous profits. In a way this is perhaps desirable and necessary; but in another way it is not so satisfactory, since the investors are acting on the unsafe hypothesis that the additional investments will also be profitable. They attract workmen and for a time pay higher wages, but all that does not last very long.

The development of our stock-bank system is in my opinion another element of the case, since undertakings of this kind are supported in large measure with the means furnished by the large sums of deposit and credit moneys that are concentrated in these banks. Indeed,

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the question of the concentration of capital is a very important one, and there is a growing tendency in this direction. The rapidity of pace pervading our business life, necessitated by modern technical development, becomes in consequence greater and greater, stages of development succeed each other more and more quickly, and the reaction is therefore inevitably all the stronger. Of course the reaction affects in the first instance those most directly concerned—people of the entrepreneur class; but it falls most heavily upon the workingmen—the workingmen, who, as for example, in the Rhine country and Westphalia, are brought into the industrial system by all the devices of modern business, and who are then not so easy to get rid of; the workingmen, who have become used to better wages and a higher standard of living, and are then either employed at reduced wages or dismissed altogether. And then people wonder that there should be discontent. I agree, not indeed with the socialist agitators, but with the scientific socialists, in thinking that one great source of injury to our modern economic life is this irregularity—or rather, to put it plainly, this anarchy—in the matter of production.

With reference to the paper of Herr von Wangenheim which was read yesterday, Herr Mommsen said that he preferred not to take part in the discussion of an insoluble problem—that of the prevention of crises. Very well, I suppose it is impossible to prevent crises altogether. Is it impossible to mitigate them? And at what stage should they be mitigated? Not at the stage of the crisis itself, but in the preceding stage of excessive

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exploitation of opportunities and of excessive growth of speculation. Retarding weights must be thrown into the scale, and it is precisely here that the action of the banks is called for. People say: "What do you want of the banks? They can not be held to blame; they are in the business for profit, and they want to make money." Personal elements also enter in, for it is not only the shareholders that are concerned, but also the directors, the managers, the supervisory council, etc. This is all natural enough, considering the weakness of human nature; and the existing system of commissions is also a factor. This system has been commended on the ground that in a measure it places a premium on men of eminent ability. But every thing is directed to the one end of getting as much money and as fast as possible. In the case of joint-stock companies the gain is still greater, when there is a gain, since not only do the dividends rise by 1 or 2 per cent (that is indeed only a trifle for the parties concerned), but the value of the shares itself goes up, so that there is also a gain in the capital itself. This is what is rightly called by socialists the planlessness of production. We can not—and here I must take issue with Herr Singer, who, as I am told, made yesterday some such suggestion—we can not cast aside our economic system, because we simply can not carry out the socialistic economic system, not because we do not wish to but because we can not. We must, then, retain the existing economic system, but we must do whatever we can to get rid of its imperfections, or at least to lessen them, for imperfections are sure to exist in anything of human creation.

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What, then, can we do to improve the general situation and to prevent disasters? In both regards, we should, I think, direct our appeal to the modern stock banks. The developments that I have portrayed are encouraged by them in too feverish a manner. If it be said that this is necessary on account of the rapid increase of population in Germany, I reply that this answer will not serve, for the economic development does not keep pace with that movement, but goes feverishly in advance of it. We have been going too far in all sorts of ways in this age of ours; it would be no misfortune if elements should enter into our economic development which would exercise some restraining influence even upon this tendency in population. I can not go into this question any further—last year, too, there was some talk about the increase in the population—but it remains a fact that the banks play a part in this matter, and therefore I think that if the *Frankfurter Zeitung* was right in using the words “incontinent haste to acquire wealth,” then it is time that we devised some means by which this incontinent haste may be—not got rid of, since that is perhaps impossible, but mitigated; and a slowing up of the pace of the banks is one of the things that are necessary

Now, it has been said that our economic advancement has been due in large measure to the stock banks. To a certain extent I admit this is so, but on the other hand we must also ask to see the reverse side of this great and rapid development. Certainly the deposit moneys have been contributory factors in that picture, too. I will go back to an idea that I advanced, if I am not mistaken, in the course of last year's proceedings. It

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has been said with truth in England that the taking of interest-bearing deposits has unfortunate consequences; especially the large joint stock banks in London, which are essentially deposit banks, have regulated their rate of interest on deposits to some extent by the rate of the Bank of England, as indeed ours are influenced by the rate of the Reichsbank. When the Reichsbank rate rises, the rate on deposits rises also. I had experience of this myself recently—only in a small way, you understand—and of course so far as I myself am concerned I am glad of it. [Laughter.] But on the other hand one asks oneself, Are the larger consequences also desirable?

Mr. SCHINCKEL. The beneficiary asks this!

Doctor WAGNER. Yes, in this case it is the beneficiary. Well, then, one goes further and one says: My own private satisfaction in receiving now 1 per cent, or half of one per cent more, is of no consequence; the important thing is what part it plays in our economics. In consequence of the higher rates of interest, more money comes in, and fewer deposits are withdrawn, and through these new funds the stock bank has greater resources to put into the market to promote industrial enterprise directly or indirectly, either by furnishing the initial funds or in some other way, and thus to stimulate this rapid—often too rapid—economic development. The consequence is that the money market again becomes tighter, and above all that the supply of cash becomes smaller, especially in proportion to the sums that should be covered by it. Thus the same thing happens that has often been seen to happen in the history of the Bank of England: As soon as the bank rate rises, the rate of interest on deposits

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at once rises also; less money is withdrawn from the bank and more is carried to it, and all this is repeated once and twice, and so the development may go still further. But the consequence is that the whole immoderately exaggerated boom, though it lasts longer, is still more immoderate, and the reaction is all the greater.

Therefore I think we should ask ourselves whether, if we could devise some means of requiring the banks, and especially the great banks, to give somewhat lower rates of interest on such occasions and thus not to attract so much capital—whether, I say, if we could do this, it would not have the happy result of making the banks more careful in granting credit and slower in their procedure, so that right here in the preliminary stage of the crisis, when the boom is just beginning, retarding weights will be thrown in. And if the banks will not do this of their own accord—and they will not, for competition is not the thing to induce them to do it—then surely we might at least consider the possibility of making regulations; for example, the requirement of a certain minimum amount of cash, perhaps including credits at the Reichsbank, or should it be exclusive of these? I will at once make my demand rather high; there should be a cash reserve of 10 per cent against all demand liabilities. The result of this would be that fewer deposits would be made in the bank, since the rates of interest would have to be lower.

That the banks would perhaps make less profit in this way is a fact of very minor importance from the general economic standpoint. That the banks, like any other joint stock companies, shall make their paid-in capital safe—that is, shall be so placed that their stock shall not

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be below par—this, to be sure, is an economic benefit to the whole community, since it is the indispensable condition of the investment of the necessary capital in the companies. But that the banks should receive on the average higher dividends than those required to keep their stock at par, is only an advantage to the bank and to the shareholders; it is an advantage to certain individuals, but it is no advantage whatever to the country at large. [Contradiction.] It is not of the slightest benefit to the community that a bank share should yield average dividends of, say, 5, 6, or 8 per cent, or more—should consequently stand so and so much above par. Such high value of the shares may, it is true, be caused by a big surplus, and in so far as this is the case, it is justifiable; but in point of fact, in the case of banks, the price of shares is much more often regulated by the average dividends, and this sort of rise in their price is a matter of indifference to the economic life of the community.

Doctor RIESSER. How about the productive investment of its resources?

Doctor WAGNER. I beg your pardon; if a bank has to give 8 or 9 per cent dividends instead of 10 per cent, because its rate of interest, the business it is doing, does not make it possible for it to give 10 per cent, no harm whatever is done to the economic life of the community. From the standpoint of the economic interests of the community, the amount of profit made is not always the only thing to be considered. There is danger here of confusing private and public interests. The community as a whole derives no benefit whatever from an increase of a few per cent in the price of bank shares.

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Doctor RIESSER. And how about the taxes?

Doctor WAGNER. I shall take up this matter again later. If, then, we adopt the plan I have indicated and put some difficulties in the way of the banks, the result will be that the deposit business will be carried on with greater moderation, and the result of that will be that not every time of expanding business will be at once excessively exploited. We have, it seems to me, given much too little attention to the connection between these things.

Of the documents that have been sent to us, I have read with very special interest the one from Lansburgh. In this paper a great many views are brought forward which seem to me excellent. In fact, all I could say was that I agreed with them heart and soul. Among other things this question is raised—and it relates itself to what Count Kanitz has already touched upon: Why is it that for years there has been on the whole a low, though somewhat variable, market price for our so-called best investment paper—consols, imperial and state loans, mortgage debentures, etc.? Now suppose I, a public functionary, have a few thousand marks to spare, and suppose I must say to myself: I am getting 3 or 4 per cent on demand deposits, and I am sure of the safety of the capital I have invested, but the case would be different if I were to invest in consols or mortgage debentures; well, then, I let my own interest decide the matter, and I withdraw my capital from investment in state paper. If we were to cut down the business of the stock banks, we should have in this way a factor which would prove to be a distinct aid to progress.

