BANKING AND CURRENCY

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY

UNITED STATES SENATE

SIXTY-THIRD CONGRESS

FIRST SESSION

ON

H. R. 7837 (S. 2639)

A BILL TO PROVIDE FOR THE ESTABLISHMENT OF FEDERAL RESERVE BANKS, FOR FURNISHING AN ELASTIC CURRENCY, AFFORDING MEANS OF REDISCOUNTING COMMERCIAL PAPER, AND TO ESTABLISH A MORE EFFECTIVE SUPERVISION OF BANKING IN THE UNITED STATES, AND FOR OTHER PURPOSES

IN THREE VOLUMES

VOL. I

(INDEX AT END OF VOLUME III)

WASHINGTON

GOVERNMENT PRINTING OFFICE

1913
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WASHINGTON

GOVERNMENT PRINTING OFFICE

1913
In the Senate of the United States,
November 6, 1913.

Resolved, That the Committee on Banking and Currency is hereby authorized to have printed the indexed hearings by the Banking and Currency Committee of the Senate on the pending banking and currency bills (S. 2639 and H. R. 7837), bound in paper, as a Senate document.

Attest:

JAMES M. BAKER,
Secretary.
COMMITTEE ON BANKING AND CURRENCY.
UNITED STATES SENATE.

ROBERT L. OWEN, Chairman . . . Oklahoma.
GILBERT M. HITCHCOCK . . . Nebraska.
JAMES A. O'GORMAN . . . New York.
JAMES A. REED . . . . . Missouri.
ATLEE POMERENE . . . . Ohio.
JOHN F. SHAFROTH . . . Colorado.
KNUTE NELSON . . . . . Minnesota.
JOSEPH L. BRISTOW . . . Kansas.
COE I. CRAWFORD . . . South Dakota.
JOHN W. WEEKS . . . . . Massachusetts.

JAMES W. BELPER, Clerk.
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HEARINGS ON H. R. 7837.

TUESDAY, SEPTEMBER 2, 1913.

COMMITTEE ON BANKING AND CURRENCY,
UNITED STATES SENATE,
WASHINGTON, D. C.

Present: Senators Owen (chairman), Hitchcock, O’Gorman, Reed, Pomerene, Shafroth, Hollis, Nelson, Bristow, Crawford, McLean, and Weeks.

The Chairman. Mr. Forgan, I believe, will act as the representative of the committee of the bankers’ conference, recently held in Chicago, and will introduce the different speakers to the committee, in the order in which they wish to follow; assigning to each one of them, I believe, a certain topic relating to the bill; and they have a printed copy of the bill which they will follow in dealing with these topics, and each member of this committee will be furnished with a copy of this proposed bill, with the recommendations made by the bankers’ conference; and the notes of the stenographer will follow the pages of the print which the bankers’ committee have offered for use, so as to make the references intelligible.

Mr. Forgan, the committee is now ready to have you present the matters which you wish to offer.

Senator Bristow. Mr. Chairman, it will be necessary for me to be in the Senate this afternoon, because the tariff bill is up for consideration, and a number of amendments are coming up. I regret very much that the hearing has been called for a time when the members of the committee can not be present without neglecting their duties on the floor. I wanted to make this statement as a kind of protest against having these hearings at a time when we are considering the amendments to the tariff bill, as well as being compelled to vote on that. I hope that the hearings will not be continued during the week, because it will be impossible for me to be present. I can not be in both places at the same time.

Senator O’Gorman. How many witnesses are there to be examined here to-day, Mr. Chairman?

Mr. Forgan. There are seven members of this committee, and each of them desires to be heard on a specified subject.

The Chairman. The Chair will state that after the conference held in Chicago a request was made that opportunity would be afforded to the representatives of that conference to be heard upon the matters involved in the so-called banking and currency bill; and after consultation with some of the members a response was sent to them by telegraph that the hearings could be had at 2 o’clock on Tuesday, September 2, 1913—beginning at 2 o’clock to-day.

That occurred a week ago, at a time when it was hoped that the tariff bill would be substantially out of the way. Other persons
were also invited to attend and be heard, including a number who had requested the privilege of being heard upon this question. The entire report of everything which will be said will, of course, be printed at once, and will be available for every Senator, so that not a word will be said that will not be at his disposal.

Senator O'GORMAN. Could you not attend, Senator Bristow, with the understanding that you will be called into the Chamber if your presence there should be required?

Senator BRISTOW. A number of these amendments to the tariff bill have been passed over at my request in the Senate and I do not know when they may be called.

So far as the statement of the chairman is concerned, that the record will be available for us to read, that is true; but a member of the committee ought to be present at the time of the hearing, so as to give what attention he can to the subject matter at the time. I endeavor to do that so far as I can, upon all of the committees of which I am a member.

Since the House has not yet taken the bill up for consideration—unless they have done so to-day—and the Senate will not have the bill for several weeks, I can not understand why we should start in upon these hearings at the very time that the tariff is requiring our detailed attention; and I think it puts those of us who want to give our full time and attention to the currency question at a very great disadvantage.

The CHAIRMAN. The Chair will state that the House caucus having agreed upon the terms of a bill, the Chair thought that the time had arrived when the bill might be conveniently considered in the light of that action of the House caucus, which had continued its consideration of the bill during the last three weeks. And the meeting was held in the present room (the room of the Committee on Appropriations) so as to enable the members of the committee to attend roll calls in the Senate with convenience and without delay, instead of holding the meetings in the regular room of the Committee on Banking and Currency, which is removed from the Senate Chamber several blocks.

Mr. SHAFROTH. Mr. Chairman, the Senator from Kansas objected to proceeding with the hearing before this committee some two or three months ago, on the ground that he had to attend the sessions of the Senate when they had the tariff discussion under way; and it was largely on account of his suggestion that I felt that the hearings ought to go over at that time.

But if we do not take up the hearings now I do not see that we can give any hearings at all; and while it is unfortunate that the Senator from Kansas can not attend as regularly as he would like, it seems to me that it would put the Senate to a great disadvantage, and put these gentlemen who have come here to great inconvenience, if we do not proceed with the hearing at the present time. I feel that we have tried to accommodate everybody—tried to have hearings, and at the same time tried to accommodate those gentlemen who thought they might be inconvenienced. And inasmuch as we are in the same building, and a call of the Senate can be responded to in a minute, it seems to me that we should proceed with these hearings.

Senator BRISTOW. So far as the postponement having been made to suit my convenience is concerned, it seems to me that it is the
duty of a Senator, when a great bill like the tariff bill is being considered on the floor of the Senate, that he make efforts to be there and give attention to the work of the Senate; and I do not believe it is a proper proceeding to hold hearings on a question of as great concern as this, and thereby make it impossible for a Senator who is interested in the tariff as well as the currency to do his duty by both measures.

And I am not asking anything important for my personal convenience, and it does not come as a matter of personal convenience. I objected to these hearings at the time the tariff bill was being considered because it makes it impossible for a member of the Senate who is interested in both measures to give his attention properly to both of them. And the fact that the hearings have been called now simply makes it impossible for me to do that.

So far as the hearings are concerned, I think we ought to have hearings—extensive hearings—but I do not think it would have been detrimental to the passage of this bill if the hearings could have been postponed until the Senate was through with the consideration of the tariff bill, which would not have been more than a week longer. And I want to enter my protest against the proceedings. I will be here as much as I can; but I can not be here as much as I would like to.

The Chairman. The Chair expresses the hope that the Senator will, as far as his interest in the tariff permits, be present. We will promptly furnish him with copies of every word that is said.

Senator Hitchcock. Mr. Chairman, I want to say that in my opinion the question of the hearings before this committee is a subject that ought to be passed upon by the committee itself, and I think it would have been wiser if the chairman had taken the sense of the committee before selecting any particular date for the hearings. It seems to me that every member of the committee has an equal right to have his convenience consulted, and I think it is a mistake not to do so. We are holding the hearings while the tariff is under consideration, and yet I think that at an early meeting of the committee it was the sense of the committee that this was a matter to be postponed until the tariff was out of the way. Of course, I suppose we must now go on because these gentlemen are present from a distance.

Senator Bristow. I suppose so.

Senator Hitchcock. But I think, so far as any future hearings are concerned, it ought to be submitted to a vote of the committee, and the committee ought to decide on that question because the hearings are not for the chairman alone, not for those who can be here, or for those who can stay away from the tariff debate; they are for all the members of the committee.

The Chairman. The Chair will state that he understood it was agreeable to the committee, with the exception of the Senator from Kansas, who did express his dissent.

Senator Reed. Mr. Chairman, it seems to me that the whole thing resolves itself to this: The tariff debates have run on for many weeks. Many Senators have been obliged to absent themselves on committee work of various kinds and have undergone the hardships incident thereto. It has been determined by the party in majority that currency legislation shall be considered at this session. That being true, of course every day of delay by the committee is necessarily a delay of the entire Senate. Now, we have reached
what is understood to be the last week of debate on the tariff. Nearly
every important feature of the bill has been considered and debated.
We are engaged now in what may well be said to be the less important
features of the bill. And if we can get at this work and save four or
five days' time, we will save that much time of the entire Senate.

I appreciate the hardship of the Senator from Kansas in not being
able to further participate in the debate. I appreciate the loss to the
country. But I suggest that these hearings will not be over in a day.
All that we do will be printed, and the Senator from Kansas can have
the benefit, at least, of knowing what is transpiring, although we will
lose the advantage of his counsel here during the time the statements
are being made by the various gentlemen who have been invited here.

I agree with the sentiment that is expressed by the Senator from
Nebraska [Senator Hitchcock] that, of course, meetings of the com¬
mittee ought not to be called without the members of the committee
being consulted, if it was a matter of importance relating to the bill.
But I do think that the chairman of a committee has a right to
call a meeting; and I do not think the chairman of this committee
overstepped the bounds of his authority at all when he invited
certain witnesses to appear before the committee. Now, if he were
to limit the meeting to these particular witnesses, than I would
think it a matter of some gravity; but that has not been done. And
I think, Mr. Chairman, that we ought to go on, and if it is incon¬
avient, or if it is discovered to be especially inconvenient, we can
postpone part of the hearings for the rest of the week.

The Chairman. The matter is, of course, entirely in the hands of
the committee. I have called the committee together, in pursuance
of the policy adopted by the conference of the Democratic Senators.

Senator O'Gorman. Mr. Chairman, I move that we proceed to the
examination of the witnesses.

(The motion was duly seconded and carried.)

Senator Nelson. Before we proceed, Mr. Chairman, I wish the
members of the committee could be provided with copies of the bill,
so that they can follow the discussion in connection with the bill.

The Chairman. That was arranged for. The copies are before the
members of the committee; the bill that they are going to speak upon
is before the committee.

Senator Nelson. The bill as proposed by them?

The Chairman. Yes; they have a print of their own.

Senator Nelson. Is that in this book [indicating pamphlet]?

The Chairman. Yes; showing the changes which the bankers'
conference recommended.

Senator Nelson. Is that the same as the House caucus bill?

The Chairman. No; this is the same that is in the Senate.

Senator Hitchcock. But are there not any copies of the House
caucus bill available?

Senator Crawford. Mr. Chairman, as the discussion proceeds,
should we not have before us the exact text of the bill which these
gentlemen are addressing their criticism to?

The Chairman. It is in the handbook which is before you. And
also the House bill, the latest print, is available for the committee.
Copies of it will now be laid before the members.

Senator Reed. That is the bill as it was after the termination of the
caucus, which will be introduced by Mr. Glass.
Senator Crawford. Well, is that the bill which is printed by this visiting committee here, and is it the same text as the House caucus bill?

The Chairman. It is not identical; but it is identical except as to such modifications as were made in the House caucus.

Senator Crawford. Well, some of those modifications are quite material, are they not?

The Chairman. Yes; but that will be dealt with as they come before the committee. Both forms of the bill are before the members of the committee.

Senator Crawford. I have the Glass bill here; and I have the other bill in this pamphlet.

The Chairman. That includes everything. I think it would be well to insert in the record at this point, as Exhibit No. 1, the printed report adopted by the conference of bankers at Chicago. This report contains the banking and currency bill, as revised by the House committee for consideration of the Democratic caucus, with the modifications therein recommended by the bankers' conference in Chicago. It also contains, I understand, a list of those present at the conference.

EXHIBIT No. 1.

PREAMBLE.

The Currency Commission of the American Bankers' Association, charged with the duty of endeavoring to secure remedial banking legislation, and regarding the banking measure now pending in Congress as evidencing the earnest wish of the administration to give a wise law to the country, has profoundly desired to cooperate in every way. To this end, upon its invitation that the presidents of the forty-seven State bankers' associations and that representatives of the one hundred and ninety-one clearing houses attend and unite in an expression, this joint body, composed of bankers from every section of the South and North, from coast to coast, representing country and city banks, State and National, and trust companies, after carefully considering the bill, has adopted the following:

Whereas we recognize the imperative necessity of incorporating into the banking and currency system of this country those proven principles which will provide the most ample credit facilities with greatest safety and a currency based on gold which automatically adjusts its volume to trade requirements, in order that the highest stability may be attained for our commerce, thereby assuring continuity of employment for the laborer and favorable markets for the producer—the fundamental basis of general prosperity; and

Whereas although the pending measure has many excellent features and recognizes certain principles fundamental in any scientific banking system, yet it is believed that the application of those principles may in certain respects be made in ways that will more surely avoid a credit disturbance and more efficiently attain the desired benefits for the whole people; and

Whereas we believe that to insure the successful operation of a new banking law it must be of such a character as to warrant a general acceptance of its provisions by existing banking institutions, both State and National, country and city, since the final test of the measure of success must be the strength and power for efficiently serving the interests of the entire country, which can alone be had from general participation of banks of all classes; and believing that the bill as now drawn will, by its onerous provisions, prevent State banks and many national banks from joining the system, and earnestly desiring to cooperate with the administration in bringing about the adoption of the most highly efficient plan:

Therefore be it resolved, That we recommend the following changes in the bill as now published, convinced that, while not rendering the plan ideal, these changes would render organization more probable, would avoid a credit disturbance, and provide a system that would gradually develop into a great bulwark for the protection of our whole commerce, benefiting alike, and in equal measure, the laborer, the farmer, and the business man.
BANKING AND CURRENCY.

It is the sense of this conference that one Federal reserve bank with as many branches as the commerce of the country may require, would be more effective; but if this be not obtainable we recommend that as few Federal reserve banks be established as possible, and not more than a total number of five.

The further recommendations of the conference will more conveniently appear in the following altered copy of the bill.

THE BANKING AND CURRENCY BILL IN CONGRESS AS REVISED BY THE HOUSE COMMITTEE FOR CONSIDERATION BY THE ADMINISTRATION CAUCUS, AUGUST 11, 1913.

(The parts inclosed in heavy brackets is the matter proposed to be stricken out and the parts in italics shows proposed amendments, all the alterations being recommended by the bankers' conference.)

To provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the short title of this act shall be the “Federal reserve act.”

FEDERAL RESERVE DISTRICTS.

SECTION 2. That within ninety days after the passage of this act, or as soon thereafter as practicable, the Secretary of the Treasury, the Secretary of Agriculture, and the Comptroller of the Currency, acting as “The Reserve Bank Organization Committee,” shall designate from the members of the reserve and central reserve cities now authorized by law a number of such cities to be known as Federal reserve cities, and shall divide the continental United States into districts, each district to contain one of such Federal reserve cities: Provided, That the districts shall be apportioned with due regard to the convenience and customary course of business of the community and shall not necessarily coincide with the area of such State or States as may be wholly or in part included in any given district. The districts thus created may be readjusted and new districts may from time to time be created by the Federal reserve board hereinafter established, acting upon a joint application made by not less than ten member banks desiring to be organized into a new district. The districts thus constituted shall be known as Federal reserve districts and shall be designated by number according to the pleasure of the organization committee, and no Federal reserve district shall be abolished, nor the location of a Federal reserve bank changed, except upon the application of three-fourths of the member banks of such district.

The organization committee shall, in accordance with regulations to be established by itself, proceed to organize in each of the reserve cities designated as hereinbefore specified a Federal reserve bank. Each such Federal reserve bank shall include in its title the name of the city in which it is situated, as “Federal Reserve Bank of Chicago,” and so forth. The total number of reserve cities designated by the organization committee shall be not less than twelve, more than six, and the organization committee shall be authorized to employ counsel and expert aid, to take testimony, to send for persons and papers, to administer oaths, and to make such investigations as may be deemed necessary by the said committee for the purpose of determining the reserve cities to be designated and organizing the reserve districts hereinbefore provided.

Every national bank and state bank and trust company located within a given district shall be required to subscribe to the capital stock of the Federal reserve bank of that district a sum equal to [twenty] ten per centum of its unimpaired capital, one-half of such subscription to be paid in cash and one-fourth within sixty days after said subscription is made. The remainder of the subscription or any part thereof shall become a liability of the subscriber, subject to call and payment thereof whenever necessary to meet the obligations of the Federal reserve bank; half subject to call upon sixty days’ previous notice. The unpaid portion of the subscription or any part thereof shall become a liability of the subscriber subject to call upon sixty days’ previous notice under such terms and in accordance with such regulations as the board of directors of said Federal reserve bank may prescribe: Provided, That no Federal reserve bank shall be organized with a paid-up and unimpaired capital at the time of beginning business less in amount than $5,000,000. The organization committee shall have power to appoint such assistants and incur such expenses in carrying out the provisions of this act as it shall deem necessary, and such expenses shall be payable by the Treasurer of the United States upon voucher approved by the Secretary of the Treasury, and the sum of $100,000, or so much thereof as may be necessary, is hereby appropriated, out of any moneys in the Treasury not otherwise appropriated, for the payment of such expenses.
BANKING AND CURRENCY.

STOCK ISSUES.

Section 3. That the capital stock of each Federal reserve bank shall be divided into shares of $100. The outstanding capital stock shall be increased from time to time as subscribing banks increase their capital or as additional banks become subscribers, and shall be decreased as subscribing banks reduce their capital or cease to be stockholders. Each Federal reserve bank may establish branch offices under regulations of the Federal reserve board at points within the Federal reserve district in which it is located: Provided, That the total number of such branches shall not exceed one for each $500,000 of the capital stock of said Federal reserve bank.

FEDERAL RESERVE BANKS.

Section 4. That a sufficient number of national banks in a Federal reserve district having made and filed with the Comptroller of the Currency a certificate in the form required in sections fifty-one hundred and thirty-four and fifty-one hundred and thirty-five of the Revised Statutes of the United States, such national banks shall become a body corporate, and as such, and in the name designated in such organization certificate, shall have power to perform all those acts and to enjoy all those privileges and to exercise all those powers described in section fifty-one hundred and thirty-six Revised Statutes, save in so far as the same shall be limited by the provisions of this act. The Federal reserve banks so incorporated shall have succession for a period of twenty years from its organization, unless sooner dissolved by act of Congress.

Every Federal reserve bank shall be conducted under the oversight and control of a board of directors, whose powers shall be the same as those conferred upon the boards of directors of national banking associations under existing law, not inconsistent with the provisions of this act. Such board of directors shall be constituted and elected as hereinafter specified and shall consist of nine members, holding office for three years, and divided into three classes, designated as classes A, B, and C.

Class A shall consist of three members, who shall be chosen by and be representative of the stock-holding banks.

Class B shall consist of three members, who shall be representative of the general public interests of the reserve district.

Class C shall consist of three members, who shall be designated by the Federal reserve board, and who shall be legal residents of the district in which the Federal reserve bank is located.

Directors of class A shall be chosen in the following manner:

It shall be the duty of the chairman of the board of directors of the Federal reserve bank of the district in which each such bank is situated to classify the member banks of the said district who are stockholders in the said Federal reserve bank into three general groups or divisions. Each such group shall contain as nearly as may be one-third of the aggregate number of the banks holding stock in the Federal reserve bank of the said district and shall consist as nearly as may be of banks of similar capitalization. The said groups shall be designated by number at the pleasure of the chairman of the Federal reserve bank.

At a regularly called directors' meeting of each member bank in the Federal reserve district aforesaid the board of directors of such member bank shall elect by ballot one of its own members as a district reserve elector and shall certify his name to the chairman of the board of directors of the Federal reserve bank of the district. The said chairman shall establish lists of the district reserve electors, class A, thus named by banks in each of the aforesaid three groups and shall transmit one list to each such elector in each group. Every elector shall, within fifteen days of the receipt of the said list, select and certify to the said chairman from among the names on the list pertaining to his group, transmitted to him by the chairman, one name, not his own, as representing his choice for Federal reserve director, class A. The name receiving the greatest number of votes, not less than a majority, shall be designated by said chairman as Federal reserve director for the group to which he belongs. In case no candidate shall receive a majority of all votes cast in any district, the chairman aforesaid shall establish an eligible list, consisting of the three names receiving the greatest number of votes on the first ballot, and shall transmit said list to the electors in each of the groups of banks established by him. Each elector shall at once select and certify to the said chairman from among the three names submitted to him his choice for Federal reserve director, class A, and the name receiving the greatest number of such votes shall be designated by the chairman as Federal reserve director, class A.

Directors of class B shall be chosen by the electors of the respective groups at the same time and in the same manner prescribed for directors of class A, except that...
they must be selected from a list of names furnished one by each member bank, and such names shall in no case be those of officers or directors of any bank or banking association. They shall not accept office as such during the term of their service as directors of the Federal reserve bank. They shall be fairly representative of the commercial, agricultural, or industrial interests of their respective districts. The Federal reserve board shall have power at its discretion to remove any director of class B in any Federal reserve bank if it should appear at any time that such director does not fairly represent the commercial, agricultural, or industrial interests of his district.

Three directors belonging to class C shall be chosen directly by the Federal reserve board, one of whom shall be designated by said board as chairman of the board of directors of the Federal reserve bank of the district to which he is appointed and shall be designated by said board as "Federal reserve agent." He shall be a legal resident of the district for which he is selected and shall be a person of tested banking experience; and in addition to his duties as chairman of the board of directors of the Federal reserve bank of the district to which he is appointed, he shall be required to maintain under regulations to be established by the Federal reserve board a local office of said board, which shall be situated on the premises of the Federal reserve bank of the district. He shall make regular reports to the Federal reserve board, and shall act as its official representative for the performance of the functions conferred upon it by this act. He shall receive an annual compensation to be fixed by the Federal reserve board and paid monthly by the Federal reserve bank to which he is designated.

Directors of Federal reserve banks shall receive, in addition to any compensation otherwise provided, a reasonable allowance for necessary expenses in attending meetings of their respective boards, which amount shall be paid by the respective Federal reserve banks. Any compensation that may be provided by boards of directors of Federal reserve banks for members of such boards shall be subject to review by the Federal reserve board.

The reserve bank organization committee may, in organizing Federal reserve banks for the first time, call such meetings of bank directors in the several districts as may be necessary to carry out the purposes of this act and may exercise the functions herein conferred upon [the chairman of the board of directors of each Federal reserve bank] agent pending the complete organization of such bank.

At the first meeting of the full board of directors of each Federal reserve bank after organization it shall be the duty of the directors of classes A and B and C, respectively, to designate one of the members of each class whose term of office shall expire in one year from the first of January nearest to date of such meeting, one whose term of office shall expire at the end of two years from said date, and one whose term of office shall expire at the end of three years from said date. Thereafter every director of a Federal reserve bank chosen as hereinbefore provided shall hold office for a term of three years; but the [chairman of the board of directors] Federal reserve agent of each Federal reserve bank designated by the Federal reserve board of said reserve bank, as hereinbefore described, shall be removable at the pleasure of the said board without notice, and his successor shall hold office during the unexpired term of the director in whose place he was appointed. Vacancies that may occur in the several classes of directors of Federal reserve banks may be filled in the manner provided for the original selection of such directors, such appointees to hold office for the unexpired terms of their predecessors.

INCREASE AND DECREASE OF CAPITAL.

SECTION 5. That shares of the capital stock of Federal reserve banks shall not be transferable, nor be hypothecated. In case a subscribing bank increases its capital, it shall thereupon subscribe for an additional amount of capital stock of the Federal reserve bank of its district equal to [twenty] ten per centum of the bank’s own increase of capital. [ten] fifty per centum of said subscription to be paid in cash in the manner hereinbefore provided for original subscription, and [ten] fifty per centum to become a liability of the subscribing bank according to the terms of the original subscription. A bank applying for stock in a Federal reserve bank at any time after the formation of the latter must subscribe for an amount of the capital of said reserve bank equal to [twenty] ten per centum of the capital of said subscribing bank, paying therefor its par value in accordance with the terms prescribed by section two of this act. When the capital of any Federal reserve bank has been increased either on account of the increase of capital of the banks holding stock therein or on account of the increase in the number of stockholding banks, the board of directors shall make and execute a certificate to the Comptroller of the Currency showing said increase in capital, the amount paid in, and by whom paid. In case a subscribing bank

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reduces its capital it shall surrender a proportionate amount of its holdings in the capital of said Federal reserve bank, and in case a bank goes into voluntary liquidation it shall surrender all of its holdings of the capital of said Federal reserve bank. In either case the shares surrendered shall be canceled and the bank shall receive in payment therefore a sum equal to the cash paid subscriptions on the shares surrendered.

Section 6. That if any shareholder of a Federal reserve bank shall become insolvent and a receiver be appointed, the stock held by it in said Federal reserve bank shall be canceled and the balance, after deducting from the amount of its cash paid subscriptions all debts due by such insolvent bank to said Federal reserve bank, shall be paid to the receiver of the insolvent bank. Whenever the capital stock of a Federal reserve bank is reduced, either by reason of a reduction of capital of any bank or of the liquidation or insolvency of any such bank, the board of directors shall make and execute a certificate to the Comptroller of the Currency showing such reduction of capital stock and the amount repaid to such bank.

DIVISION OF EARNINGS.

Section 7. That after the payment of all necessary expenses and taxes of a Federal reserve bank, the shareholders shall be entitled to receive an annual dividend of [five] six per centum on the paid-in capital, which dividend shall be cumulative. One-half of the net earnings, after the aforesaid dividend claims have been fully met, shall be paid into a surplus fund until such fund shall amount to twenty per centum of the paid-in capital of such bank, and of the remaining one-half sixty per centum shall be paid to the United States and forty per centum to the member banks in the ratio of their average balances with the Federal reserve bank for the preceding year. Whenever and so long as the surplus fund of a Federal reserve bank amounts to twenty per centum of the paid-in capital and the shareholders have received the dividend at the rate of [five] six per centum per annum hereinbefore provided for, sixty per centum of all excess earnings shall be paid to the United States and forty per centum to the member banks in proportion to their annual average balances with such Federal reserve bank; all earnings derived by the United States from Federal reserve banks shall constitute a sinking fund to be held for the reduction of the outstanding [bonded] indebtedness of the United States, said reduction to be accomplished by the Secretary of the Treasury. Should a Federal reserve bank be dissolved or go into liquidation, the surplus fund of said bank, after the payment of all debts and dividend requirements as hereinbefore provided for, shall be paid to and become the property of the United States.

Every Federal reserve bank incorporated under the terms of this act and the stock therein held by member banks shall be exempt from Federal, State, and local taxation, except in respect to taxes upon real estate.

Section 8. That any national banking association heretofore organized may upon application at any time [within one year] after the passage of this act, and with the approval of the Comptroller of the Currency, be granted, as herein provided, all the rights, and be subject to all the liabilities, of national banking associations organized subsequent to the passage of this act: Provided, That such application on the part of such associations shall be authorized by the consent in writing of stockholders owning not less than a majority of the capital stock of the association. [Any national banking association now organized which shall not, within one year after the passage of this act, become a national banking association under the provisions hereinbefore stated, or which shall fail to comply with any of the provisions of this act applicable thereto, shall be dissolved; but such dissolution shall not take away or impair any remedy against such corporation, its stockholders or officers, for any liability or penalty which shall have previously been inured.]

Section 9. That any bank or banking association incorporated by special law of any State or of the United States, or organized under the general laws of any State or the United States, and having an unimpaired capital sufficient to entitle it to become a national banking association under the provisions of existing laws, may, by the consent in writing of the shareholders owning not less than fifty-one per centum of the capital stock of such bank or banking association, and with the approval of the Comptroller of the Currency, become a national banking association under its former name with the addition of the word "National" or the words "National Banking Association" as provided by existing law or by any name approved by the comptroller. The directors thereof may continue to be the directors of the association so organized until others are elected or appointed in accordance with the provisions of the law. When the comptroller has given to such bank or banking association a certificate that the provisions of this act have been complied with, such bank or banking association, and all its stockholders, officers, and employees, shall have the same powers and privileges,
and shall be subject to the same duties, liabilities, and regulations, in all respects, as
shall have been prescribed by this act or by the national banking act for associations
originally organized as national banking associations.

STATE BANKS AS MEMBERS.