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Lansburgh justly remarks that it is not only that trade, manufactures, and mining receive too large a proportion of the national capital, but that a great deal too much money is withdrawn from agriculture. We must remember also that lately too little capital is safely invested in state and imperial loans. But what has been stated with regard to the banks is again quite closely connected with these developments.

If you will look at the matter from this point of view you will conclude that a great national interest is here involved.

As the last point on this aspect of our question I should like to propound this question: What is the cause of this whole development, which has been promoted especially by the banks? Why is it that in Germany our whole economic life has been more rapidly developed than anywhere else in Europe—almost as rapidly as in America—and that this development has heightened the contrast between the poor and needy on the one hand, and the rich, the very rich, and the immoderately rich on the other? The tendency toward plutocracy is in fact stronger to-day in Germany than it is in any other European country—than in Great Britain, for example, the center of capitalism, not to mention any other countries. That this is true my own investigations convince me. This tendency toward plutocracy is characteristic of the modern system of private capitalism, as it has been developed in our own day.

It is objected that we can not alter that system; we need it; it is necessary and salutary. That it is necessary and salutary I am willing in some measure to admit; but

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that we can not alter it I question. In fact I think we might restrain it if we would. We are living among conditions that breed millionaires, and the breeding of millionaires is never a desirable thing. The millionaire is no less an extreme development than the proletarian, and our economic conditions tend to produce both extremes. The banks especially, and above all the stock banks, have this effect. Do you wonder then that there is discontent? When you find the people discontented you say: The masses are ungrateful, for they are much better off than they were; their wages are growing higher; their standard of living is being raised; their social position is more satisfactory; and, as Count Kanitz said, a tremendous amount is being done for them—ours is a period of boundless social legislation. This last point is one in which I shall take very decided exception to the view of Count Kanitz. Ours is not an age of boundless social legislation, but an age in which a certain restraining influence is being exercised upon the processes of the distribution of incomes and the distribution of wealth which go on among us under the system of free competition. If we had no social legislation the extremes would become still greater. I assure you that what is accomplished by social legislation directly and indirectly is not the laying on of new burdens which manufacture and agriculture could not properly be expected to carry, but the laying on of burdens the necessity for which is obvious, since wages have altogether failed to keep pace with the increase in the national wealth. Thus in establishing workmen's insurance we have done no more in the way of improving the condition

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of the workmen than every modern country is bound to do if it lays claim to being one of the civilized nations. Our present economic system has a tendency to push extremes further than ever, and to bring about a still greater concentration of wealth among the uppermost classes. I can not look upon this as a good thing; it is more of a goad to the working classes than the Social Democratic agitation with all its exaggerations.

People say that after all the workman to-day is better off than his father was, or his grandfather. But the workman can reply: Is there not a vastly greater improvement still in the status of the large manufacturer as compared with the status of the artisan or small manufacturer of former times? These are dangerous accompaniments of progress, with which we have to reckon.

The question of the public interest in a regulation of the stock business, the deposit business, etc., of the banks reduces itself in the final analysis to the question of whether, since we must retain the basic principles of our economic system, we can not introduce some modifications to prevent the development from becoming still more exaggerated. Here, too, I must say a word in opposition to Count Kanitz. It has often been said that our creation of capital suffers from this so-called boundless, measureless imposition of taxes for purposes of social improvement. Here and there, perhaps, some such thing may have happened; nevertheless, the fact remains that on the whole our taxes are smaller than those of any other modern nation, even if we include all taxes, direct and indirect, for the state, for the Verbände, and for the communes. In fact, in the matter of direct

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taxes, we have actually made the mistake of not daring, at a time when wealth is increasing so rapidly, to impose an inheritance tax.

A VOICE. We wanted to.

Doctor WAGNER. Yes, you did; but other people did not. And the graduation of the income tax is the consequence of the present economic system, and must therefore be retained.

But if the creation of capital is, in point of fact, a somewhat slower process here than elsewhere, one reason for this lies in our too high birth rate, which is in many quarters regarded as a great blessing; another reason lies in a desire for luxury, which is greater among us than among any other European people—even the English, the French, the Roumanians. [Contradiction.] This excessive luxury, this very high standard of living, interferes with our formation of capital, otherwise there would be no lack of capital to meet all our actual requirements.

Gentlemen, I will close my remarks about the existence of a public interest by expressing my firm conviction that the stock banks, in the capacity of deposit banks, have intensified, though they did not bring about, our modern economic development. The insatiable greed of the modern world is the primary evil, but it is an evil which is fostered by this development. In this point my opinion is at variance with that of the *Frankfurter Zeitung*. And from this point of view it is clearly very much to the public interest that we should at least ask whether we can not consider, and perhaps propose, a number of measures that might be taken to lessen the pace of this development. Then the different proposals

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would come up for consideration. I assume that the present debate should concern itself rather with the general aspects of things, if I have understood our president aright. [Assent by the chairman.] Then I shall keep the rest of what I have to say for the special discussions which will no doubt take place later. But I think that on the point of the need for greater publicity we are all agreed—even Count Kanitz gave this as his only positive suggestion. That publicity is not of itself sufficient no expert will deny, and that a great many people would derive no benefit from it because they have no professional knowledge is also undeniable. But we can say at once that the question of the manner of publication—by what method, at what time, how frequently the balance sheets are to be published—this is a matter that should not again be left entirely to the discretion of the parties most nearly concerned. Why have we placed the banks of issue everywhere under such requirements of publicity, prescribed for them definite forms of public statement? Why should it not be possible to do so in the case of our other banks as well? I think, by the way, that even for the banks of issue, not excepting the Reichsbank, a better plan of publication could be devised. It is not, in my opinion, sufficient that all credits should appear together as one item in the balance sheet, and I do not see why the Reichsbank should not distinguish between imperial and state credits on the one hand and the moneys of business firms and private individuals on the other hand. At any rate this should certainly be required of the other banks. The stock banks ought not to be allowed to determine for themselves the form in which

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their balance sheets shall be made up. I think this is proved by the criticism that has been made in the press—to be sure by rather harsh critics—of the so much lauded voluntary bimonthly publication of balance sheets after the manner of the great banks. I refer to the judgments pronounced by men like Bendix or Bernhard in “Plutus,” and by a number of others. It happens that these men are former students of mine, and I am proud of it. [Laughter.] Well, Herr Kollege Riesser, do you mean to say I have no reason to be proud? Why? [Renewed laughter.]

Doctor RIESSER. I am only glad they are your students.

Doctor WAGNER. I am, too. And some of them are men of practical experience, who certainly know something about the matter. Obst, for example, was in the banking business. [Renewed interruptions.]

A VOICE. That is your school.

Doctor WAGNER. Not in the sense that they had been taught by me to cast abuse upon the great banks. Do you think I do it out of malice?

A VOICE. No, no; out of conviction.

Doctor WAGNER. Perhaps you may regard my view as mistaken; I must put up with that. But the men I am talking about are men who have all had a thorough theoretical and practical training. Note, by the way, that even in other countries it would be hard to find a writer of practical experience in banking who does not fully acknowledge the necessity of a thorough training in theory also. I need only remind you of Ricardo; he was a banker. This is worth remembering. Such men have made good use of criticism.

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One more point, which occurs to me. I see here the item "bank credits of every kind." This does not make a separate statement of Reichsbank credits.

Mr. MOMMSEN. Why, that is my cash account.

Doctor WAGNER. But it stands here in the statements that are collected in the published documents. If that is the case, then I have fallen into an error; I understood it differently.

The difficulty—so it is stated at another point—of stating separately cash, foreign coins, coupons, etc., is very great. That may be, but it is not insuperable. Why should not a body composed of experts—drawn, for example, from the Reichsbank, from the Seehandlung, from the Zentralgenossenschaftskasse—why should not such a body be able to arrange a scheme? And bank directors, too, might be included as experts. Why should this lie absolutely outside the sphere of legislation? Only when this is done will moderation and restraint be exacted of all parties. On this point I acknowledge the truth of what President Havenstein said yesterday—we must remember that where there are rights there are also duties. Among the latter I include the principle of publicity. But here I differ again from Count Kanitz. I think it would be well to consider whether something further should not be done. President Heiligenstadt, if I understood him aright, was also, at the end, in favor of such consideration. Why, then, should we absolutely refuse to consider the possibility of making certain specific prescriptions as to the cover for obligations? We do not act in this way in the case of the banks of issue; it is partly through

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prejudice that we treat them differently. The banks of issue were never in any great danger. Even during the time between 1850 and 1870 there was no great trouble about the banks of issue, and yet we made definite prescriptions as to their note cover, because we thought it necessary to do so. Even for the Reichsbank we have made regulations of this kind—regulations that are sometimes rather inconvenient. Why should not something of the kind be done in the case of stock banks, deposit banks, etc.? Of course this would not mean that the banks should do nothing but what is prescribed, but that they should do at least as much.