SECTION 10. That from and after the passage of this act any bank or banking asso-
ciation or trust company incorporated by special law of any State, or organized under
the general laws of any State or the United States, may make application to the reserve
bank organization committee or the Federal reserve board [hereinafter created] for the
right to subscribe to the stock of the Federal reserve bank organized within the Federal
reserve district where the applicant is located. The reserve bank organization committee
or the Federal reserve board may, at its discretion, subject to the provisions of this
section, permit such applying bank to become a stockholder in the Federal reserve
bank of the district in which such applying bank is located, or at its discretion may
reject such application. Whenever the reserve bank organization committee or the
Federal reserve board may permit such an applying bank to become a stockholder in
the Federal reserve bank of the district in which the applying bank is located stock
shall be issued and paid for under the rules and regulations in this act provided for
national banks which become stockholders in Federal reserve banks.

It shall be the duty of the reserve bank organization committee or the Federal reserves
board to establish by-laws for the general government of its conduct in acting upon
applications made by the State banks and banking associations and trust companies
and for stock ownership in Federal reserve banks. Such by-laws shall require of applying banks not organized under Federal law that they comply
with the reserve requirements and submit to the inspection and regulation provided
for in this and other laws relating to national banks. No such applying bank shall be
admitted to stock ownership in a Federal reserve bank unless it possesses a paid-up
unimpaired capital sufficient to entitle it to become a national banking association
in the place where it is situated, under the provisions of national banking act, and
conforms to the provisions herein prescribed for national banking associations of similar
capitalization and to the regulations of the reserve bank organization committee or the
Federal reserve board.

If at any time it shall appear to the Federal reserve board that a banking association
or trust company organized under the laws of any State or of the United States has
failed to comply with the provisions of this section or the regulations of the board, it
shall be within the power of the said board to require such banking association or trust
comp any to surrender its stock in the Federal reserve bank in which it holds shares
upon receiving from such bank the cash-paid subscriptions to the said shares in current
funds, and said Federal reserve bank shall upon notice from the Federal reserve board
be required to suspend the designated banking association or trust company from
further privileges of membership, and shall within thirty days of such notice cancel
and retire its shares and make payment therefor in the manner herein provided.

FEDERAL RESERVE BOARD.

[Section 11. That there shall be created a Federal reserve board, which shall con-
sist of seven members, including the Secretary of the Treasury, the Secretary of Agri-
culture, and the Comptroller of the Currency, who shall be members ex officio, and four
members chosen by the President of the United States, by and with the advice and con-
sent of the Senate. In selecting the four appointive members of the Federal reserve
board the President shall have due regard to a fair representation of different geo-
 graphical divisions of the country. The four members of the Federal reserve board
chosen by the President and confirmed as aforesaid shall devote their entire time to
the business of the Federal reserve board and shall each receive an annual salary of
$10,000, together with an allowance for actual necessary traveling expenses, and the
Comptroller of the Currency, as ex officio member of said Federal reserve board, shall,
in addition to the salary now paid him as comptroller, receive the sum of $5,000 annu-
ally for his services as a member of said board. Of the members thus appointed by
the President not more than two shall be of the same political party, and at least one
shall be a person experienced in banking. One shall be designated by the President
to serve for two, one for four, one for six, and one for eight years, respectively, and
thereafter each member so appointed shall serve for a term of eight years unless sooner
removed for cause by the President. Of the four persons thus appointed, one shall be
designated by the President as manager and one as vice manager of the Federal reserve
board. The manager of the Federal reserve board, subject to the supervision of the
Secretary of the Treasury and board, shall be the active executive officer of the Federal
reserve board.]}
That there shall be created a Federal reserve board which shall consist of seven members, including the Secretary of the Treasury, who shall be a member ex officio, and three members chosen by the President of the United States by and with the advice and consent of the Senate, and three members elected by the directors of the Federal reserve banks. In selecting the three appointive members of the Federal reserve board, the President shall have due regard to a fair representation of different geographical divisions of the country. The three members of the Federal reserve board chosen by the President and confirmed as aforesaid, and the three members elected by the directors of the Federal reserve banks shall devote their entire time to the business of the Federal reserve board and except as to the governor and vice governor hereinafter provided for shall each receive an annual salary of $10,000, together with an allowance for actual necessary traveling expenses. Of the members thus appointed by the President and elected by the directors of the Federal reserve banks, two shall serve for three years, two for six years, and two for nine years, respectively, and thereafter each member so appointed shall serve for a term of nine years unless sooner removed for cause by the President. Of the six persons thus appointed, one shall be designated by the President as governor and one as vice governor of the Federal reserve board. The governor of the Federal reserve board, subject to the supervision of the Secretary of the Treasury and board, shall be the active executive officer of the Federal reserve board. The salary of the governor and vice governor of the Federal reserve board shall be fixed by the board of directors thereof.

The Federal reserve board shall have power to levy semiannually upon the Federal reserve banks, in proportion to capital, an assessment sufficient to pay its estimated expenses for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year.

The first meeting of the Federal reserve board shall be held in Washington, District of Columbia, as soon as may be after the passage of this act, at a date to be fixed by the reserve bank organization committee. The Secretary of the Treasury shall be ex officio chairman of the Federal reserve board. No member of the Federal reserve board shall continue to hold office or to act as a director of any bank or banking institution or Federal reserve bank, and before entering upon his duties as a member of the Federal reserve board he shall certify under oath to the Secretary of the Treasury that he has complied with this requirement. Whenever a vacancy shall occur, other than by expiration of term, among the three members of the Federal reserve board elected by the directors of the Federal reserve banks as above provided, a successor shall be elected by the said directors to fill such vacancy, and when elected shall hold office for the unexpired term of the member whose place he is selected to fill.

Whenever a vacancy shall occur other than by expiration of term among the three members of the Federal reserve board elected by the directors of the Federal reserve banks as above provided, a successor shall be elected by the said directors to fill such vacancy and when elected shall hold office for the unexpired term of the member whose place he is selected to fill.

The Federal reserve board shall annually make a report of its fiscal operation to the Speaker of the House of Representatives, who shall cause the same to be printed for the information of the Congress.

Section three hundred and twenty-four of the Revised Statutes of the United States shall be amended so as to read as follows: "There shall be in the Department of the Treasury a bureau charged, except as in this act otherwise provided, with the execution of all laws passed by Congress relating to the issue and regulation of currency issued by or through banking associations, the chief officer of which bureau shall be called the Comptroller of the Currency and shall perform his duties under the general direction of the Secretary of the Treasury, acting as the chairman of the Federal reserve board:..." Provided, however, That nothing herein contained shall be construed to affect any power now vested by law in the Comptroller of the Currency or the Secretary of the Treasury.

Section 12. That the Federal reserve board hereinbefore established shall be authorized and empowered:

(a) To examine at its discretion the accounts, books, and affairs of each Federal reserve bank and to require such statements and reports as it may deem necessary. The said board shall publish once each week a statement showing the condition of each Federal reserve bank and a consolidated statement for all Federal reserve banks. Such statements shall show in detail the assets and liabilities of the several institutions, single and combined, and shall furnish full information regarding the character of the lawful money held as reserve and the amount, nature, and maturities of the paper owned by Federal reserve banks.

(b) To permit, in time of emergency, required Federal reserve banks to rediscount the discounted prime paper of other Federal reserve banks, all members of the board being present when such action is taken and consenting to the requirement. The exercise of this compulsory rediscount power by the Federal reserve board shall
be subject to an interest charge to the accommodated bank of not less than one nor greater than three per centum above the higher of the rates prevailing in the districts immediately affected.

(c) To suspend for a period not exceeding thirty days (and to renew such suspension for periods not to exceed fifteen days) any and every reserve requirement specified in this act.

(d) To supervise and regulate the issue and retirement of Federal reserve notes and to prescribe the form and tenor of such notes.

(e) To add to the number of cities classified as reserve and central reserve cities under existing law in which national banking associations are subject to the reserve requirements set forth in section twenty of this act; or to reclassify existing reserve and central reserve cities and to designate the banks therein situated as country banks at its discretion.

(f) To suspend the officials of Federal reserve banks and, for cause stated in writing with opportunity of hearing, require the removal of said officials for incompetency, dereliction of duty, fraud, or deceit, such removal to be subject to approval by the President of the United States.

(g) To require the writing off of doubtful or worthless assets upon the books and balance sheets of Federal reserve banks.

(h) To suspend, for cause relating to violation of any of the provisions of this act, the operations of any Federal reserve bank and appoint a receiver therefor.

(i) To perform the duties, functions, or services specified or implied in this act.

FEDERAL ADVISORY COUNCIL.

Section 13. There is hereby created a Federal advisory council, which shall consist of as many members as there are Federal reserve districts. Each Federal reserve bank by its board of directors shall annually select one member of said council, who shall receive no compensation for his services, but may be reimbursed for actual necessary expenses. The meetings of said advisory council shall be held at Washington, District of Columbia, at least four times each year, and oftener if called by the Federal reserve board. The council may select its own officers and adopt its own methods of procedure, and a majority of its members shall constitute a quorum for the transaction of business. Vacancies in the council shall be filled by the respective reserve banks, and members selected to fill vacancies shall serve for the unexpired term.

The Federal advisory council shall have power (1) to meet and confer directly with the Federal reserve board on general business conditions; (2) to make oral or written representations concerning matters within the jurisdiction of said board; (3) to call for complete information and to make recommendations in regard to discount rates, rediscount business, note issues, reserve conditions in the various districts, the purchase and sale of gold or securities by reserve banks, open market operations by said banks, and the general affairs of the reserve banking system.

REDSIGHTS.

Section 14. That any Federal reserve bank may receive from any of its stockholders or, solely for exchange purposes, from other Federal reserve banks deposits of current funds in lawful money, national-bank notes, Federal reserve notes, or checks and drafts upon solvent banks, payable upon presentation.

Upon the indorsement of any member bank any Federal reserve bank may discount notes and bills of exchange arising out of commercial transactions; that is, notes and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used for such purposes, the Federal reserve board to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this act; but such definition shall not include notes or bills issued or drawn for the purpose of carrying or trading in stocks or bonds, or other securities. Notes and bills admitted to discount under the terms of this paragraph must have a maturity of not more than sixty days.

Upon the indorsement of any member bank any Federal reserve bank may discount the paper of the classes hereinafter described having a maturity of more than sixty and not more than one hundred and twenty days, when its own cash reserve exceeds thirty-three and one-third per cent of its total outstanding demand liabilities exclusive of its outstanding Federal reserve notes by an amount to be fixed by the Federal reserve board; but not more than fifty per cent of the total paper so discounted for any member bank shall have a maturity of more than ninety days.

Upon the indorsement of any member bank any Federal reserve bank may discount acceptances of such banks which are based on the exportation or the importation of
goods and which mature in not more than six months and bear the signature of at least one member bank in addition to that of the acceptor. The amount so discounted shall at no time exceed one-half the capital of the bank for which the rediscounts are made.

The aggregate of such notes and bills bearing the signature or indorsement of any one person, company, firm, or corporation rediscounted for any one bank shall at no time exceed ten per centum of the unimpaired capital and surplus of said bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.

Any national bank may, at its discretion, accept drafts or bills of exchange drawn upon it [having] of not more than six months sight [to run] and growing out of transactions involving the importation or exportation of goods; but no bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half the face value of its paid-up and unimpaired capital.

OPEN-MARKET OPERATIONS.

Section 15. That any Federal reserve bank may, under rules and regulations prescribed by the Federal reserve board, purchase and sell in the open market, either from or to domestic or foreign banks, firms, corporations, or individuals, prime bankers' bills, and bills of exchange of the kinds and maturities by this act made eligible for rediscount, and cable transfers.

Every Federal reserve bank shall have power (a) to deal in gold coin and bullion both at home and abroad, to make loans thereon, and to contract for loans of gold coin or bullion, giving therefor, when necessary, acceptable security, including the hypothecation of United States bonds; (b) to invest in United States bonds, and bonds issued by any State, county, district, or municipality; (c) to purchase from member banks and to sell, with or without its indorsement, bills of exchange arising out of commercial transactions, as hereinbefore defined, payable in foreign countries, but such bills of exchange must have not exceeding ninety days to run and must bear the signature of two or more responsible parties, of which the last shall be that of a member bank; (d) to establish each week, or as much oftener as required, subject to review and determination of the Federal reserve board, a rate of discount to be charged by such bank for each class of paper, which shall be fixed with a view of accommodating the commerce of the country; and 

with the consent of the Federal reserve board, to open and maintain banking accounts in foreign countries and establish agencies in such countries wheresoever it may deem best for the purpose of purchasing, selling, and collecting foreign bills of exchange, and to buy and sell with or without its indorsement, through such correspondents or agencies, prime foreign bills of exchange arising out of commercial transactions which have not exceeding ninety days to run and which bear the signature of two or more responsible parties.

GOVERNMENT DEPOSITS.

Section 16. That all moneys now held in the general fund of the Treasury except the 5% fund for the redemption of outstanding national-bank notes shall, upon the direction of the Secretary of the Treasury, within twelve months after the passage of this act, be deposited in Federal reserve banks, which banks shall act as fiscal agents of the United States; and thereafter the revenues of the Government shall be regularly deposited in such banks, and disbursements shall be made by checks drawn against such deposits.

The Secretary of the Treasury shall, subject to the approval of the Federal reserve board, from time to time, apportion the funds of the Government among the said Federal reserve banks, distributing them, as far as practicable, equitably between different sections, and may, at their joint discretion, charge interest thereon and fix, from month to month, a rate, never less than one-half of one per centum per annum, which shall be regularly paid by the banks holding such deposits: Provided, That no Federal reserve bank shall pay interest upon any deposits except those of the United States.

No Federal reserve bank shall receive or credit deposits except from the Government of the United States, its own member banks, and, to the extent permitted by this act, from other Federal reserve banks. All domestic transactions of the Federal reserve banks involving a rediscount operation or the creation of deposit accounts shall be confined to the Government and the depositing and Federal reserve banks, with the exception of the purchase or sale of Government [or State] securities or of gold coin or bullion.
NOTE ISSUES.

SECTION 17. That Federal reserve notes, to be issued at the discretion of the Federal reserve board for the purpose of making advances to Federal reserve banks as hereinafter set forth and for no other purpose, are hereby authorized. The said notes shall be obligations of the United States and shall be receivable for all taxes, customs, and other public dues. They shall be redeemed in gold or lawful money on demand at the Treasury Department of the United States, in the city of Washington, District of Columbia, or at any Federal reserve bank.

Any Federal reserve bank may, upon vote of its directors, make application to the local Federal reserve agent for such amount of the Treasury notes hereinafter provided for as it may deem best. Such application shall be accompanied with a tender to the local Federal reserve agent of collateral security to protect the notes for which application is made equal in amount to the sum of the notes thus applied for. The collateral security thus offered shall be notes and bills accepted for redemption under the provisions of sections 14 and 15 of this act, and the Federal reserve agent shall each day notify the Federal reserve board of issues and withdrawals of notes and to by the Federal reserve bank to which he is accredited. The said Federal reserve board shall be authorized at any time to call upon a Federal reserve bank for additional security to protect the Federal reserve notes issued to it.

Whenever any Federal reserve bank shall pay out or disburse Federal reserve notes issued to it by the deposit of Federal reserve notes in its vaults and shall carry to a special reserve account on its books gold or lawful money equal in amount to thirty-three and one-third per centum of the reserve notes so paid out by it, such reserve to be used for the redemption of said reserve notes as presented; but any Federal reserve bank so using any part of such reserve to redeem notes shall immediately carry to said reserve account an amount of gold or lawful money sufficient to make said reserve equal to thirty-three and one-third per centum of its outstanding Treasury notes. Notes so paid out shall bear upon their faces a distinctive letter and serial number, which shall be assigned by the Federal reserve board to each Federal reserve bank. Whenever Federal reserve notes issued through one Federal reserve bank shall be received by another Federal reserve bank they shall be returned for redemption to the Federal reserve bank through which they were originally issued, or shall be charged off against Government deposits and returned to the Treasury of the United States, or shall be presented to the said Treasury for redemption. No Federal reserve bank shall pay out notes issued through another under penalty of a tax of ten per centum upon the face value of notes so paid out. Notes presented for redemption at the Treasury of the United States shall be paid and returned to the Federal reserve banks through which they were originally issued, and Federal reserve notes received by the Treasury otherwise than for redemption shall be exchanged for lawful money out of the five per centum redemption fund hereinafter provided and returned as hereinafter provided to the reserve bank through which they were originally issued.

The Federal reserve board shall have power, in its discretion, to require Federal reserve banks to maintain in the Treasury of the United States a sum in gold or lawful money equal to five per centum of such amount of Federal reserve notes as may be issued to them under the provisions of this act; but such five per centum shall be counted and included as part of the thirty-three and one-third per centum reserve hereinafter required. The said board shall also have the right to grant in whole or in part or to reject entirely the application of any Federal reserve bank for Federal reserve notes; but to the extent and in the amount that such application may be granted the Federal reserve board shall, through its local Federal reserve agent, deposit Federal reserve notes with the bank so applying, and such bank shall be charged with the amount of such notes and shall pay such rate of interest on said amount as may be established by the Federal reserve board; and the amount of such Federal reserve notes so issued to any such bank shall, upon delivery, become a first and paramount lien on all the assets of such bank.

Any Federal reserve bank may at any time reduce its liability for outstanding Federal reserve notes by the deposit of Federal reserve notes, whether issued to such bank or to some other reserve bank, or lawful money of the United States, or gold bullion, with any Federal reserve agent or with the Treasurer of the United States; and such reduction shall be accompanied by a corresponding reduction in the required reserve fund of lawful money set apart for the redemption of said notes and by the release of a corresponding amount of the collateral security deposited with the local Federal reserve agent.

Any Federal reserve bank may at its discretion withdraw collateral deposited with the local Federal reserve agent for the protection of Federal reserve notes deposited...
BANKING AND CURRENCY.

with it, and shall at the same time substitute other collateral of equal value approved by the Federal reserve agent under regulations to be prescribed by the Federal reserve board.

That Federal reserve bank notes to be issued by permission of the Federal reserve board by Federal reserve banks are hereby authorized. The said notes shall be obligations of the Federal reserve banks of issue and shall be receivable by all national and Federal reserve banks and for all taxes, customs, and other public dues.

They shall be redeemed in gold on demand by the bank of issue.

Any Federal reserve bank, upon vote of its directors and within a limit prescribed by the Federal reserve board, may issue such amount of the notes hereinbefore provided for as it may deem best.

Whenever any Federal reserve bank shall pay out Federal reserve bank notes issued by it as hereinbefore provided, it shall segregate in its own vaults and shall carry to a special reserve account on its books gold equal in amount to 40 per centum of the Federal reserve bank notes so paid out by it, such reserve to be used for the redemption of said Federal reserve bank notes; but any Federal reserve bank so using any part of such reserve to redeem notes shall immediately carry to said reserve account an amount of gold sufficient to make said reserve equal to 40 per centum of its outstanding Federal reserve bank notes, except as herein provided.

The full amount of such note issues by each of said banks shall at all times be covered by such notes and bills of exchange and such bank acceptances as the Federal reserve banks are by section 14 of this act empowered to discount with the endorsement of member banks or by such prime bankers' bills and bills of exchange payable in foreign countries as the Federal reserve banks are by section 15 of this act permitted to purchase in the open market; but nothing herein provided shall prevent the exchange of said Federal reserve bank notes for gold of equal amount or the issue of said Federal reserve bank notes for the purchase of a like amount of gold. Notes so paid out shall bear upon their faces the name of the issuing bank.

Whenever the gold reserve is 40 per centum or more, such notes may be issued without tax; whenever such reserve shall fall below 40 per centum and shall be between 37 1/2 per centum and 40 per centum, such deficiency of reserve shall bear a tax of interest at the rate of 11/2 per centum per annum; and for each 21/2 per centum or part thereof of further reduction of reserve an additional tax of interest at the rate of 11/2 per centum per annum on such deficiency of reserve shall be paid into the Treasury of the United States; and whenever and while such reserve shall be reduced to 33 1/3 per centum of such outstanding notes, no further issue of such notes shall be made.

Whenever Federal reserve bank notes issued by one Federal reserve bank shall be received by another Federal reserve bank they shall be returned for redemption to the Federal reserve bank by which they were originally issued, and at its expense for transportation. No Federal reserve bank shall pay out notes issued by another under penalty of a tax of 10 per centum upon the face value of notes so paid out. The amount of such Federal reserve bank notes so issued by any such Federal reserve bank shall become a first and paramount lien on all the assets of such Federal reserve bank.

It shall be the duty of every Federal reserve bank to receive on deposit, at par [and without charge for exchange or collection,] checks and drafts drawn upon [any of its depositors or by any of its depositors upon any other depositor and checks and drafts drawn by any depositor in] any other Federal reserve bank [upon funds to the credit of said depositor in said reserve bank last mentioned. The Federal reserve board shall make and promulgate from time to time regulations governing the transfer of funds at par among Federal reserve banks, and may at its discretion exercise the functions of a clearing house for its shareholding banks.]

SECTION 18. That so much of the provisions of section fifty-one hundred and fifty-nine of the Revised Statutes of the United States, and section four of the act of June twentieth, eighteen hundred and seventy-four, and section eight of the act of July twelfth, eighteen hundred and eighty-two, and of any other provisions of existing statutes, as require that before any national banking association shall be authorized to commence banking business it shall transfer and deliver to the Treasurer of the United States a stated amount of United States registered bonds be, and the same is hereby, repealed.

REFUNDING BONDS.

SECTION 19. That upon application the Secretary of the Treasury shall exchange the two per centum bonds of the United States bearing the circulation privilege deposited by any national banking association with the Treasurer of the United States for gold of equal amount or the issue of said Federal reserve bank notes for the purchase of a like amount of gold. Notes so paid out shall bear upon their faces the name of the issuing bank.

Whenever the gold reserve is 40 per centum or more, such notes may be issued without tax; whenever such reserve shall fall below 40 per centum and shall be between 37 1/2 per centum and 40 per centum, such deficiency of reserve shall bear a tax of interest at the rate of 1 1/2 per centum per annum; and for each 2 1/2 per centum or part thereof of further reduction of reserve an additional tax of interest at the rate of 1 1/2 per centum per annum on such deficiency of reserve shall be paid into the Treasury of the United States; and whenever and while such reserve shall be reduced to 33 1/3 per centum of such outstanding notes, no further issue of such notes shall be made.

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It shall be the duty of every Federal reserve bank to receive on deposit, at par (and without charge for exchange or collection,) checks and drafts drawn upon (any of its depositors or by any of its depositors upon any other depositor and checks and drafts drawn by any depositor in) any other Federal reserve bank (upon funds to the credit of said depositor in said reserve bank last mentioned. The Federal reserve board shall make and promulgate from time to time regulations governing the transfer of funds at par among Federal reserve banks, and may at its discretion exercise the functions of a clearing house for its shareholding banks.)

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States as security for circulating notes for three per centum bonds of the United States without the circulation privilege, payable after twenty years from date of issue, and exempt from Federal, State, and municipal taxation both as to income and principal. No national bank shall, in any one year, present two per centum bonds for exchange in the manner hereinbefore provided to an amount exceeding five per centum of the total amount of bonds on deposit with the Treasurer by said bank for circulation purposes. Should any national bank fail in any one year to so exchange its full quota of two per centum bonds under the terms of this act, the Secretary of the Treasury may permit any other national bank or banks to exchange bonds in excess of the five per centum aforesaid in an amount equal to the deficiency caused by the failure of any one or more banks to make exchange in any one year, allotment to be made to applying banks in proportion to their holdings of bonds. At the expiration of twenty years from the passage of this act every holder of United States two per centum bonds then outstanding shall receive payment at par and accrued interest. After twenty years from the date of the passage of this act national-bank notes still remaining outstanding shall be recalled and redeemed by the national banking associations issuing the same within a period and under regulations to be prescribed by the Federal reserve board, and notes still remaining in circulation at the end of such period shall be secured by an equal amount of lawful money to be deposited in the Treasury of the United States by the banking associations originally issuing such notes. Meanwhile every national bank may continue to apply for and receive circulating notes from the Comptroller of the Currency based upon the deposit of two per centum bonds or of any other bonds bearing the circulation privilege, but no national bank shall be permitted to issue other circulating notes except such as are secured as in this section provided or to issue or to make use of any substitute for such circulating notes in the form of clearing-house loan certificates, cashier's checks, or other obligation.

**Section 20.** That within sixty days from and after the date when the Secretary of the Treasury shall have officially announced, in such manner as he shall elect, the fact that a Federal reserve bank has been established in any designated district, every national banking association within said district which shall have subscribed for stock in such Federal reserve bank shall deposit with the Federal reserve bank therein as a part of its required reserve an amount not less than three per centum of its own total demand liabilities, exclusive of circulating notes, and at the end of fourteen months from the date thus fixed by the Secretary of the Treasury shall increase the said three per centum to five per centum. Such reserve may at any time be increased, but shall at no time be allowed to fall below the amounts aforesaid.

From and after the date fixed by the Secretary of the Treasury as aforesaid, it shall be the duty of national banking associations now or hereafter classified as country banks and situated outside of central reserve and reserve cities to maintain a reserve equal to fifteen per centum of the aggregate amount of their deposits. Such reserve shall consist of five per centum of lawful money held actually in their own vaults and for a period of fourteen months from the date aforesaid shall consist of at least three per centum and thereafter of at least five per centum, with its district Federal reserve bank. The remainder of the fifteen per centum reserve hereinbefore required may for a period of thirty-six months from and after the date fixed by the Secretary of the Treasury shall increase the said fifteen per centum to ten per centum. Such reserve may at any time be increased, but shall at no time be allowed to fall below the amounts aforesaid.

From and after the date announced by the Secretary of the Treasury of the establishment of the Federal reserve bank in any district it shall be the duty of the national banks located in the reserve cities of a period of sixty days a reserve of twenty-five per centum of their outstanding deposits and permanently thereafter a reserve of twenty per centum of their outstanding deposits. For sixty days from the date announced by the Secretary of the establishment of the reserve bank in such district each national bank located in the reserve cities thereof shall maintain in its own vaults, in lawful money, a sum equal to twelve and one-half per centum of its outstanding deposits and thereafter a sum of lawful money equal
to ten per centum of its deposits. The additional required legal reserve above the
lawful money required in its own vaults may be kept either with the Federal reserve
bank in its district or with an approved reserve agent in the central reserve cities,
for a period not exceeding thirty-six months from the organization of the Federal
reserve bank in such district, and thereafter five per centum of such reserve shall
be kept with the Federal reserve bank of the district or in the vaults of the member
bank subject to the reserve requirements of this act: Provided, however, That the
credit balance of three per centum and five per centum, respectively, of its deposits
required to be kept with the Federal reserve bank of its district, as hereinbefore
provided, shall not be diminished.

[CENTRAL RESERVE CITY BANKS.

Every national bank located in a central reserve city shall maintain for a period
of sixty days a reserve equal to twenty-five per centum of its deposits and thereafter
it shall maintain a reserve equal to twenty per centum of its deposits. Of this required
reserve five per centum may consist of a deposit with the Federal reserve bank of the
district, the balance being in lawful money in its own vaults, and after sixty days
from the passage of this act, at the bank’s option, one-half of this required reserve
may consist of a credit balance with the said Federal reserve bank, but at no time shall
the reserve of lawful money be less than ten per centum of the bank’s deposits:
Provided, however, That the required credit balance of three per centum and five per
centum, respectively, to be maintained with the Federal reserve bank of its district,
as hereinbefore provided, shall not be diminished.]

It shall be the duty of all member banks to maintain reserves, as hereinafter stated, against
all demand deposits which shall include time deposits maturing within forty-five days, to
wit: Country banks, 12 per cent; reserve city banks, 18 per cent; central reserve city banks,
20 per cent.

In the case of a country bank such reserve shall consist of not less than 4 per centum
of lawful money in its vault, and not less than 4 per centum with its district Federal reserve
bank; 4 per centum may consist of balances due from reserve agents approved by the Comptroller
of the Currency.

In the case of a reserve city bank, such reserve shall consist of not less than 6 per centum
of lawful money in its vault, and not less than 6 per centum with its district Federal reserve
bank; 6 per centum may consist of balances due from reserve agents approved by the
Comptroller of the Currency.

In the case of a central reserve city bank, such reserve shall consist of not less than 10
per centum of lawful money in its vaults and not less than 10 per centum with its district
Federal reserve bank.

Provided, That when the date is set by the Secretary of the Treasury, and officially an­
nounced, the deposits of reserve hereinbefore required to be placed with Federal reserve
banks shall be made as follows: One-third within sixty days, one-third within fourteen
months, and one-third within twenty-six months after such date.

SECTION 21. That so much of sections two and three of the act of June twentieth,
eighteen hundred and seventy-four, entitled “An act fixing the amount of United
States notes providing for a redistribution of the national bank currency, and for
other purposes,” as provides that the fund deposited by any national banking asso­
ciation with the Treasurer of the United States for the redemption of its notes shall
be counted as a part of its lawful reserve as provided in the act aforesaid, be, and
the same is hereby, repealed. And from and after the passage of this act such fund of
five per centum shall in no case be counted by any national banking association as a
part of its lawful reserve.