Then, too, we should consider the plan of requiring a certain minimum cash cover for demand liabilities and for such as are payable in a week, or at most in two weeks, after notification. These are the moneys which are chiefly concerned so far as regards the question of fluidity, and in their case a greater cash cover should be prescribed. The 3 or 4 per cent of all assets ^a which is at present customary among the stock banks is an extremely small minimum. This question connects itself also with the question of the gold reserve. In making requirements of this kind, we make it necessary for the banks to keep larger supplies of cash, at least in the form of credits at the Reichsbank, and in this way, again, the keeping of a larger gold reserve may be made requisite. The means that have hitherto been taken may have accomplished something toward this end; they certainly have not attained it. Nor have the Reichsbank's cash holdings been materially increased by the issue of small

^a Presumably, the speaker meant to say "liabilities".—Translator.

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bank notes; indeed, has it not increased the danger of less gold being kept in the country, in the channels of trade? In England they are trying to increase the gold reserve, and we should be doing so, too; and the fixing of a minimum for the cash funds of the stock banks might contribute more or less toward this end.

Furthermore, I think one might say that the demand deposits should be covered by, say, 10 per cent in cash and about 40 per cent in standard bills. In this way we should have covered half the sum so thoroughly that we should be able to say: In all likelihood this will insure fluidity enough even for difficult situations.

Now for the question of a bureau of supervision. So far as I see, there is a prevailing sentiment against this plan, even among members who are, on the whole, on my side. Well, gentlemen, I have long entertained this idea of a supervisory bureau. In 1884, when the draft of the joint-stock companies law was under consideration, I had the honor of being asked to take part in the discussion. We had fairly thrashed the matter out when, near the end of the deliberations, I expressed the opinion that a general law like this ought to establish a series of formal regulations for uniform application to all joint stock companies, but that it was further necessary for the proper legal regulation of affairs in this domain that a series of special laws be also enacted, corresponding to the particular ends which the various kinds of joint stock companies serve. I know that I was not only ridiculed at the time, especially by those versed in the law and unfortunately also by my lamented colleague, but that I was also attacked. Now, we have finally settled matters as regards the mortgage

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banks and we are achieving the same result at last with the insurance companies. What prevents us from going further? It will not do for us to make merely uniform regulations for all joint-stock companies. They have got to be allowed to manage, each class in accordance with its own requirements. I therefore consider it a necessary inference that we should add to the law regarding banks of issue and that regarding mortgage banks, as well as that relative to insurance companies, a law regarding stock and deposit banks, of course with different and less stringent provisions.

I must begin by asking this question: Who guarantees to us that the public statements that are made are all correct? As has been rightly asserted, the quality of the individual items can not be stated but only the quantity. This is all the more reason for guaranteeing against the occurrence of errors and intentional inaccuracies in the published quantities.

Doctor RIESSER. There's the penal code.

Doctor WAGNER. Yes; but we must first have somebody who will discover them.

Mr. MOMMSEN. That is always the case.

Doctor WAGNER. We must therefore have an office that will have the right to examine the balance sheets and books and to verify the balance sheets.

Mr. MOMMSEN. An accountant can do that.

Doctor WAGNER. Then you come and tell us—and this struck me as very characteristic in the remarks of Count Kanitz: "There, you have got some more officials." To this I say: "Of course more officials—a fresh bureaucracy." If we have new institutions that can not be left

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to themselves but require such supervision, then this is a necessary accompaniment. This strenuous opposition to an increase in the number of government officials may be justifiable in certain cases, but taking everything together it is not justified, the fact being overlooked that in the matter before us we have to deal with a product of our entire social and economic development.

Mr. MOMMSEN. Then give it up.

Doctor WAGNER. No; that is not the thing. What we have to do is to see to it that where profits are excessive taxes shall be imposed which shall replenish the National Treasury and enable it to pay the additional officials. I can not help saying that this objection goes too far, no account being taken of the fact that this development is going on in the same way all over the world. We Germans have not gone too far in this matter, and this everlasting talk about the bureaucracy—have we not seen recently, gentlemen, a bank robbed of millions, I might almost say?

Doctor RIESSER. Where was that?

Doctor WAGNER: At the *Mitteldeutsche Kreditbank*. A sum of 700,000 marks and last year 500,000 marks. That is a good deal over a million. If such things can happen to private institutions, there is no sense in constantly pointing to the fact that the bureaucracy is responsible for certain abuses, as in the case of the *Kiel docks*. Are we on this account to say that the banks can manage best when left to themselves—that it is not a question of regulations that are needed but of men? No; regulations also have to be considered, as all men are exposed to temptations, and for this reason such supervision can not be dispensed with.

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The outcome of it all, in my opinion, is that supervision is required in the interest of the public. We need it inasmuch as by means of certain provisions in regard to cover, aiming at the fixing of a minimum in the matter of security and fluidity, we create a certain guarantee, and we need it for the sake of the public as a necessary and efficient protection. This protection is not adequate in itself, and therefore a body of expert officials is required. There are no organs that could undertake this other than expert officials. We may allow ourselves to be absolutely guided in this matter by the example of the imperial insurance bureau. Of course, the kinds of business are different, but in the insurance business itself not everything can be laid down so precisely. I need only remind you of the fire-insurance business, whose schedules are still more or less arbitrary, whereas in life insurance a solid statistical and mathematical foundation for the schedules may be secured. The arrangement has been working well in Austria, Switzerland, and of late in this country. This is enough to make me an advocate of the scheme of regulating general and deposit banks and kindred institutions.

I have not said anything regarding the savings institutions and Genossenschaften. Here, too, I can say that I believe the savings institutions in general leave nothing to be desired on the score of solidity, but that it may be questioned in their case also whether they are not deficient on the score of fluidity—

Freiherr VON GAMP-MASSAUNEN. Quite correct.

Doctor WAGNER. —and whether they ought not likewise to be compelled to maintain a larger stock of cash

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and of such readily and quickly convertible resources as bills and the like. It may be granted on general economic grounds that the investments in urban and rural mortgages, which with us constitute the main assets, are proper and sufficient; but that the matter is not to be considered merely from the standpoint of the interests of the mortgage market is evinced by the character of the savings institutions as banks. Here the rule applies more or less, the rule which theory—yes, theory—science, and history have established that the nature of the liabilities of a bank shall in a measure correspond to that of its assets. Mortgages do not sufficiently fulfill this condition with respect to those sums in savings institutions which not only legally are payable immediately or within a short time but which practically are liable to be withdrawn at any moment. I am of opinion, therefore, that in the case of savings institutions also it is worth considering whether it would not be well for them to increase their stock of cash and perfectly liquid assets.

The same thing, I believe, applies to all cooperative credit associations, for with respect to them one may always assert that for a bank security is an important point, but the most important point is fluidity. Our legislation has recognized this. The legislation in the United States regarding banks of issue has on the other hand made the mistake of putting security in the first place and fluidity in the second. We have gone to the opposite extreme, except that in regard to savings institutions we have perhaps laid too little stress on the matter of fluidity.

I have taken the liberty, gentlemen, of discussing the whole subject on the strength of what has been stated here

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yesterday morning and to-day. As I was unable to listen to the addresses that were delivered yesterday afternoon, I must ask you to excuse me if I have perhaps wearied you somewhat [exclamations of "No! no!"] and have not always adhered closely to the actual subject of the discussion. But all these questions culminate ultimately in the question, Is it in the public interest that there shall be a more effective control? In accordance with the views which I have formed on the matter, I am compelled to answer this question decidedly in the affirmative.

Freiherr VON CETTO-REICHERTSHAUSEN. After the splendid and broadly outlined addresses of the two speakers who have preceded me, I shall first of all have to beg you, gentlemen, with the *captatio benevolentiae*, to be indulgent with my utterances and to follow me in the restricted field of agricultural conditions, a realm whose circumstances as delegate of the German and Bavarian Agricultural Councils, I find myself called upon to place before you.

In considering the question, gentlemen, as to whether the public interest demands the regulation of banks as deposit institutions, I am compelled to ask myself the secondary question, What is to be the attitude of agriculture with respect to this question? In what way is agriculture interested in the regulation of the deposit business? Is the activity of the great banks possibly prejudicial to the interests of agriculture? Is it harmful to these interests in depriving agriculture of its working capital by appropriating the funds that have been accumulated in agriculture and withdrawing them from their rightful owners—a matter to which the pamphlets of Herr

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Lansburgh and the address which Doctor Wagner has just delivered have called attention—or is agriculture perhaps hurt through the directly injurious effect resulting from the solicitations of the great banks, especially from their offers of a high rate of interest on deposits, which might tend to inveigle agriculturists into making unsafe investments and expose them to losses due to such investments?