SECTION 22. That every Federal reserve bank shall at all times have on hand in its
own vaults, in gold or lawful money, a sum equal to not less than thirty-three and
one-third per centum of its outstanding demand liabilities exclusive of its circulating
notes otherwise hereinbefore provided for.

The Federal reserve board may notify any Federal reserve bank whose lawful
reserve shall be below the amount required to be kept on hand to make good such
reserve; and if such bank shall fail for thirty days thereafter so to make good its lawful
reserve, the Federal reserve board may appoint a receiver to wind up the business of
said bank.

BANK EXAMINATIONS.

SECTION 23. That the examination of the affairs of every national banking associa-
tion authorized by existing law shall take place at least twice in each calendar year
and as much oftener as the Federal reserve board shall consider necessary in order
to furnish a full and complete knowledge of its condition. The Secretary of the Treasury may, however, at any time direct the holding of a special examination. The person assigned to the making of such examination of the affairs of any national banking association shall have power to call together a quorum of the directors of such association, who shall, under oath, state to such examiner the character and circumstances of such of its loans or discounts as he may designate; and from and after the passage of this act all bank examiners shall receive fixed salaries, the amount whereof shall be determined by the Federal reserve board and annually reported to Congress. But the expense of the examinations herein provided for shall be assessed by the Federal reserve board upon the associations examined in proportion to assets or resources held by such associations upon a date during the year in which such examinations are held to be established by the Federal reserve board. [The Comptroller of the Currency shall so arrange the duties of national-bank examiners that no two successive examinations of any association shall be made by the same examiner.]

In addition to the examinations made and conducted by the Comptroller of the Currency, every Federal reserve bank may, with the approval of the Federal reserve board, arrange for special or periodical examination of the member banks within its district. Such examination shall be so conducted as to inform the Federal reserve bank under whose auspices it is carried on of the condition of its member banks and of the lines of credit which are being extended by them. Every Federal reserve bank shall at all times furnish to the Federal reserve board such information as may be demanded by the latter concerning the condition of any national banking association located within the district of the said Federal reserve bank. [The Federal reserve board shall as often as it deems best, and in any case not less frequently than four times each year, order an examination of national banking associations in reserve cities. Such examinations shall show in detail the total amount of loans made by each bank on demand, on time, and the different classes of collateral held to protect the various loans, and the lines of credit which are being extended by them.] Upon joint application of ten member banks the Federal reserve board shall order a special examination and report of the condition of any Federal reserve bank.

Section 24. That no national bank shall hereafter make any loan or grant any gratuity to any examiner of such bank. Any bank offending against this provision shall be held to be culpable of a misdemeanor and shall be fined $5,000 and a further sum equal to the money so loaned or gratuity given; and the officer or officers of a bank making such loan or granting such gratuity shall be likewise deemed guilty of a misdemeanor and shall be fined not to exceed $5,000. Any examiner accepting a loan or gratuity from any bank examined by him shall be deemed guilty of a misdemeanor and shall be fined not more than $5,000, and a further sum equal to the money so loaned or gratuity given; and shall forever thereafter be disqualified from holding office. No national bank examiner shall perform any other service for compensation while holding such office. No officer or director of a national bank shall receive or be beneficiary, either directly or indirectly, of any fee (other than a legitimate fee paid an attorney at law for legal services), commission, gift, or other consideration for or on account of any loan, purchase, sale, payment, exchange, or transaction with respect to stocks, bonds, or other investment securities or notes, bills of exchange, acceptances, bankers' bills, cable transfers, or services rendered by or on behalf of a national bank by an officer or director. Any person violating any provision of this section shall be punished by a fine of not exceeding $5,000 or by imprisonment not exceeding five years, or both such fine and imprisonment, in the discretion of the court having jurisdiction. Except so far as already provided in existing laws this provision shall not take effect until six months after the passage of this act.

Section 25. That from and after the passage of this act the stockholders of every national banking association shall be held individually responsible for all contracts, debts, and engagements of such association, each to the amount of his stock therein, at the par value thereof in addition to the amount invested in such stock. The stockholders in any national banking association who shall have transferred their shares or registered the transfer thereof within sixty days next before the date of the failure of such association to meet its obligations shall be liable to the same extent as if they had made no such transfer; but this provision shall not be construed to affect in any way any recourse which such shareholders might otherwise have against those in whose names such shares are registered at the time of such failure. Section fifty-one hundred and fifty-one, Revised Statutes of the United States, is hereby reenacted except in so far as modified by this section.
BANKING AND CURRENCY.

LOANS ON FARM LANDS.

Section 26. That any national banking association not situated in a reserve city or central reserve city may make loans secured by improved and unencumbered farm land, and so much of section fifty-one hundred and thirty-seven of the Revised Statutes as prohibits the making of such loans by banks so situated shall be, and the same is hereby, repealed; but no such loan shall be made for a longer time than [nine] twelve months, nor for an amount exceeding fifty per centum of the actual value of the property offered as security, and such property shall be situated within the Federal reserve district in which the bank is located. Any such bank may make such loans in an aggregate sum equal to twenty-five per centum of its capital and surplus, or fifty per centum of its time deposits.

The Federal reserve board shall have power from time to time to add to the list of cities in which national banks shall not be permitted to make loans secured upon real estate in the manner described in this section.

SAVINGS DEPARTMENT.

Section 27. That any national banking association may, subsequent to a date one year after its becoming a stockholder in a Federal reserve bank, make application to the Comptroller of the Currency for permission to open a savings department. Such application shall set forth that the directors of said national bank have by a majority vote apportioned a specified percentage of their paid-in capital and surplus to said savings department and to that end have segregated specified assets for the purposes of said department, or that cash capital for the said savings department has been obtained by subscription to additional issues of the capital stock of said national bank: Provided, That the sum in assets or in cash thus set apart for the uses of the proposed savings department aforesaid shall in no case be less than $25,000, or than a sum equal to twenty per centum of the paid-up capital and surplus of the said national bank.

In making the application aforesaid any national banking association may further apply for power to act as trustee for mortgage loans subject to the conditions and limitations herein prescribed or to be established as hereinafter provided.

Whenever the Comptroller of the Currency shall have approved any such application as hereinbefore provided, he shall so inform the applying bank, and thereafter the organization and business conducted or possessed by said bank at the time of making said application, except such as has been specifically segregated for the savings department, and subsequent expansions thereof shall be known as the commercial department of the said bank. National banks may increase or diminish their capital stock in the manner now provided by law, but whenever such general increase or reduction of the capital stock of any national bank operating upon the provisions of this section shall be made such increase or reduction shall be apportioned between the commercial and savings department of the said bank as its board of directors shall prescribe, notice of such increase or reduction and of the apportionment thereof being forthwith given to the Comptroller of the Currency; and any such national bank may increase or diminish the capital already apportioned to either its savings or commercial department to an extent not inconsistent with the provisions of this section, notifying the Comptroller of the Currency as hereinbefore provided. The savings department for which authority has been solicited and granted shall have control of the cash or assets apportioned to it as hereinbefore provided, and shall be organized under rules and regulations to be prescribed by the Comptroller of the Currency.

Both the savings and commercial departments so created shall, however, be under the control and direction of a single board of directors and of the general officers of said bank.

All business transacted by the commercial department of any such national bank shall be in every respect subject to the limitations and requirements provided in the national banking act as modified by this act, and such business shall henceforward be known as commercial business.

The savings department of each such national bank shall be authorized to accumulate and lend the funds of its depositors, to receive deposits of current funds, both time and demand, to loan any funds in its possession upon personal or real estate security, and to collect the same with interest, and to declare and pay dividends or interest, both upon demand and time deposits. The Federal reserve board is hereby authorized to exempt the savings departments of national banking associations from any and every restriction upon classes or kinds of business laid down in the national
banking act, and it shall be the duty of the said board within one year after its organization to prepare and publish rules and regulations for the conduct of business by such savings departments, conforming to the best standards prescribed by the legislation of the several States: Provided, That such rules and regulations shall not be inconsistent with the provisions of this section. All business transacted by the savings departments of national banks shall be designated and known as savings bank business.

Nothing in this section contained shall be construed to authorize any such savings department to purchase, invest in, or hold bonds, securities, or evidences of indebtedness, public or private, except as follows:

(a) First mortgages or deeds of trust on real estate, including farm lands, and the notes or bonds for whose protection such mortgages or deeds of trust may have been given: Provided, That such mortgages, deeds, notes, or bonds shall have when purchased not more than five years to run and provided further that the total debt secured by such instruments shall not exceed fifty per centum of the assessed value of the real estate upon which they constitute a lien.

(b) Bonds or interest-bearing notes of the United States or bonds or notes for whose payment the faith of the United States is pledged both as to principal and interest.

c) Bonds of any State of the United States: Provided, That for ten years prior to the purchase of such bonds by savings bank departments the State issuing the same shall not have defaulted in the payment of any part either of principal or of interest thereon.

d) Bonds of any city, county, or town: Provided, That such city, county, or town shall at the time when said bonds are purchased by a savings bank department have more than twenty-five thousand inhabitants, the United States census next preceding such investment being taken as evidence of the possession of said number of inhabitants: Provided further, That such city, county, or town shall not have defaulted in the payment of any part of the principal or interest of its bonded debt within ten years prior to the making of the investment aforesaid. The total bonded indebtedness of such city, county, or town shall not at the time of such investment exceed five per centum of the assessed valuation therein and such bonds shall have been issued pursuant to the law of the State in which such city, county, or town is situated.

e) First-mortgage bonds of any steam or street railway, public utility, or industrial corporation operating partly or wholly in the United States: Provided, That the same shall have been approved by the Comptroller of the Currency.

(f) First-mortgage bonds or deeds of trust issued by any real estate corporation: Provided, That no such bond issue or deed of trust shall exceed in amount fifty per centum of the assessed value of the real estate upon which it constitutes a lien.

The Federal reserve board shall have power further to define the conditions under which the said mortgages, deeds of trust, notes, bonds, and other securities hereinbefore enumerated may be purchased by any such savings bank department, and may at its discretion make and issue lists of such securities having its approval, or may list securities in which savings bank department aforesaid shall be prohibited from investing. Such lists may be published in any manner deemed best by the said Federal reserve board.

It shall be the duty of every national bank to maintain with respect to the demand liabilities of its commercial department the reserve applicable thereto, as provided by the national banking act and by this act.

It shall be the duty of every national bank to maintain, with respect to all deposit liabilities of its savings department, a cash reserve in lawful money equal to not less than four per centum of its total deposit liabilities, and every national bank authorized to maintain a savings department is hereby exempted from the reserve requirements of the national banking act and of this act in respect to the said deposit liabilities of its savings department, except as in this section provided.

Every national bank authorized to operate a commercial department and a savings department under the provisions of this section shall segregate in its vaults the lawful money reserve of each such department and shall separately maintain, report, and account for such reserve. Whenever any such department, whether savings or commercial, shall deposit current funds with other banks, such deposits shall be credited upon the books of such other banks as made by and belonging to the department of the depositing bank by which or in whose interest they were originally made and shall be paid in the order of such department. No department of any such national bank shall receive deposits from any other department of the same bank.
BANKING AND CURRENCY.

It shall be the duty of every national bank to maintain separate books of account for each of its departments and to segregate and keep separate and distinct in each such department the cash, securities, investments, and property thereto belonging, and each such department shall in the transaction of its business and the making of its investments be exclusively governed and controlled by the provisions of law and the regulations of the Federal reserve board or of the Comptroller of the Currency specifically made and provided with reference thereto.

Any national bank authorized under the provisions of this section to maintain a savings department may make and publish rules and regulations defining the conditions under which deposits shall be received and paid by such savings department. Such regulations may specify the period of notices which such department may at its option require for the withdrawal of such deposits: Provided, That no such deposits shall be subject to a requirement of less than sixty days' notice of withdrawal. The said rules and regulations shall be subject to the approval of the Comptroller of the Currency and he shall have power to direct their alteration at his discretion.

Every officer, director, or employee of any national bank who knowingly or willfully violates any of the provisions of this section shall be guilty of a felony, and on conviction thereof shall be punished by a fine not exceeding $5,000 or by imprisonment not exceeding two years.

FOREIGN BRANCHES.

Section 28. That any national banking association possessing a capital of $1,000,000 or more may file application with the Federal reserve board, upon such conditions and under such circumstances as may be prescribed by the said board, for the purpose of securing authority to establish branches in foreign countries for the furtherance of the foreign commerce of the United States and to act, if required to do so, as fiscal agents of the United States. Such application shall specify, in addition to the name and capital of the banking association filing it, the foreign country or countries or the dependencies of the United States where the banking operations proposed are to be carried on and the amount of capital set aside by the said banking association filing such application for the conduct of its foreign business at the branches proposed by it to be established in foreign countries. The Federal reserve board shall have power to approve or to reject such application if in its judgment the amount of capital proposed to be set aside for the conduct of foreign business is inadequate or if for other reasons the granting of such application is deemed inexpedient.

Every national banking association which shall receive authority to establish branches in foreign countries shall be required at all times to furnish information concerning the condition of such branches to the Comptroller of the Currency upon demand, and the Federal reserve board may order special examinations of the said foreign branches at such time or times as it may deem best. Every such national banking association shall conduct the accounts of each foreign branch independently of the accounts of other foreign branches established by it and of its home office, and shall at the end of each fiscal period transfer to its general ledger the profit or loss accruing at each such branch as a separate item.

Section 29. That all provisions of law inconsistent with or superseded by any of the provisions of this act be, and the same are hereby, repealed.

DELEGATES PRESENT AT THE CONFERENCE.

CURRENCY COMMISSION, AMERICAN BANKERS' ASSOCIATION.

MEMBERS PRESENT.