I believe, gentlemen, that this question ought to be considered with reference to the fact that the great banks—I do not refer to the Berlin banks in particular, with which I am not sufficiently acquainted, but I have in mind a number of other great banks, with whose affairs I am very familiar—as a result of mutual competition, have for some time past been induced to expand their field of operations by the establishment of numerous branches in the country; that is to say, they have extended their activity from the urban into the rural districts, from which they have hitherto kept aloof.

The interest of agriculture in the regulation of the banks of deposit is therefore, in my opinion, rather an indirect one in so far as such regulation concerns the banks, and the question of a direct interest can only arise if the rural credit institutions, the Genossenschaften, should be hampered in their operations by restrictive provisions of governmental supervision. For it is a well-known fact that the majority of agriculturists seek and get credit, of whatever sort it may be, not at the banks but at the Genossenschaften, and that they deposit their idle money with these associations and intrust their savings to them.

I shall ask you, gentlemen, to take this remark with a grain of salt. It does not apply, of course, to the big

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landed estates, but it certainly does apply to the peasant proprietors of the soil, and the question derives its chief importance from the circumstance that the great bulk of the product of agriculture is dependent on the lands of the peasant proprietors. It is they who create it.

If, therefore, I leave the landed gentry out of account in this matter, I shall beg you on general grounds to follow me in the discussion of the question as to what is meant when we speak of "outside moneys" in the hands of the *Genossenschaften*.

You will find that it is necessary, in order properly to define this concept, to go back to the history of the origin of the system of *Genossenschaften* in Germany. I must beg you not to lose sight of the fact that the impulse to the foundation of the rural credit associations, especially of the *Raiffeisen* associations, was the need of credit among the peasants who were exploited by usurers. In the region in which *Raiffeisen* first established his associations usury had increased to such an extent that the entire population was getting more and more impoverished, and *Raiffeisen* believed that he could remedy this evil by making the ranks of the small agriculturists themselves contribute available working capital, working capital that would be supplied through the channels of legitimate credit to those in need of credit, under a double condition, the condition of a low rate of interest and the condition of long-term credit, both required by the peculiarities of agricultural industry, which I hardly believe it is necessary for me to dwell upon.

In order to secure this working capital the idle money in the rural community had to be collected and savings

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taken on deposit, and from these resources assistance could then be given to those in need of credit.

The security in the investment of these funds consisted primarily in the close knowledge of individual conditions within narrow circles. As we all know, the Raiffeisen associations—and this is still mostly the case—were established within the limits of a parish, and the security of all the operations of the associations lay mainly in the accurate knowledge of the condition of the individual members, both of the depositors and of those who applied for money.

Due stress should likewise be laid on the factor, to which attention has repeatedly been called, of the joint responsibility of the members. In this respect the associations had the benefit of the example afforded by the success of the large credit operations of the unions of the rural gentry, conducted under the joint guaranty of those constituting the credit association. We have seen the same thing in the case of the Prussian *Landschaften* (agricultural credit associations) and we have it before us again in the recent development of the system of rural mortgage institutions, a development rooted in this one factor that through the association of those in need of credit a framework can be created that will answer the demands of agriculturists with respect to a proper system of credit based on mortgage, adapted to the conditions of production and cultivation.

The so-called "outside moneys" (*fremde Gelder*) of the agricultural associations, therefore, was, and is still, not such, either with respect to its application or to its origin. The fact is that it was mainly money contributed by the

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rural community, money which at the present time is still taken from those living in the country and is again devoted to their needs.

In this arrangement there is not only a great material advantage, but also an educational asset. The activity of the credit associations in the way of banking prevented the alienation of agricultural capital through unsafe investments, a matter on which I lay great stress. It taught the peasants the value of capital available at all times and has kept them from hoarding their money in stockings without interest, as was formerly done, or devoting it constantly to fixed investments in the land and soil, by which ultimately the disparity in the matter of fixed capital and working capital, which is a concomitant of the traditional natural method in agriculture, became more and more accentuated.

The charge made by one of the gentlemen who have addressed you that the afflux of capital in agricultural industry has the effect of promoting the mobilization of landed property can easily be refuted if we consider the activity of the *Genossenschaften* and especially the kind of activity which I have depicted.

The immense output of German agriculture, in the face of a rapidly increasing population and in spite of more or less depopulation of the rural districts, still supplies by far the greater part of the food required by the German people, the increasing intensiveness of cultivation constantly adding to the amount of the raw products of agriculture, so that the demand for breadstuffs and meat not produced at home but imported from abroad has, if anything, amounted to a smaller percentage of the total

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demand this last decade than in the preceding years. And this result, I do not hesitate to affirm, is mainly due to the extension and improvement of the system of agricultural credit associations.

Herr Roland-Lücke has propounded this question: Shall we return to the old agrarian state or shall we have an economic régime consonant with the times, which shall benefit every class of the population, agricultural as well as industrial and commercial? In my opinion this is a false way of putting it. That is not the question. The real question is this: Is our agricultural industry to be accorded its full birthright by the side of the other productive activities and to be treated and cared for accordingly, or shall it, as has been the case in England, hand over the field to manufactures and commerce, be repressed as an insignificant factor in the national economy, and be driven to a reduction and even to a suspension of its activity?

The decision of this question may well be left to the judgment of such thoughtful and well-informed men as those in whose midst I am speaking.

That modern agriculture, on a large as well as a small scale, is as much in need of credit as manufacturing industry and commerce is as indisputable as the fact which I have just mentioned that the development of our agriculture—a development not open to the charge (to which reference has been made) of an excessive eagerness on the part of the producers to make money—would never have attained to its present level, leaving behind most of the countries of Europe, and indeed, one might say, of the old and the new world, had not the activity of the mutual-help associations supplied the means.

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Herein lies the prime interest that agriculture has in the method of regulation of the deposit business of the Genossenschaften.

That the statistics of the condition of the agricultural credit associations would arouse a feeling of doubt and of apprehension among some of the gentlemen was to be anticipated. In advance of the publication of these statistics it was necessary for me to reconcile myself to the idea that when they came they would not make as satisfactory a showing as those of the large credit banks. I was gratified, however, to see the doubt as to the soundness of the Genossenschaften and their readiness to meet their obligations dissipated in great part by the excellent address of my countryman, Director Ströll, for which I am very thankful to him. I need not repeat what he has emphasized—the value of the accounting unions and the importance of the creation of the central clearing institution for the mutual business of the small associations. I should, however, like to call attention to a special arrangement which provides an additional guarantee for the security of the business of the small associations, the so-called *Ausschliesslichkeitserklärung*, binding the associations to deal exclusively with the central association banks in the matter of credit and the deposit of their surplus funds. Nearly all the smaller institutions now subject themselves to this provision and it has been adopted by some of the larger unions. In this connection you will allow me to read to you an extract from an expert opinion which I have obtained from our Bavarian Central Loan Institution. This is what it says:

“Our agricultural credit associations, in consonance with their organization, have relatively but little capital

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of their own. They operate almost exclusively with funds deposited with them, and a restriction of the deposit business of the associations would be of far-reaching importance with respect to the rural credit associations and consequently with respect to agriculture. The need of legislative measures affecting agricultural credit associations appears all the less imperative inasmuch as the entire organization of the agricultural Genossenschaften in Germany affords a safeguard against the occurrence of abuses.

“The system of unlimited responsibility offers sufficient security for the deposits, in addition to which the business of the agricultural Genossenschaften is subjected to constant supervision by means of expert accounting on the part of the unions. The monetary intercourse of the individual associations is under the constant supervision of the central association banks, which are in the main conducted according to approved banking principles. Most of these central-association banks have the *Ausschliesslichkeitserklärung*, according to which not only the needs of the associations in the matter of credit are to be met exclusively by these central banks, but all the surplus funds of the associations must be deposited with them.

“The central association is consequently in a position to supervise completely the business management of the smaller associations subordinated to it, and it has a guaranty that no unsafe operation will be undertaken through other agencies to the prejudice of the credit which it accords to the small associations.

“The central association banks constitute, therefore, in a certain measure the central deposit bank of the

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Genossenschaften, and it is their business to keep the funds flowing into them from the subordinated associations in as liquid a form as possible. Thus the agricultural credit association may be said to meet pretty closely the requirements exacted in the case of a deposit bank pure and simple."

I shall take the liberty of reading to you the text of the provision in question as it appears in the rules and regulations of the Bavarian Central Loan Institution. It reads as follows:

All surplus funds of the individual associations are to be deposited only at the clearing institution.

The needs of the individual associations in the matter of credit in the discharge of the business for which they are legally qualified are to be satisfied exclusively at the clearing institution.

Further on it reads:

A provisional suspension of credit is ordered by the committee if an association opens an account current with another banking institution, or as soon as the committee has doubts regarding its credit.

As regards the relation which the capital and the readily available resources of the Genossenschaften bear to their deposits, I refer you in particular to the statements of Doctor Ströll respecting the matter of fluidity in normal and abnormal times, as well as to his very appropriate remark to the effect that the deposit institutions, as far as they can command credit through the potential realization on their assets, are permitted to use such credit as a cover against the sums due their creditors.

In what concerns the savings institutions we must bear in mind first of all that in the majority of the States of the Empire fairly strict provisions have been enacted regarding the investment of savings deposits. It would

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be well, perhaps, that these regulations were extended and amplified, and in this connection I should like to call attention to a passage in the statements of Herr Lansburgh (which seem to me to be applicable to some of the conditions), where he remarks (p. 16 of his pamphlet):

“We should see to it that any person whosoever, who is in no way restrained with respect to the application of the sums intrusted to him, shall not be allowed to go before the people and solicit savings and thus make capital out of the ignorance of the public, which quite naturally connects the word ‘savings’ with certain notions of legislative safeguards and governmental supervision—quite naturally I say, for as a matter of fact the security of savings, that is to say, money deposited in savings institutions, is adequately looked to.”

As regards the security of savings not deposited in institutions under state supervision, there is no doubt in my mind after my own experience that additional safeguards could be provided. I have had occasion in the immediate vicinity of my place of abode to witness the collapse of an industrial credit bank, in which a large portion of the inhabitants of the place, with a perfect sense of security, had deposited their savings, with respect to whose disposition, however, there was absolutely no supervision. These are evils, gentlemen, that ought to prompt a closer investigation of the whole matter.

Whether the regulation of the system of savings institutions by imperial legislation is advisable ought in my opinion to be considered an open question. Even if such regulation should appear desirable with respect to the security of the investments, still in what concerns their

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fluidity it hardly seems possible to enact statutory provisions applicable to all local conditions throughout the length and breadth of the Empire. Even in the matter of the investment of savings deposits in mortgages—such investments, if I remember right, constitute at present about 50 per cent of the total investments of savings institutions—there may be great diversity of opinion. The investment of savings in mortgages may, as has already been mentioned, be partially in accord with the intent of the depositors. Nevertheless, considered from the standpoint of the agriculturist, the mortgages of savings institutions have two great defects—their terminability, which is generally exploited for the purpose of raising the rate of interest, and the absence of the feature of amortization. These are two factors to which I desire to call particular attention in the interest of agricultural credit based on landed property.

I come now to the question of the creation of a bureau of supervision. In regard to this question I must say that I am with those gentlemen who have declared themselves to be opposed to such an institution. Considering that the present supervision of mortgage banks is only of doubtful value, in spite of the fact that in the case of these institutions credit rests on a firmer basis, a bureau of supervision for banking in general will necessarily have to confront well-nigh insoluble problems. I am still prepared to maintain this view against the highly interesting expression of opinion on the part of Doctor Wagner. We have, for example, a much more thorough supervision of mortgage banks than there is in Prussia. We have had for a long time in Bavaria a special supervising commissary for

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every mortgage bank. These supervising commissaries have been selected from among the higher administrative officials. It was supposed that they could, owing to their general training, be relied upon to possess the ability to make themselves familiar with these matters of bank management and banking business. As a matter of fact, these gentlemen discharged the duties of supervision as something outside of their regular business. What was the reward of their exertions? A demand was presently made in the Bavarian landtag for a more thorough and stricter supervision of the mortgage banks, and these men themselves had to confess that with the best intentions they had not been able to master the details of the business. The result was that, in addition to the eight supervising commissaries of our Bavarian mortgage banks, a head supervising commissary—if I may so express it—was installed, a gentleman who has hitherto been connected with the Royal Bank, upon whom the other eight, relying on his technical knowledge, will shift a large part of their duties.

I cite this example merely in order to show you how difficult I consider it to be to extend the governmental supervision to those banks which, in addition to their other business, have a great deal to do with credit and securities. I need only point, gentlemen, to the biggest mortgage bank that we have in Bavaria and the Empire, the Bayerische Hypotheken- und Wechselbank, which has at present mortgage debentures in circulation to the sum of a billion marks, and a corresponding volume of real estate mortgages, and to a concern barely inferior in the range of its business, the Preussische Zentralbodenkredit-Aktiengesellschaft.

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To exercise a constant and adequate supervision over concerns like these is a *tour de force* such that I should not envy the one to whom it is intrusted. And how much more complicated and intricate are the threads of the business of the credit banks which it is proposed to subject to governmental supervision! I felt called upon to make these remarks in response to the utterances of Doctor Wagner, which I fully comprehend and appreciate. But I must beg you, esteemed colleague, to be willing to agree with me to the extent at least that the difficulties of execution are so great that we are justified in asking ourselves whether we can actually expect to effectuate these requirements, however legitimate they may be, or whether we are not attempting a really impossible task.

There is still another factor, one which seems to me of special importance, and that is that the responsibility which the Government assumes with respect to the public in the exercise of such supervision is apt to degenerate into a sort of governmental guaranty in the eyes of the people. ["Very true."] I deprecate the infusion of a certain sense of security in the public, which might, perhaps, have worse consequences than the necessity which we at present impose upon the thoughtful and cautious public of testing the security and stability of the individual "great banks."

I shall ask you, gentlemen, to permit me to make a little digression at this point. When in the course of our last discussion Herr Bernhard and, I believe, Herr Christians made minute suggestions regarding the form of the intermediate balance sheets of the great Berlin banks, I could not help asking myself the question as to whether there is

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in reality any form that would render such statements capable of affording an oversight of the business of the banks, and I must confess that I have still grave doubts as to whether these intermediate balance sheets are in reality calculated to offer a certain guaranty of a continuous and uninterrupted sound management of the business of the banks. Of course, I can see some advantage in the fact that the drawing up of the intermediate balance sheet after a pretty long interval affords the possibility of getting a closer view of the entire management of the banks than the mere publication of an annual statement. The so-called cooking-up of the annual statement, with which the banks are occasionally charged, can not take place quite so easily with the regular publication of extra balance sheets. At all events these interstitial statements have this one advantage that they are frequently examined by experts, so that, even if the individual customers of the bank are not in a position to examine them, nevertheless a sort of *communis opinio* is established regarding the soundness of the management of the various banks, which can exert its influence over those customers of the banks who are not able to undertake the examination of the intermediate statements with any technical understanding.

Having made this brief digression, I shall close what I have had to say. Getting back to my starting point, I shall conclude my statements as follows: Without wishing to deny the need of regulating the system of deposit banking—I should in any case be in a position to give my conditional assent to the promulgation of uniformly regulative provisions—I may sum up by saying that agriculture has in the main only an indirect interest in the regulation of

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deposit banking, but that, in so far as it has a direct interest, it is of great importance to it that excessive restriction of monetary intercourse and hampering of the institutions that carry it on shall not cripple those arrangements whose free development is no less necessary and beneficial to agricultural industry than it is to the other branches of national production.

Mr. PETER. The question of the legislative regulation of banks of deposit and savings institutions has engaged the attention of the public for many years. I wish to say, therefore, that the public is interested in seeing that this question is answered in an official manner by a body of men having technical knowledge of the subject and that it is once for all, as I hope, definitely settled. On account of the frequent discussion of the subject in books and newspapers and the movement, initiated long ago, for the regulation of deposit banks and savings institutions, it is a pressing duty to throw all the light possible upon the question and to subject it to a thorough-going discussion, if for no other reason in order that the feeling of uncertainty which has been aroused in banking circles by the various suggestions shall be dissipated and that tranquillity restored which is so essential to our economic existence.

If I admit unconditionally that the public has an interest in the question, I must, however, at once express my opinion that the regulation of the question by means of legislative measures appears to me impracticable, for, judging from my experience of forty years in the field of banking and in connection with cooperative credit associations, there is no occasion whatever for imposing trammels upon the activity of our credit institutions, for it is

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to them that Germany is indebted for her great economic development, and without them the brains of our merchants and manufacturers would not have succeeded in raising German trade and industry to the level which they occupy to-day in international economic life. This development was and is indispensable in order to provide work and food for our constantly increasing population. For this reason I regard any fundamental change in the organization of our banking system as undesirable. In my opinion it would be placing fetters on our credit institutions if we proposed to make the taking of deposits and of savings in any way more difficult, or to enact restrictive regulations with respect to their investments.

In what concerns the second point of the question, that regarding the security and fluidity of the investments made in connection with deposits and savings, I have to say that with respect to subquestion "a" I agree with those who say that it is nowadays altogether impossible to determine numerically just what constitutes deposits and savings, or their relation to the outside moneys in general, for the difference between deposits and savings on the one hand and their disassociation from the total amount of the outside moneys held by the bank on the other has, according to my observations, been gradually eliminated.