A. B. Hepburn, chairman of board, Chase National Bank, New York City, chairman.
James B. Forgan, president First National Bank, Chicago, Ill., vice chairman.
Festus J. Wade, president Mercantile Trust Company, St. Louis, Mo.
Joseph T. Talbert, vice president National City Bank, New York City.
George M. Reynolds, president Continental & Commercial National Bank, Chicago, Ill.
John Perrin, of Perrin, Drake & Riley, bankers, Los Angeles, Cal.
Luther Drake, president Merchants National Bank, Omaha, Neb.
E. F. Swinney, president First National Bank, Kansas City, Mo.
Joseph A. McCord, vice president Third National Bank, Atlanta, Ga.
J. F. Sartori, president Security Trust & Savings Bank, Los Angeles, Cal.
E. L. Howe, vice president Princeton Bank, Princeton, N. J.
Frederick E. Farnsworth, New York, secretary.
Arthur Reynolds, vice president of the association.
J. Fletcher Farrell, treasurer of the association.
<table>
<thead>
<tr>
<th>State</th>
<th>Delegate</th>
<th>Banking affiliations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arkansas</td>
<td>J. D. Covey</td>
<td>President Arkansas Bankers' Association</td>
</tr>
<tr>
<td>California</td>
<td>John Perrin</td>
<td>Cashier Benton County National Bank, Bentonville</td>
</tr>
<tr>
<td></td>
<td>J. F. Sartori</td>
<td>Member currency commission, American Bankers' Association, Los Angeles</td>
</tr>
<tr>
<td>Connecticut</td>
<td>E. J. Hill</td>
<td>Vice President, First National Bank, Washington</td>
</tr>
<tr>
<td>District of Columbia</td>
<td>W. T. Gallihen</td>
<td>President Security Trust and Savings Bank, Los Angeles</td>
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<tr>
<td></td>
<td>John Poole</td>
<td>Second vice president of the District of Columbia Bankers' Association</td>
</tr>
<tr>
<td>Georgia</td>
<td>L. P. Hillyer</td>
<td>President Georgia Bankers' Association</td>
</tr>
<tr>
<td>Illinois</td>
<td>J. D. Phillips</td>
<td>Vice president and cashier, American Exchange National Bank, Dallas</td>
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<td></td>
<td>Richard L. Crampton</td>
<td>President Illinois Bankers' Association</td>
</tr>
<tr>
<td>Indiana</td>
<td>J. L. McCulloch</td>
<td>Vice president, First National Bank, Marion, Ind.</td>
</tr>
<tr>
<td>Iowa</td>
<td>J. L. Edwards</td>
<td>President Merchants National Bank, Burlington, Iowa.</td>
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<tr>
<td>Kansas</td>
<td>W. J. Bailey</td>
<td>President Bank of Darlington, S. C.</td>
</tr>
<tr>
<td>Louisiana</td>
<td>Sol. Wexler</td>
<td>President Bank of Darlington, S. C.</td>
</tr>
<tr>
<td>Maryland</td>
<td>Wm. C. Page</td>
<td>President Maryland Bankers' Association</td>
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<tr>
<td>Massachusetts</td>
<td>Chas. B. Blinn, Jr.</td>
<td>President Calvert Bank, Baltimore</td>
</tr>
<tr>
<td>Michigan</td>
<td>A. G. Bishop</td>
<td>Vice president National Union Bank, Boston.</td>
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<tr>
<td>Minnesota</td>
<td>G. H. Richards</td>
<td>President Genesee County Savings Bank, Flint.</td>
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<tr>
<td>Mississippi</td>
<td>J. F. Flournoy, Jr.</td>
<td>President Merchants National Bank, Burlington, Iowa.</td>
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<tr>
<td>Missouri</td>
<td>R. S. Hawes</td>
<td>President Bank of Darlington, S. C.</td>
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<tr>
<td>Nebraska</td>
<td>Geo. F. Sawyer</td>
<td>President Nebraska Bankers' Association</td>
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<tr>
<td>New Jersey</td>
<td>W. M. Van Deusen</td>
<td>President Bank of Darlington, S. C.</td>
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<tr>
<td>New York</td>
<td>A. B. Hepburn</td>
<td>President Bank of Darlington, S. C.</td>
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<tr>
<td>North Carolina</td>
<td>J. T. Talbert</td>
<td>Vice president National City Bank, New York.</td>
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<tr>
<td>Ohio</td>
<td>Geo. A. Halderness</td>
<td>President Farmers' and Bankers' Association</td>
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<tr>
<td>Oregon</td>
<td>S. D. Fitton</td>
<td>President Farmers' and Bankers' Association</td>
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<tr>
<td>Pennsylvania</td>
<td>E. A. Wyld</td>
<td>President Farmers' and Bankers' Association</td>
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<tr>
<td>South Carolina</td>
<td>M. I. McCreight</td>
<td>President Farmers' and Bankers' Association</td>
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<tr>
<td>South Dakota</td>
<td>Bright Williamson</td>
<td>Vice president, First National Bank, Hamilton, Ohio.</td>
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<tr>
<td>Delaware</td>
<td>J. E. Platt</td>
<td>President Security Trust and Savings Bank, Los Angeles.</td>
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<td></td>
<td>N. E. Frandlin</td>
<td>Vice president National City Bank, New York.</td>
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<td></td>
<td>M. P. Beebe</td>
<td>President Bank of Darlington, S. C.</td>
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<td></td>
<td>J. C. Bassett</td>
<td>Vice president, First National Bank, Hamilton, Ohio.</td>
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<tr>
<td>Tennessee</td>
<td>F. M. Mayfield</td>
<td>President Security Trust and Savings Bank, Los Angeles.</td>
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<tr>
<td>Texas</td>
<td>I. B. Tigriss</td>
<td>Vice president, First National Bank, Hamilton, Ohio.</td>
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<tr>
<td>Utah</td>
<td>Nathan Adams</td>
<td>President Security Trust and Savings Bank, Los Angeles.</td>
</tr>
<tr>
<td>Virginia</td>
<td>Frank Knox</td>
<td>Vice president, First National Bank, Hamilton, Ohio.</td>
</tr>
<tr>
<td>West Virginia</td>
<td>Oliver J. Sands</td>
<td>President Security Trust and Savings Bank, Los Angeles.</td>
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</tbody>
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Secretary of the Committee: W. T. Gallihen
### Banking and Currency

#### Representatives of State Bankers' Associations Present—Continued.

<table>
<thead>
<tr>
<th>State</th>
<th>Delegate</th>
<th>Banking affiliations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wisconsin</td>
<td>H. A. Moehlenpah</td>
<td>President State association.</td>
</tr>
<tr>
<td></td>
<td>Geo. D. Barthet</td>
<td>Secretary State association.</td>
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<tr>
<td></td>
<td>E. M. Wing</td>
<td>American Bankers' Association Council, La Crosse, Wis.</td>
</tr>
<tr>
<td></td>
<td>A. J. Frame</td>
<td>President Waukesha National Bank, Waukesha, Wis.</td>
</tr>
</tbody>
</table>

#### Representatives of Clearing House Associations Present.

<table>
<thead>
<tr>
<th>City and State</th>
<th>Delegate</th>
<th>Banking affiliations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aberdeen, S. Dak</td>
<td>C. A. Russell</td>
<td>President Citizens Trust and Savings Bank.</td>
</tr>
<tr>
<td>Akron, Ohio</td>
<td>C. I. Bruner</td>
<td>President clearing house association.</td>
</tr>
<tr>
<td>Albany, N. Y</td>
<td>James H. Perkins</td>
<td>Vice President First National Bank.</td>
</tr>
<tr>
<td>Amarillo, Texas</td>
<td>W. H. Franks</td>
<td>President National Commercial Bank.</td>
</tr>
<tr>
<td>Atlanta, Ga</td>
<td>Robt. F. Maddox</td>
<td>President New York State National Bank.</td>
</tr>
<tr>
<td>Baltimore, Md</td>
<td>Chas. T. Crane</td>
<td>President clearing house.</td>
</tr>
<tr>
<td>Boston, Mass</td>
<td>Alfred L. Ripley</td>
<td>Vice president Third National Bank, Atlanta, Ga.</td>
</tr>
<tr>
<td>Buffalo, N. Y</td>
<td>William F. Hopkins</td>
<td>Member Currency Commission.</td>
</tr>
<tr>
<td>Canton, Ohio</td>
<td>H. S. Kaufman</td>
<td>President Farmers and Merchants National Bank.</td>
</tr>
<tr>
<td>Cedar Rapids, Ia</td>
<td>E. M. Scott</td>
<td>President First National Bank.</td>
</tr>
<tr>
<td>Chicago, Ill</td>
<td>Charles G. Dawes</td>
<td>Vice president Merchants National Bank.</td>
</tr>
<tr>
<td>Cincinnati, Ohio</td>
<td>W. T. Fenton</td>
<td>President City National Bank.</td>
</tr>
<tr>
<td>Cleveland, Ohio</td>
<td>J. J. Sullivan</td>
<td>Secretary and manager Canton Clearing House Association.</td>
</tr>
<tr>
<td>Columbus, Ohio</td>
<td>L. F. Kinswetter</td>
<td>President Security Savings Bank.</td>
</tr>
<tr>
<td>Dallas, Texas</td>
<td>Nathan Adams</td>
<td>Vice president Central Trust Company of Illinois.</td>
</tr>
<tr>
<td>Danville, Ill</td>
<td>M. J. Woford</td>
<td>Vice president National Bank of the Republic.</td>
</tr>
<tr>
<td>Davenport, Iowa</td>
<td>J. H. Hass</td>
<td>President Fifth-Third National Bank.</td>
</tr>
<tr>
<td>Deestur, Ia</td>
<td>O. B. Gurin</td>
<td>President clearing house.</td>
</tr>
<tr>
<td>Des Moines, Ia</td>
<td>Homer A. Miller</td>
<td>President Central Trust Company of Wisconsin.</td>
</tr>
<tr>
<td>Erie, Pa</td>
<td>R. A. Crawford</td>
<td>Vice president National Bank.</td>
</tr>
<tr>
<td>Evansville, Ind</td>
<td>Henry Reis</td>
<td>President clearing house.</td>
</tr>
<tr>
<td>Flint, Mich</td>
<td>Bruce J. MacDonald</td>
<td>President Citizens National Bank.</td>
</tr>
<tr>
<td>Galveston, Texas</td>
<td>J. W. Hoopes</td>
<td>President Peoples State Bank.</td>
</tr>
<tr>
<td>Hartford Conn</td>
<td>Louis A. Barbour</td>
<td>President Old State National Bank.</td>
</tr>
<tr>
<td>Hastings, Neb</td>
<td>C. C. Lane</td>
<td>Vice president Evansville Clearing House.</td>
</tr>
<tr>
<td>Hattiesburg, Mis</td>
<td>F. W. Foote</td>
<td>Cashier City National Bank.</td>
</tr>
<tr>
<td>Houston, Texas</td>
<td>J. T. Scott</td>
<td>President First National Bank.</td>
</tr>
<tr>
<td>Indianapolis, Ind</td>
<td>S. A. Fletcher</td>
<td>Vice president First National Bank.</td>
</tr>
<tr>
<td>Jacksonville, Ill</td>
<td>M. F. Dunlap</td>
<td>Vice president Naton Bank of Commerce.</td>
</tr>
<tr>
<td>Jackson, Mis.</td>
<td>Oscar Newton</td>
<td>President clearing house.</td>
</tr>
<tr>
<td>Kansas City, Mo</td>
<td>Geo. S. Hovey</td>
<td>President American Bankers' Association.</td>
</tr>
<tr>
<td>Lexington, Ky</td>
<td>J. W. Porter</td>
<td>President First National Bank.</td>
</tr>
<tr>
<td>Little Rock, Ark</td>
<td>S. H. Burnham</td>
<td>Cashier First and City National Bank.</td>
</tr>
<tr>
<td>City and State</td>
<td>Delegate</td>
<td>Banking affiliations</td>
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<tr>
<td>Los Angeles, Cal</td>
<td>Stoddard Jess</td>
<td>Vice president First National Bank.</td>
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<tr>
<td>Louisville, Ky</td>
<td>E. L. Swearman</td>
<td>President American National Bank.</td>
</tr>
<tr>
<td>Macon, Ga</td>
<td>L. P. Hilepy</td>
<td>President First National Bank.</td>
</tr>
<tr>
<td>McAlester, Okla</td>
<td>Sam. L. Morley</td>
<td>President Louisville National Banking Co.</td>
</tr>
<tr>
<td>Memphis, Tenn</td>
<td>S. E. Ragland</td>
<td>Vice president American National Bank.</td>
</tr>
<tr>
<td>Meridian, Miss</td>
<td>Walker Brooch</td>
<td>President McAlester Trust Co.</td>
</tr>
<tr>
<td>Milwaukee, Wis</td>
<td>J. W. P. Lombard</td>
<td>Vice president Central State National Bank.</td>
</tr>
<tr>
<td>Minneapolis, Minn</td>
<td>F. A. Chamberlain</td>
<td>President First National Bank.</td>
</tr>
<tr>
<td>Peoria, Ill</td>
<td>Fred Luth</td>
<td>Cashier First National Bank.</td>
</tr>
<tr>
<td>Pittsburgh, Pa</td>
<td>Chas. McKnight</td>
<td>President Merchants National Bank.</td>
</tr>
<tr>
<td>Reading, Pa</td>
<td>Julian E. Hill</td>
<td>President Western National Bank.</td>
</tr>
<tr>
<td>Richmond Va</td>
<td>John M. Miller</td>
<td>President Pittsburgh Clearing House Assoc.</td>
</tr>
<tr>
<td>Rockford, Ill</td>
<td>J. D. Waterman</td>
<td>President American National Bank.</td>
</tr>
<tr>
<td>Sacramento, Ca</td>
<td>Stoddard Jess (special rep.)</td>
<td>Vice president Merchants National Bank.</td>
</tr>
<tr>
<td>St Joseph, Mo</td>
<td>R. T. Forten</td>
<td>President Commercial National Bank.</td>
</tr>
<tr>
<td>St. Louis, Mo</td>
<td>Graham G. Lacy</td>
<td>Vice president Whitney Central National Bank.</td>
</tr>
<tr>
<td>Salt Lake City, Utah</td>
<td>T. W. Boyer</td>
<td>President Second National Bank.</td>
</tr>
<tr>
<td>Savannah, Ga</td>
<td>Wm. D. Davant</td>
<td>President First National Bank.</td>
</tr>
<tr>
<td>South Bend, Ind</td>
<td>George S. Parker</td>
<td>President National Bank of Commerce.</td>
</tr>
<tr>
<td>Spokane, Wash</td>
<td>J. P. M. Richards</td>
<td>President First National Bank.</td>
</tr>
<tr>
<td>Superior, Wis</td>
<td>B. W. Payne</td>
<td>President Live Stock National Bank.</td>
</tr>
<tr>
<td>Syracuse, N. Y</td>
<td>Wm. B. Banks</td>
<td>President St. Joseph County Savings Bank and South Bend Clearing House.</td>
</tr>
<tr>
<td>Tacoma, Wash</td>
<td>Frank Knox</td>
<td>President Spokane and Eastern Trust Company.</td>
</tr>
<tr>
<td>Toledo, Ohio</td>
<td>T. W. Boyer</td>
<td>President First National Bank.</td>
</tr>
<tr>
<td>Topska, Kansas</td>
<td>W. J. Bemis</td>
<td>First National Bank and president Syracuse Clearing House.</td>
</tr>
<tr>
<td>Vicksburg, Miss</td>
<td>Jacob Woolerton</td>
<td>Tacoma Clearing House.</td>
</tr>
<tr>
<td>Waterbury, Conn</td>
<td>W. B. Banks</td>
<td>Vice president clearing house.</td>
</tr>
<tr>
<td>Youngstown, Ohio</td>
<td>W. T. gallie</td>
<td>Vice president and manager American Bank and Trust Company.</td>
</tr>
<tr>
<td>Texarkana, Texas</td>
<td>J. A. Gordon</td>
<td>President clearing house.</td>
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<td></td>
<td>President American National Bank.</td>
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<td></td>
<td></td>
<td>Washington Clearing House.</td>
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<td></td>
<td></td>
<td>Assistant cashier Waterbury National Bank.</td>
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<td></td>
<td></td>
<td>Clearing House Association.</td>
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<td></td>
<td></td>
<td>Cashier City Bank of Wheeling and president clearing house.</td>
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<tr>
<td></td>
<td></td>
<td>President Commercial National Bank.</td>
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<tr>
<td></td>
<td></td>
<td>Vice president Texarkana National Bank.</td>
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</table>
Mr. Forgan. Mr. Chairman and gentlemen of the committee, we appear before you as a committee of seven bankers, appointed at a conference called by the currency commission of the American Bankers' Association, held in Chicago, August 22 and 23, 1913. All the State bankers' associations and all the clearing houses in the country were asked to send representatives to the conference; and appended to the report which has been submitted to you will be found a list of the delegates present.