Theoretically speaking, we can very accurately say: "These are savings, these are deposits, these are current account balances." But the moment we set about to transfer this into practice, we at once encounter the difficulty—I should say impossibility—of properly classing the funds held by the bank according to the various

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categories. I may as well begin with the savings. Well, gentlemen, you will probably say that they include, in the first place, the deposits in the savings institutions. I say, "No." Formerly, it is true, it was practically the savings which flowed into the savings institutions, but now it is also deposits, so called, and any money that has to be kept in readiness for future use in trade or industry. Such funds also, nowadays, find their way to the saving institutions since these institutions have abolished the limitation of the sum one may deposit and introduced the payment of interest on daily balances. At times the savings institutions offer a rate of interest in excess of what is considered safe in regular banking. The savings institutions have in some places expanded into banking concerns, and in consequence receive deposits of money which in my opinion ought rather to go to other institutions, to be employed in ways that are in accord with approved principles of banking. I refer to these things in this connection merely to show that it would be a mistake to consider the deposits in the savings institutions as consisting practically only of money set aside by the common people.

In the same way so-called deposits and current-account balances coalesce, and a proper distinction, even if it can be made on the books, is practically not feasible. In my opinion, therefore, it is only the collective concept of "outside moneys" (*fremde Gelder*) that should find a place in this discussion.

That the ways in which our German "great banks," so called, invest the funds deposited with them, leave nothing to be desired on the score of security, has been

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recognized by all the speakers who have preceded me; I have merely to say that I concur in their statements with respect to this matter as well as with respect to the security of the investments made by the savings institutions.

And as regards the investments of the cooperative credit associations, I trust you will permit me as an old Genossenschafter, to say a few words in regard to them. As I am the head of one of the largest German cooperative credit associations, the Karlsruhe Union Bank, which has now 5,000 members and has property of its own amounting to more than 3,000,000 marks, which is about 37 per cent of the funds deposited with it, and a vice-president of the Union of Credit Associations of Lower Baden, I think I ought to know something about these associations. In this connection I desire first of all to express my thanks to the statistical department of the Reichsbank, which in its publication, submitted to us, entitled "Zur Bilanzstatistik der deutschen Kreditgenossenschaften," has shown in a splendid way what has been accomplished by these associations in the domain of public economy. We ought to be all the more grateful for this presentation, as the work of our Genossenschaften is still overlooked in various sections of the community, or at least is not sufficiently recognized. It is not longer ago than yesterday that our colleague, Bank Direktor Ströll, spoke of them as a *terra incognita* for many people, and in the course of our discussions I had repeatedly to remark that it would be a good thing, with respect to our economic life, if every now and then attention were called to the activity of our cooperative credit associations.

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We find in the compilation likewise received from the statistical department of the Reichsbank, entitled "Zur Frage der Regelung des Depositenwesens," various resolutions appended as a supplement. I miss, however, the resolution adopted at the fiftieth convention of the General Union of the German Trade and Industrial Associations, Based on Mutual Help, which was held at Freiburg on August 9-12 and which was attended by more than 800 delegates. It reads as follows:

The business of the associations does not give any occasion for the enactment of legislative regulations regarding the system of deposits and savings institutions. It would be against the public interest to impose restrictions upon the savings-bank and deposit business of the Genossenschaften.

I have said, gentlemen, that over 800 delegates of the General Union of the Trade and Industrial Associations voted unanimously for this resolution. It has been indorsed by the representatives of foreign associations, especially those of Austria, where similar movements in favor of legislative regulation have been started.

In the discussions of the experts the main question considered was that relative to the economically soundest and most practical way of employing the deposits. As regards the cooperative credit associations this question admits of only one answer, to the effect that no better way has been suggested or could be suggested than the one at present followed by the associations. Our credit associations are enabled by means of the deposits and savings to fulfill the task of placing at the disposal of their members the necessary working capital at a low rate of interest. The associations conduct the deposits and savings into the proper channels and constitute an

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economically advantageous counterpoise to the excessive centralization of the deposit business. In the face of this, the proposition of Professor Warschauer, contained in the collection of papers on the question of the deposit business, that the associations with unlimited liability shall be permitted to accept deposits only to the amount of the working capital paid in by the members, while the credit associations with limited liability shall be altogether prohibited from taking savings deposits, certainly sounds very queer.

The great *Genossenschaften*, gentlemen, retain the form of associations merely in a spirit of idealism and only when they feel that they are powerful enough do they exchange unlimited liability for limited liability. But when they have done this they offer no less a guaranty for their deposits than before.

Some one remarked yesterday that it is not desirable that the business of the associations should mount up into the millions. Yes, gentlemen, we have associations that do a business amounting to millions—our Union Bank does—but it is made up of an enormous number of small transactions and my colleague, Herr Singer, himself will not try to find fault with this kind of business up into the millions.

I affirm that the deposits in the associations are on the whole not invested a bit worse and sometimes are invested even better than those in the joint-stock banks. Permit me, gentlemen, to relate to you a little anecdote, the kind that is told in order to impress a lesson on the young. A few years ago one of the *Genossenschaften* of our union, the Union of Lower Baden, through the

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dishonest manipulation of its president, who, because he was a mayor of a city, possessed the absolute confidence of the members, sustained a loss of upward of 800,000 marks, a loss far surpassing in amount the combined capital, the current-account balances in other institutions, and the surplus. Through the combined action of the associations it was found possible to prevent the loss of even a single pfennig of the deposits (so-called) or of the savings. The associations in cooperation with the Dresdner Bank, which serves as the central bank for our Genossenschaften, allowed a loan on mortgage to the loan association, which enabled it to stay on its feet, and now after the lapse of only a few years the Genossenschaft has been placed once more in the position of being able to distribute among its members a dividend on the funds it possesses. I repeat, gentlemen, the depositors sustained no loss, thanks to the strength of the Genossenschaften and their combination, while in the case of any other kind of business association a loss would have been incurred.

With respect, likewise, to the fluidity of the investments made by the associations, it is necessary to bear in mind what I have just mentioned, that is, the combination of the associations in "unions" and the accounting functions that are being exercised. The "general union," moreover, as was explained in the memorial submitted to us, lays great stress on the creation of an individual capital fund by the associations belonging to the union, and herein is an important factor in the matter of the readiness of our Genossenschaften to meet their liabilities.

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I should, therefore, also like to express it as my opinion that the security of the investments and deposits is in general such that legislative regulation is unnecessary. I agree with what our colleague, Doctor Weber, asserted yesterday to the effect that the competition of the Austrian savings banks, already noticeable in Saxony, would be rendered keener by a law relative to deposits. The same thing is already visible where I am, in Baden, the neighboring Swiss savings institutions and big banks trying to outdo one another by means of circulars and letters of every kind in efforts to induce the German dwellers in neighboring towns to do business with them. They point to the various tax laws—to the coupon tax, for example—and they could do this with still greater success if, as a result of restrictive legislation relative to deposits, the rate of interest on deposits in Germany were to be reduced. Such legislation would cause money to flow abroad and precisely the contrary of what is sought would be achieved.

If it were practicable, gentlemen, to frame a law that would make it impossible for dishonest men to accept deposits and which would not injure legitimate business, I should rejoice, and I am sure you would also. I can not perceive any feasible way, however, and I find that the solution of the problem by legislative means, appears the more difficult and the less probable the deeper one goes into the study of the matter.

Some of the questions submitted, as, for example, those relative to investments in government bonds and similar securities and the publication of intermediate statements, appear to me to admit of discussion in spite of my being on the whole opposed to legislative regulation.

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Doctor LEXIS.—Gentlemen, I made an attempt yesterday to get up some sort of classification of the various kinds of deposits, and I am happy to state that I pretty much concur in what President Heiligenstadt expressed to-day. I had likewise made a distinction between the deposits of merchants, that is, persons whose names are entered in the commercial register, and those of non-merchants. It would perhaps be better to say, of *business men* and of *nonbusiness men*, in which case the small producers and trades people would also be included in the first category. As regards the nonbusiness men, who likewise constitute a well-defined class, the deposits of this category would again have to be divided into those on the one hand which may have to be paid out at any time and which may serve as the basis of check transactions—constituting thus the real deposits, in the sense in which President Heiligenstadt conceives the notion—and those, on the other hand, which have the character of savings deposits, which do not represent demand liabilities, and are withdrawable only on at least a week's notice. I am speaking here of banks only and not of savings institutions and cooperative credit associations.

Personally I have merely a theoretical interest in undertaking such a classification. But, of course, there is also a practical interest involved in it. For my part, indeed, I am not going to advocate any restrictive measures of whatsoever kind relative to the acceptance of deposits, but if such restrictions were, as a matter of fact, to be decreed, it would be well to discriminate between the various kinds of deposits, placing those apart that belong to the third category—that is to say, the savings deposits of

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nonbusiness men—in the case of which notice of withdrawal has to be given at least a week in advance. However, as I have said before, I am not in favor of restriction.