Senator Reed. Mr. Chairman, I would like to request now that order be maintained in this room. If there is anybody here who desires to converse, I suggest that they go out into the hall.

The Chairman. This hearing is very important, the Chair will state to visitors; and we hope therefore that silence will be observed, so that the speakers can be distinctly heard. Mr. Forgan, will you proceed?

Mr. Forgan. We appear before you primarily as representatives of the banks. We would, however, respectfully remind you that the bankers of the country come into close relation with three important classes of the community, whose interests it is their business to study, and as far as possible harmonize on an equitable basis. These are the bank stockholders, who supply the capital; the thrifty and industrious members of the community, who supply the bank deposits; and commercial, industrial, and agricultural borrowers, whose business development and prosperity depend largely on the credits given them by the banks.

Senator Weeks. Mr. Chairman, I would like to ask if the witness wishes to be interrupted from time to time by questions, or to complete his statement before he is asked questions?

The Chairman. What is your pleasure, Mr. Forgan?

Mr. Forgan. Well, I am not much of a speaker, and I would rather get through with it, if it is not inconvenient to the committee; and then either I or any other member of our committee will be glad to answer any questions.

The Chairman. The committee, of course, has the right, if it sees fit, to interrupt a witness, but unless there is some particular reason, I assume that that will not be done.

Senator Crawford. I suggest that where a statement has been carefully prepared and is written, we get the effect of it and its meaning better by allowing the speaker to finish it, and then have the inquiries follow the reading of the paper.

The Chairman. The Chair is of the opinion that that is within the discretion of the committee, and the witness will proceed.

Mr. Forgan. These three classes combined form a large percentage of the population, and bankers fully realize that the general prosperity of the country depends upon the maintenance of proper relations between them and the banks.

The business of the banks is to exchange credits with the public. It is therefore essential that, as a working basis, mutual confidence between them and the public should be maintained. Bankers would be shortsighted indeed, if, ignoring these fundamental relations,
they should approach the study of banking and currency legislation with purely selfish motives and solely from their own side of the subject. It is the duty of the directors and officers of the bank to study the interests of the millions of their savings and other depositors, for whom they are trustees, as well as those of their shareholders and of their borrowers.

Hence, as the chosen representatives of the banks, we claim that in a very real sense, we represent the interests of all whose patronage the banks rely on for success, and especially the interests of the innumerable hosts of thrifty and desirable citizens who manifest their confidence in the banks by trusting them with deposits aggregating more than $20,000,000,000. Individually bankers do not experience the much-talked-of distrust of the banks. Rather they duly appreciate the confidence evinced by the public by placing such an enormous line of deposits with the banks under their management, and they are keenly impressed with the responsibility such a trust imposes upon them.

As chairman of this committee, I now hand each of you a copy of the report unanimously adopted at our Chicago conference, the preamble to which reads as follows:

The currency commission of the American Bankers' Association, charged with the duty of endeavoring to secure remedial banking legislation and regarding the banking measure now pending in Congress as evidencing the earnest wish of the administration to give a wise law to the country, has profoundly desired to cooperate in every way. To this end, upon its invitation that the presidents of the 47 State bankers' associations and that representatives of the 191 clearing houses attend and unite in an expression, this joint body composed of bankers from every section of the South and North, from coast to coast, representing country and city banks, State and National and trust companies, after carefully considering the bill has adopted the following:

Whereas we recognize the imperative necessity of incorporating into the banking and currency system of this country those proven principles which will provide the most ample credit facilities with greatest safety and a currency based on gold which automatically adjusts its volume to trade requirements, in order that the highest stability may be attained for our commerce, thereby assuring continuity of employment for the laborer and favorable markets for the producer—the fundamental basis of general prosperity; and

Whereas although the pending measure has many excellent features and recognizes certain principles fundamental in any scientific banking system, yet it is believed that the application of those principles may in certain respects be made in ways that will more surely avoid a credit disturbance and more efficiently attain the desired benefits for the whole people; and

Whereas we believe that to insure the successful operation of a new banking law it must be of such a character as to warrant a general acceptance of its provisions by existing banking institutions, both State and National, country and city, since the final test of the measure of success must be the strength and power for efficiently serving the interests of the entire country which can alone be had from general participation of banks of all classes; and believing that the bill as now drawn will, by its onerous provisions, prevent State banks and many National banks from joining the system, and earnestly desiring to cooperate with the administration in bringing about the adoption of the most highly efficient plan: Therefore be it

Resolved, That we recommend the following changes in the bill as now published, convicted, while not rendering the plan ideal, these changes would render organization more probable, would avoid a credit disturbance, and provide a system that would gradually develop into a great bulwark for the protection of our whole commerce, benefiting alike, and in equal measure, the laborer, the farmer, and the business man.

It is the sense of this conference that one Federal reserve bank with as many branches as the commerce of the country may require, would be more effective; but if this be not obtainable we recommend that as few Federal reserve banks be established as possible, and not more than a total number of five.
The duty of explaining to you the reason for these various changes has been divided among the members of this committee. To each member of the committee has been assigned one or more features of the measure in which changes are suggested. We will run through the bill and I will call upon the members of our committee to explain the changes as they occur. They can be further discussed at your pleasure as we proceed, and any questions in regard to them the members of the committee desire to ask we will be pleased to answer.

The first suggested change is in connection with the number of Federal reserve banks, and it has been assigned to me to give our reasons for thinking that one Federal reserve bank, with as many branches as the commerce of the country may require, would be more effective than a greater number, but if that be not obtainable our reasons for recommending that there be as few as possible, and not more than five at the outside.

Some one has said that the most economical, scientific, and effective method of handling the gold reserves of the banks of the country would be to consolidate them into one large reservoir for the protection of all. The current operations between the banks and the central reservoir would cause but a ripple on the surface, while the great, staple mass of gold would inspire public confidence in all the banks for the protection of which it is held. For years the central object of banking reform in this country has been to find some practical method of mobilizing and controlling the lawful money reserves of the banks for the protection of them all, instead of relying upon each to individually acquire, maintain, and protect its own.

The great defect of our present system and the prime cause of our periodical disturbances is that each of the 25,000 banks now in existence, having no adequate means of protecting its reserves, or of replenishing them when they fall below its legal requirement, must enter into competition with all the rest for an amount sufficient for its individual needs. Whenever a financial strain becomes general, a scramble among the banks for lawful money occurs, which begets fear, and panic follows. The citizens of each community measure the strength of their local banks by the amount of cash they hold. The banks, realizing this, undertake to strengthen their position by increasing their cash holdings—which, however, no one can accomplish without, to the same extent, decreasing the cash holdings of some other bank.

What is necessary is to establish a system whereby this public method of estimating the strength of banks will be changed from measuring their solidity by the amount of lawful money they carry, to basing their estimate on the facilities possessed by the bank for promptly getting either lawful money, or a circulating medium that will, for all practical purposes, pass current in public estimation, as being as good as lawful money.

This, it is believed, could be accomplished by consolidating a sufficient amount of the lawful money reserve of the banks in a central institution which would deal directly with the banks. It would be necessary that such an institution should have the right to protect its own reserves, and those of the banks for which it acts, by using a circulating medium protected by an adequate gold reserve, and covered by the commercial assets it would acquire from the banks against the circulation with which it supplies them.
That one institution with a sufficient number of branches scattered over the country would more effectually perform these functions than a greater number seems to us an inevitable conclusion. The entire country, divided into districts, could have proper representation on the central board of management, insuring that the interests of all sections would have equal and equitable consideration.

It would be quite practicable to meet the requirements of the various districts through properly equipped branches, even more efficiently than they could be met through separate regional institutions. The establishing of a number of such institutions would divide the consolidated cash reserves of the banks into as many different ownerships as there are separate institutions. As no individual bank can now increase its gold or lawful money without to the same extent decreasing the gold or lawful money of some other bank, so with these regional institutions no one of them could strengthen its cash reserves without drawing them from and depleting to the same extent the reserves of another.

On the other hand, one central institution with branches could distribute the gold or lawful money reserves over the country, as circumstances might call for, without change of ownership. The money would belong to the same institution, irrespective of where it might be located or what branch had custody of it. Chicago could be supplied with money from New York without publicly attracting attention to the fact that New York's reserves had decreased and Chicago's had increased by the transaction. The published statement of the one institution would simply show that it owned so much more gold in Chicago and so much less in New York, while its percentage of cash reserve money on hand to total liabilities would not necessarily be changed at all.

This would not be the case if the Chicago institutions were entirely separate and distinct from the New York institutions. The Chicago institution's lawful money requirements could not be supplied by a withdrawal from the New York institutions without diminishing to an equal extent the amount of the latter's lawful money on hand. In times of financial stress, when each regional institution would be husbanding its resources for the benefit of its own constituents, this might produce an undesirable and awkward situation, the interests of the various sections of the country being at variance.

Such a condition would be intensified in direct ratio to the number of regional institutions established.

A very practical reason why it would be wiser to start with not more than 5 Federal reserve banks is that the reserve bank organization committee might find it difficult, if not impossible, to comply with the requirement that it should organize not less than 12. It might be fairly assumed that few, if any, of the State banking institutions would immediately after the passage of the act voluntarily subscribe for their proportionate amount of the capital stock of the Federal reserve bank and contribute their quota of the required reserve deposits to be placed in these banks. It would seem that business prudence and conservatism would cause them to postpone action until the Federal reserve banks are organized, are doing business, and are able to demonstrate the advantages to be derived from being connected with them.
If this is a reasonable assumption in regard to the probable action of the State banking institutions the reserve bank organization committee would have to rely exclusively on the national banks, under the more or less compulsory obligation imposed on them, under the Federal reserve act, requiring them, within 12 months, to contribute the necessary capital and the minimum reserve deposit, or accept one of the alternatives of dissolution, or continuing their business under State charters. Should the subscriptions to the capital stock of Federal reserve banks be thus restricted, it would be necessary that practically all national banks should remain in the system and subscribe for it. It is stipulated in the act, that there shall not be less than 12 Federal reserve banks, with a minimum capital of $5,000,000 each, which calls for a minimum aggregate subscription of $60,000,000. It is, however, evident that in the larger districts much more than the minimum capital would be necessary. The geographic division of the country adopted in the comptroller's statement of June 4, 1913, discloses that the following would be the regional contributions on account of capital:

<table>
<thead>
<tr>
<th>Region</th>
<th>Subscription</th>
</tr>
</thead>
<tbody>
<tr>
<td>New England States</td>
<td>$10,000,000</td>
</tr>
<tr>
<td>Eastern States</td>
<td>$33,000,000</td>
</tr>
<tr>
<td>Southern States</td>
<td>$17,000,000</td>
</tr>
<tr>
<td>Mid-West States</td>
<td>$28,000,000</td>
</tr>
<tr>
<td>Western States</td>
<td>$7,000,000</td>
</tr>
<tr>
<td>Pacific States</td>
<td>$10,000,000</td>
</tr>
</tbody>
</table>

These amounts are exactly 10 per cent on the capital of these different districts, the total being $105,000,000.

Senator Bristow. Have you got that figured out by States?

Mr. Forgan. No; by districts. I took them from the comptroller's report.

Senator Reed. You follow the same line and groups as the Comptroller of the Currency, do you?

Mr. Forgan. Yes, sir; the statement of the Comptroller of the Currency shows these figures.

Senator Bristow. Would it be convenient for you to formulate an estimate by States and submit that as a part of your remarks?

Mr. Forgan. I could do it; yes, sir.

The Chairman. I will call the attention of the Senator from Kansas to the fact that the document which I gave him gives the entire record of each State in every particular, including the reserves, and all their capital stock.

Senator Nelson. I think the report of the Comptroller of the Currency groups them in the same way.

The Chairman. It is given both ways, individually and by groups.

Senator Nelson. Individually and by groups?

Mr. Forgan. Yes, sir; individually and by groups.

Senator Nelson. If you will examine that statement you will find that it has what you desire.

Mr. Forgan. A Federal reserve bank, therefore, could not be capitalized for less, in our opinion, than the following minimum amounts:

- Federal reserve bank of New York: $25,000,000
- Federal reserve bank of Chicago: $20,000,000
- Federal reserve bank of St. Louis: $15,000,000
- Federal reserve bank of Boston: $10,000,000
- Federal reserve bank of San Francisco: $10,000,000
- Federal reserve bank of New Orleans: $10,000,000
- Federal reserve bank of Philadelphia: $10,000,000
And there would be five others in different parts of the country, at $5,000,000 each, making $25,000,000, and requiring a total of $125,000,000. It would thus require $20,000,000 more than would be provided if every national bank should become a subscriber.