But the practical men keep telling us that such a distinction is not feasible. Perhaps, with the present methods of accounting it is not altogether practicable. The question is whether it may not be made so through a change in the methods of accounting. To me this does not appear by any means unattainable. I am not proposing anything. I am merely suggesting discussion. With respect to the future, however, regard should be had for probable further developments. Above all, the check system is going to expand, and many persons who now belong to the class of depositors without business occupation will be enrolled among the users of checks. It seems to me, however, very important, both from a theoretical standpoint and with reference to our whole monetary policy, that it shall be possible in the future to determine in some measure how large the sum is that is the basis of the monetary intercourse by means of checks in Germany. We have no accurate knowledge at present in regard to the subject in what concerns England either. The "Economist" gives every half-year an estimate of the aggregate amount of deposits. These, however, are not all deposits subject to check, but include also those that are withdrawable only "at short notice" or after the lapse of a considerable time. The question remains, How large is the actual sum which is the basis of the English system of payment by check? It is very desirable, therefore, in view of the anticipated economic development in Germany, that we should have in advance a better

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statistical foundation and that we should be able to say: This kind of deposits—meaning, specifically, the savings deposits—need not be taken into account in connection with payments made by means of checks, but, on the other hand, we have to consider the deposits of nonbusiness men, which are expressly meant to be used for making check payments, in addition to the aggregate of the deposits figuring in accounts current.

I would urge, therefore, that we try to arrive in some measure at a common understanding in regard to the different kinds of deposits and some practicable method of discriminating between them. If this can not be done just at the present moment, it will be feasible later on.

As regards the other subjects that have been submitted to our consideration, I shall not enter into a discussion of them. I should like, however, to express my opinion concerning one point. The competition of the banks, in particular the competition of bank deposits with government securities, does not appear to me nearly as formidable as it does to some of the gentlemen here, for the banks do not actually allow a higher rate of interest on their deposits, but usually a lower rate than that afforded by government securities. Even in the worst times, the big German banks have never to my knowledge, paid more than $3\frac{1}{2}$ per cent on deposits. It is not the deposits in the banks that are in competition with the government securities, but the shares. The bulk of the people who are anxious for a higher rate of interest prefer to invest in stocks. Consequently the objections that have been raised against the banks of deposit on this score appear to me to be without any point.

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

The CHAIRMAN. Gentlemen, it is nearly half past one. I move that we adjourn. It has been suggested not to stretch the noon recess to two hours. Would it be agreeable to the gentlemen if we were to begin promptly at three o'clock and perhaps stop a little earlier? [Assent.]

(Recess.)

The CHAIRMAN. We shall proceed with the discussion. Count Kanitz has the floor first, in order to make a brief correction.

Count KANITZ. I said this morning, gentlemen, that the resolution adopted by the Reichstag in May of this year had been adopted in the previous deliberation of the commission by a vote of 21 to 4, and that only the Freisinnige and Social-Democrats had voted against it. Herr Singer has since called my attention to the fact that the Social-Democratic members of the commission did not vote against the resolution, but in favor of it. I consider it my duty to correct my statement regarding the matter.

Mr. SCHINCKEL. I should not like to appear, even for a moment, to have any doubts regarding the interest of the public in the management of our entire system of banks, Genassen-schaften, and savings institutions. Neither do I wish to question the fact that, just as is the case with all human arrangements, so in this domain there may occur, as has already been pointed out, overstrains and mistakes of every kind; but I hold to the opinion that unless clearly demonstrable dangers and abuses have been manifested in the management, such as it has been, we should refrain from setting the machinery of legislation in motion. The experiences which we have had in this field—to which I shall refer again later on—have not been of such a nature

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that we should, without the stress of pressing necessity, resolve again upon new laws, or, to express myself properly, to advocate new laws, which, however framed, will in any way hamper or restrict our industry and our monetary intercourse, and in particular our credit system.

In his introductory address our chairman declared that if our banking system, our system of savings institutions, and our system of cooperative credit associations have revealed weakness, it is our duty to face the dangers squarely, to locate the weak spots, and to think about the remedy. That is the object of this inquiry, and I affirm emphatically that I shall be extremely glad to cooperate in this work.

I have been intentionally so late in taking the floor in order to be able to learn from the utterances of the speakers wherein the dangers and abuses have actually manifested themselves, and the result of my close attention has been a remarkably meager one. In order to make this more apparent, I shall enter in detail into some of the statements of the gentlemen who have preceded me.

Freiherr von Gamp thought there was something wrong in the fact, as revealed by statistics, that the banks—he spoke of the small banks in particular—should hold so much borrowed money relatively to their capital and their liquid assets, and he expressed his fear that this might lead at some time or another to disastrous consequences. He asserted the same thing with reference to savings institutions and individual credit associations, adding, however, that this, although very regrettable, was not of great consequence, the matter being mainly one of local interest. I wish to say that this very redeeming feature is manifest

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in the case of the small banks likewise. As regards the great banks, so called, however—and it is with these that we are mainly concerned—Freiherr von Gamp did not in the least question their security or their ability to mobilize their resources.

Count Kanitz also, in the first part of his address, declared that it was especially people of small means who had to be protected, people who are being inveigled by a high rate of interest, or through all kinds of advertisements like those to which reference was made in the last resolution of the Reichstag, into depositing their savings in an unsound institution. I can not help agreeing with Count Kanitz in this matter. Personally, I am not of opinion that legislative measures will be required in order to prevent this. I shall return to the subject later on.

Count Kanitz spoke also of the law relative to the Bourse. Now, I am not at all eager to enter into a discussion of the Bourse Law, but inasmuch as this was also a sort of exceptional piece of legislation, an emergency law, and we are about to discuss the question as to whether a similar exceptional law ought not now to be enacted, I am obliged to refer in a few words to the results of the law in question.

Count Kanitz asserted that all that was left of the Bourse law was the government bourse commissary. I wish I could say he was right, but it is not possible for me to admit it, for there are various things besides this that have stuck to the measure. I need merely remind you of the forms and the detailed character of the prospectuses. I beg you, gentlemen—and I assure you that I am really unprejudiced in this matter—to look at the thing

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from a practical standpoint and to tell me whether anyone has been able to discover the least use in these long prospectuses. On the contrary, the prospectuses have grown to good-sized books, so that you will not find anybody who reads them except the typesetter who has to print them or the unfortunate official who has to report upon them to the listing bureau. [Laughter.] In addition, of course, there are certain newspapers that are interested, which have made this thing a large source of revenue—a not very virtuous proceeding, I must say. [Laughter.] I mention this, gentlemen, because I fear that in the case of these detailed intermediate statements the same thing may happen. The more details there are in these so-called intermediate statements the more time will be required to get them out and the less real interest will they possess. I am willing to admit that men of a scientific turn of mind, to which class newspaper editors now also belong, have a certain curiosity, and even a scientific interest, impelling them to enrich their knowledge with the bare figures. I do not consider, however, the advantage as great as is the mischief that results. To this subject, likewise, I shall refer again farther on.

Count Kanitz then came to the subject of agriculture and to that of agricultural credit. I should naturally be very glad if we had a lower rate of interest in Germany, and that, as a result of it, the agricultural credit in connection with agricultural mortgage debentures were cheaper. But it is useless to ask that these debentures be issued with a lower rate of interest than that of government bonds, and it was a mistake—I have publicly asserted it to be such whenever I had occasion to express myself

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on the subject—on the part of the *Landschaften*, or agricultural credit associations, when they adopted the policy of forced conversions, for it was practically nothing else when they all of a sudden called in mortgage debentures to the sum of hundreds of millions and tried to lower the rate of interest to $3\frac{1}{2}$ per cent. This had the effect of reducing the rate of interest on government bonds, which were now placed on a 3 per cent basis, a change that did not improve the general economic situation. On the whole, I must admit—and I am an agriculturist myself—that otherwise agriculture has no right to complain in the matter of the protection that it receives in Germany and that the public has to take some burdens into the bargain. Glad though I am to be able to concur, all in all, in the statements made to-day by Count Kanitz, I must say that, in addition to the burdens entailed by our social-reform legislation and the excessive taxes, the rise in the price of bread and meat is sorely felt—something that benefits agriculture alone and which I do not begrudge in the least to agriculture but which, all the same, is a large unfavorable economic factor.

The subject of checks also came up for a brief discussion. Herr Mommsen was altogether misunderstood yesterday in regard to this matter. The banks at the time supported the Reichsbank in a body in every possible way by word, script, and deed in the endeavor to restrict the use of metallic cash in monetary intercourse, subjecting themselves willingly to the extremely dangerous, unprofitable, and expensive system of payments which has checks for its vehicle. All that our colleague Mommsen wished to say is that it would be a great wrong toward

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the banks, after they have assumed the great burden of the labor, the expense, and the risk which the use of checks at present imposes upon them, to try to make them appear as though they still owed us something by using language like this: "You see the banks profit greatly by the circumstance that checks can be drawn upon them; they are protected by legal regulations, and therefore they are able and ought to render the public additional service." That would be a grossly mistaken conclusion. In that case it were better for the banks in every respect if the obligation to allow checks to be drawn upon them were to be rescinded.

Count Kanitz touched upon conditions in England, and I should like to say a word by way of comment on his statements. The question is not merely as to whether or when England is to go over to protection. The reform of the tariff which threatens us has for us a vastly more serious aspect. It is proposed to establish preferential duties for all the English colonies, even for those English colonies, so called, which constitute in reality independent States, stretching over the whole breadth of the globe, and which, if England proceeded to introduce preferential zones for all her colonies, protectorates, or other dependencies, threaten to close to us a large part of the world of commerce. There is consequently much more involved in the matter than what we should call an agrarian English interest. It is a matter affecting a great territory, hitherto international, whose open door would no longer exist for us.

Herr Gontard had little of a precise nature to say regarding the dangers involved in our banking system,

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in particular those presented by our so-called "great banks." He said, however, that he had a peculiar feeling that the resources of the banks were at times not sufficiently liquid. I am fair and unprejudiced enough to say that I likewise am acquainted with banks in respect to which this feeling is not altogether unjustifiable.

In the very interesting and earnest utterances of Direktor Ströll there was one thing that I did not fully understand, the distinction which he makes between cash reserves and credit balances in banks, a point which, it seems to me, needs some explanation. What is a cash reserve nowadays? Are the banks to begin once more keeping their own stock of cash in gold, silver, and bank notes instead of turning them over to the Reichsbank? We have been taught to do everything in order, by means of the system of transfers from one account current to another and the mechanism of checks, to restrict the demand for cash currency in Germany, and if any bank to-day were to put the gold that it receives into its vaults and to try to run things its own way in the matter of gold, it would, in my opinion, not be rendering any service to the Reichsbank, which could say with justice: "This gold belongs to my vaults, for it can be put to a much better purpose here, inasmuch as the law authorizes us to issue against this gold a volume of bank notes exceeding the amount of the gold." I must say that I can not discover any difference between a cash reserve in my bank and my credit balance in the Reichsbank. I wish to say right here that the proposition that a certain percentage of the outside moneys of a bank should be constantly kept on hand in the shape of cash—a proposition

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that we ourselves are discussing—would amount to nothing more than that for the time being the cash holdings of the Reichsbank would be increased by so much, but that at the very time when such reserve is needed this money would in some form or another be withdrawn from the bank. If for any reason I am obliged to set aside money, in the way of a reserve not to be touched, either in my own vaults or in the Reichsbank, then, in the first place, I am withdrawing it from circulation, and in the second place, it will not be of any use to me in case of need, unless I am bankrupt. This has already been adverted to by several of the speakers. Such a reserve would offer security to an individual who has got into deep water, or rather to his creditors, only at the moment when he can have recourse to this reserve, and this can not be the case until he is on the point of suspending payments; in every other case it is the Reichsbank that will be called upon first for additional advances. Above all things, I wish to say that I, as a banker, can see no difference whatever between cash in my vaults and the credit balance at the Reichsbank with respect to fluidity and security.

Doctor Ströll dwelt, furthermore, on the strong reserve that the Genossenschaften possess in their solidarity, and he said that this was really an ideal feature of our economic existence. Of course, gentlemen, this is pertinent to the matter before us, as we ought to express ourselves in regard to the dangers that may perhaps be threatening the credit associations. My position is this—and I do not wish at all to deny it—that in so far as the members of the associations are all jointly liable, and

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in so far as they are not carrying on a cooperative business in the way of the manufacture and sale of butter, or the production of beet sugar, or something of the sort; in other words, so long as they are not productive associations and the moment they begin to turn into credit associations I consider the feature of solidarity as one involving great economic danger. I consider an association, possessing, let us say, some sort of a central treasury, having limited liability, a liability ever so restricted, but one that actually exists, or may be reckoned upon, preferable to an association with unlimited liability, about whose resources for meeting this unlimited liability I am altogether in the dark. I do not mean to say that I am altogether blind to this ideal feature, which Doctor Ströll has so nicely touched upon, but I should nevertheless like to call your attention to the fact that the ideal in this arrangement will flourish only just so long as all are liable for the one; this is all very fine, I know. But as soon as the occasion arrives where one or two have to be liable for all the ideal in the matter will disappear and there will be a very sick feeling somewhere in our economic organism. All I mean to say by this is that there is certainly some advantage in solidarity and—I admit that Doctor Ströll is perfectly right in this—that a feeling of solidarity should, and does, hold the great credit banks together just as it does the credit associations. But as regards liability I must say, as a bank director, that joint liability is a notion which, as a result of my sad experience in this field, I have erased from my lexicon.

President Heiligenstadt, who is unfortunately absent, referred at various times to his published writings. I

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believe he meant to say that the credit banks, the Genossenschaften, and the savings institutions ought to deposit with the Reichsbank a sum representing a certain percentage of the outside moneys. I am not very familiar with these publications, but what he said transcended the bounds of really practicable legislation, and what he said regarding the division into consumers and producers I must frankly confess I did not comprehend. I shall not dwell on this any further, as he is not present, and we can return to the subject later on. I would, however, remark in this connection that in my opinion every producer is also a consumer, for there never was a person who only produced and did not consume at all. What I fear is that if there were to be legislative provisions or, for that matter, mere instructions relative to the publication of statements and intermediate balance sheets no one would care to be much longer a bank president. I should, for example, if a foreign government were suddenly to favor me with a credit balance, have to ask myself whether that government was a consumer or a producer, and I fear if I were continually subjected to the necessity of making such decisions my brain would come to a complete standstill. [Exclamation: The Government is only a consumer.—Laughter.] All right, then; I should have to enter it among the consumers.

In any case, such an arrangement would, I believe, be a great hardship for the banks. I should also advise Herr Gontard just to wait before he becomes supervisory councillor of a bank, and proposes more stringent penal provisions for supervisory councillors, until he sees how the thing works, for he might fare very badly.

Bank Inquiry of 1908-9

Herr von Cetto spoke of the agrarian country, England. Unfortunately, his words have slipped from my memory. I shall later ascertain from the stenographic reports just what he said.

Reference has repeatedly been made to the fact—and Professor Lexis, in particular, has stated it—that the dual system of management in the English banks has always met with emphatic commendation. I must destroy this picture. It has developed more and more in the past year that the Englishmen evidently regard this arrangement as antiquated. They will not be able to preserve it. As everyone knows, the deposit banks in that country are being, one after the other, fused with the credit banks. The concentration of the banks in England in these last years has been going on at a much more rapid rate than in Germany, and I shall not mind divulging the information to you that it was one of the biggest deposit banks which is said recently to have received warning from the Bank of England in regard to the excessive range of its acceptances, on the ground of its having accepted too much paper against American securities. Thus the system of deposit banking, pure and simple, is getting to be a thing of the past in England. There is another circumstance that I am going to mention, just by way of illustration—the fact that it was one of the oldest banks of deposit that issued all the Japanese loans, a proceeding with which I do not mean to find the least fault, but which, in the eyes of the gentlemen who are enthusiastic in regard to banks of deposit, does not enter into the scope of its business. In my opinion, we should not have acted wisely if we had pinned our faith to English institutions.

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I must now say a word with reference to Professor Wagner, whose absence I regret exceedingly. Were he present, the homage due to his age and that due to the undoubtedly great services which he must have rendered to economics—otherwise he would not have become professor, Geheimrat, and Exzellenz—would prevent me from making such a reply to his statements as they actually call for. I shall endeavor, as far as possible, to say what is pragmatic to our discussion. I can not, however, refrain from remarking that I consider it a great pity that the chairs in our universities should be inculcating such principles into the minds of those who study political economy there. Professor Wagner remarked incidentally that when he had interest at the rate of $3\frac{1}{2}$ per cent placed to his credit at the Discontogesellschaft he was quite sure that his deposits were perfectly safe. Another thing that he said was that he was sorry that production had reached such dimensions with us, and this he uttered on top of a very telling and earnest remark coming from Herr Roland-Lücke. I hope—and I should not have liked to hear it—that Professor Wagner did not say that he would welcome a decrease in production with reference to the growth of our population.

Mr. MOMMSEN. He did say it.

Mr. SCHINCKEL. Then I have certainly a right to protest. Gentlemen, if we should ever fall so low as to follow the example of the blessed land, France, and introduce the two-children system into Germany—something that is unfortunately getting to be the fashion in England, and to a very large extent in some of the English colonies—then in my opinion there is no use in