The chairman of our currency commission, Mr. Hepburn, of New York, who presided at our conference, in his opening address stated the practical reasons for not having such a number of Federal reserve banks so clearly and forcibly that I will, even at the risk of some repetition, conclude what I have to say on this branch of the subject by quoting him. He said:

The measure recognizes and adopts the principles of a central bank. Indeed, if it works out as the sponsors of the law hope, it will make all incorporated banks together joint owners of a central dominating power. Why, then, should not the principle, once recognized, be correctly applied? Why should not the law create one central bank, which should have branches wherever there is commercial need for them? Such a plan would be simpler, less cumbersome, more certain in operation, and far more efficient. There would then be no need to give the Federal reserve board authority to direct one section of the country to loan money to another, for the central authority would then control all the deposits and all the loans, and they would make loans to those sections of the country where most needed. There would then be no need to authorize the apportionment of United States Treasury deposits to different sections of the country. Those deposits would thus be in one central bank and would flow naturally to that section of the country which needed them.

As matters stand to-day, whenever stringency in the money market exists our 25,000 banks begin competing with one another in an effort to strengthen their cash reserves. In doing so, they intensify the stringency and aggravate the trouble. The tendency of individual banks to strengthen their position is natural and inevitable.

In reviewing the proposed legislation, one of the most natural questions, then, is whether the establishment of these regional reserve banks will remedy or aggravate that condition. Will there not naturally and inevitably be competition between the regional reserve banks, competition between the 12 sections of the country, and will we not in the end have competition for cash holdings between individual banks added to the competition of section against section, reserve bank against reserve bank? The framers of the measure evidently recognize that danger and seek to palliate it by giving the Federal reserve board authority to force one reserve bank to loan to another. Under the conditions that would exist would not the exercise of that authority fail to accomplish the just distribution of funds? Is there not strong probability that in exercising that authority factors would be created that would endanger the smooth working and permanency of the whole plan?

With a single central reserve bank with branches reserve money of all the branches deposited with that central institution would count in the aggregate, no matter with which branch it was deposited or through which branch it was loaned. With such a single central bank the controlling board might place its reserves in the section of the country where most needed. This shifting of funds would be accomplished without ostentation and without notoriety; whereas if the Federal reserve board should require, as it might do, under this proposed law, one Federal reserve bank to loan money to another Federal reserve bank, that could not be done without attracting attention to the borrowing locality in a way that would operate to the prejudice of that locality. On the other hand, how simply and easily and naturally this apportionment of funds would be made to fit the requirements of different localities through one central bank with branches.

Gentlemen of the committee, I thank you very much. That is all that we desire to say upon that branch of the subject.

The CHAIRMAN. Who is the next speaker you would like to present, Mr. Forgan?

Mr. FORGAN. Mr. Wexler.

The CHAIRMAN. Mr. Sol. Wexler, of New Orleans, La.

Senator REED. Mr. Chairman——

The CHAIRMAN. The Senator from Missouri.

Senator REED. May I ask a question here? I notice a statement there in your remarks, Mr. Forgan, I think it was in the quotation
which you were making, to the effect that if we had five or more reserve banks they would ultimately come under one control—at least, that is the way I understood it. Will you kindly refer us to that sentence again?

Mr. Forgan. That would ultimately come under one control?

Senator Reed. I thought there was such a statement in what you quoted.

Mr. Forgan. I think not, sir.

Senator Nelson. I understood it to mean “practically” under one control.

Mr. Forgan. Oh, that was at the beginning.

Senator Reed. That is what I mean—for all practical purposes; it was somewhere in that quotation which you read.

Mr. Forgan. It was in the quotation of Mr. A. Barton Hepburn’s remarks, yes; just at the beginning of them, I think. It says:

The measure recognizes and adopts the principles of a central bank. Indeed, if it works out as the sponsors of the law hope, it will make all incorporated banks together joint owners of a central dominating power.

Senator Reed. Well, Mr. Forgan, what do you understand that to mean?

Mr. Forgan. I understand it to mean that the Federal reserve board will be in control of whatever number of reserve banks were established, and that as the banks were the owners of the capital of all these reserve banks they would be owners of them and they would be under one central control.

Senator Reed. Well, do you anticipate in the plan which the banks have outlined (I have not read it yet, having had no opportunity to do so), whom do you propose to have constitute this central controlling power, to which the paragraph you have just read refers?

Mr. Forgan. Would you allow that question to stand until we come to it? There is a gentleman here who will address the committee on our behalf on that one special subject.

Senator Nelson. That is another branch of the discussion.

Mr. Forgan. Yes; that is a subject upon which there is another gentleman here who will address you.

Senator Reed. I did not intend to argue the matter. I was merely trying to get at the meaning of this phrase which you read.

Mr. Forgan. Yes, sir.

Senator Reed. Whether it means that these 12 reserve banks would, in the end, be controlled, for all practical purposes, by a central dominating power, and that power a bankers’ power; or whether it means that it would be under——

Mr. Forgan (interposing). No; the banks would have merely a representation on the board.

Senator Reed (continuing). Or whether it would be controlled by the Government.

Mr. Forgan. Well, in this bill—when we come to that question—we ask for a minority representation; that is, if there are to be seven members of the board, we ask a representation of three out of the seven.

Senator Nelson. But, Mr. Forgan, as I understand, without reference to the composition of that board, whether it remains as it is now in the bill or is modified as you suggest, this statement
which you have quoted is based upon the fact that the board in any event under this bill would have control of the entire system?

Mr. Forgan. Yes, sir.

Senator Nelson. And if money were short in one regional bank it could be transferred to the other, and vice versa?

Mr. Forgan. Yes, sir.

Senator Nelson. Is that not what you mean by that statement?

Mr. Forgan. Yes, sir.

Senator Nelson. I thought that was what Mr. Forgan meant.

Mr. Forgan. And when we come to it in these hearings it will be seen that our recommendation is that we should have a minority representation on that board.

Senator Reed. Well, does that suggestion that you have just read to us, the second time at my request, embrace the idea merely of the transfer of surpluses from one of the central banks to another under the guiding hand of whoever has been selected to constitute the central board, or does that expression mean something more than that, that after all there would be a central dominating force, and that dividing the system into 12 parts does not much change it from what it would be operating as one integer—as one thing?

Mr. Forgan. Well, if the bankers were to get the representation which they want—because they think they are entitled to it, in consequence of their ownership—of course the bankers would have a minority representation on that board; and if we only had one reserve bank (which we argue for) that would work itself out automatically. The question would never be before the board of the interests of one part of the country as antagonistic to those of another part, because the duty of the board would be to consider the necessities of all the country from time to time as they arose and to meet the necessities as they arose.

Senator Reed. Perhaps I can put my question in a different form, which has been suggested to me by the Senator to my right [Senator Weeks]: Do you not mean whether there is 1 bank or 12 regional banks, that after all they will inevitably come under one central control?

Mr. Forgan. Yes, sir; that is the meaning, decidedly the meaning; yes, sir.

Senator Nelson. And you mean that, without reference to the fact whether the board is as constituted in the bill, or with the additions which have been suggested?

Mr. Forgan. In the bill, or with the additions.

Senator Shafroth. Mr. Forgan, the representation on the Federal reserve board which your convention has recommended, does it mean that the persons representing that interest shall be engaged in banking?

Mr. Forgan. Yes, sir; that it be left to the banks to appoint them, and of course they would be likely to appoint bankers from among themselves.

Senator Shafroth. And you ask for three members upon the board?

Mr. Forgan. Three; yes, sir.

Senator Shafroth. Is it not a fact, Mr. Forgan, that the Bank of England has no banker upon its board of directors?
Mr. Forgan. Well, it has no representative of any chartered bank.

Senator Shafroth. Is that not also true of all of the European banks that are central banks, namely, that they have no members of the banking fraternity that are in active business upon the board?

Mr. Forgan. It has the representatives of some of the largest private banking firms in the world on the board of the Bank of England.

Senator Shafroth. Well, are there any on the Bank of France or the Bank of England?

Mr. Forgan. They are on the Bank of England.

Senator Shafroth. Well, I understand not.

Mr. Forgan. It has the representatives of some of the largest private banking firms in the world on the board of the Bank of England.

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Mr. Forgan. They are on the Bank of England.

Senator Shafroth. Well, I understand not.

Mr. Forgan. It has the representatives of some of the largest private banking firms in the world on the board of the Bank of England.

Senator Shafroth. The Bank of England, as I understand it, has as directors only those who have £500 invested stock and have a mercantile business of $100,000; they must have that much in the mercantile business before they can become directors of the Bank of England?

Mr. Forgan. There is nothing in the law under which the Bank of England is established to prevent any representative of another incorporated bank being on the board.

Senator Shafroth. Well, is it a fact?

Mr. Forgan. It is only the practice.

Senator Shafroth. Yes. Well, the practice has been that they should not be on the board, has it not?

Mr. Forgan. That the representatives of an incorporated bank should not be on the board; that is the practice.

Senator Crawford. Mr. Forgan, is not the reason for that because the Bank of England does not want entangling alliances with any other bank? It uses its discount——

Mr. Forgan (interposing). Yes, sir.

Senator Crawford (continuing). It uses its discount power as a check on them, and therefore does not want to be involved?

Mr. Forgan. Yes, sir; and it does not want a member of the board of a bank that is going to offer a bill for discount to pass upon that bill.

Senator Nelson. Mr. Chairman, I want to suggest that we go into this question when the gentleman who has come here with the committee of bankers to take up that branch of the bill is making his statement; that would seem to be the more logical course to pursue.

Senator Pomerene. Mr. Chairman, I want to make a motion before we adjourn, and that is that when the time arrives for the committee to interrogate the witnesses we proceed alternately to question them: First, the chairman examining the witness; and next, the next ranking member on one side of table, and then the ranking member on the other side, and so on, until all the members of the committee have concluded the questions they desire to ask. It seems to me that this method of questioning the witness is entirely unfair to the witness, and it is very unfair to the committee.

(Whereupon the committee took a recess of 10 minutes, after which the following proceedings were had:)}
The Chairman. The Senator from Colorado would like to ask you one or two questions.

Mr. Forgan. Yes, sir.

Senator Shafroth. Is it not a fact, Mr. Forgan, that the reason bankers are not upon the board of directors of these central European banks, is because the power of those banks is to raise or lower the rate of discount, and that would give an advantage to the banker who happened to be upon the board to have this knowledge in advance, and that he might use it to the advantage of his banking institution; and is not that arrangement satisfactory to all the banks, so that one bank will have no advantage over another bank?

Mr. Forgan. I would have to be frank with you. I could not answer that question. I am not sufficiently familiar with the working of the European banks to know. I would have to draw upon my imagination for it. I do not know.

Senator Shafroth. From what I have read of the workings of those European central banks, that have the right of lowering or raising the rate of discount, that is the reason they do not permit a banker to be upon the board, not but what they could get great knowledge from him, but because of his interest in a banking institution, which could be used to his bank's advantage, in the event the discount was raised or lowered. We all know that in raising the discount you produce a little bonus and bonds rise and stocks rise, and if the knowledge is given to a banker in advance you can readily see that he could use it to the advantage of his bank, and it is on that account that the bankers throughout the whole Empire or throughout the nation first insist that no banker should be on there, unless he is a retired banker.

Mr. Forgan. That may be so, sir.

Senator Shafroth. You are not familiar with it?

Mr. Forgan. No, sir; I am not sufficiently familiar to give an answer.

Senator Hitchcock. Mr. Forgan, I would like to ask you why a central bank should be limited to one institution in this country any more than for continental Europe? Would not the 12 regional banks in this country correspond to the 12 national banks of the continent of Europe?

Mr. Forgan. We expect the banks of continental Europe to compete with each other, and they are in active competition with each other; we do not expect in this country to establish competing districts one with the other.

Senator Hitchcock. Is it not true that the banks of Europe cooperate with each other?

Mr. Forgan. Not to any such extent as to influence them in any way in the management of their banks.

The Chairman. The witness will suspend. There is another call of the Senate and voting is going on and we will have to suspend.

(Whereupon the committee took a short recess, after which the following proceedings were had:)

Senator Pomerene. I desire, before the witness proceeds, to renew my motion to the effect that after the witness has made his statement, that if there is any cross-examination desired the chairman
first cross-examine and then that we alternate from side to side of the table in the order of the seniority of Senators on the committee.

The CHAIRMAN. Gentlemen of the committee, you have heard the motion proposing that the cross-examination of witnesses shall proceed in order of seniority of the members on the committee, so as to prevent confusion. What is your pleasure?

(The motion was carried.)

Mr. FORGAN. The next material change we have to suggest occurs on page 6, section 2.

Senator HITCHCOCK. Before you go to that, Mr. Forgan, I would like to continue. I had merely got started on that question which I commenced to ask you. I understood you to make an argument that it would not be possible or desirable for a number of independent regional banks to exist in the United States.

Mr. FORGAN. I did not say it was not possible for them to exist.

Senator HITCHCOCK. Not desirable?

Mr. FORGAN. Not desirable.

Senator HITCHCOCK. That the result of having them more or less independent would be that they would compete with each other in gathering reserves as independent banks now compete with each other?

Mr. FORGAN. Yes, sir.

Senator HITCHCOCK. And I asked you whether the condition in Europe did not controvert that idea.

Mr. FORGAN. I think not.

Senator HITCHCOCK. The Bank of England and the Bank of France and the Reichsbank and the other banks of European countries perform a similar function; that implies the reserves, and they afford currency to the country and to the banks that operate with them, and do they not also cooperate with each other in emergencies?

Mr. FORGAN. I think they very violently compete with each other for reserve money—very strongly compete with each other.

Senator HITCHCOCK. Compete to the extent of slightly raising or lowering the rate of interest. They do not do that in concert, so that where the money is needed most the money goes most?

Mr. FORGAN. You do not think they do it in concert. We have some that do.

Senator HITCHCOCK. Has it not been a fact that the Bank of France has come to the relief of the Bank of England in emergencies?

Mr. FORGAN. Oh, yes; at least they did at the time of the Baring Bros.' failure.

Senator HITCHCOCK. Recently in Europe, when credits were contracted in Berlin, did not the Bank of France arrange to have credit extended through the Swiss bank to the German bank?

Mr. FORGAN. I am not aware of that transaction, but I am aware of the fact that the French as a whole did not help Germany very much, but the very reverse, by withdrawing money from Germany.

Senator HITCHCOCK. But did she not at the same time place that money in Switzerland so that Switzerland might extend the credit to the Berlin banks?

Mr. FORGAN. I should want to be clearly and fully posted on all these facts about that before I could express an opinion on it, and I am not so informed.
Senator Hitchcock. Do you express it as an opinion that the independence between the great banks of Europe is detrimental to the business of the world?

Mr. Forgan. Detrimental to the business of the world?

Senator Hitchcock. Yes.

Mr. Forgan. Oh, no; but they are different countries, different sets of citizens, and different peoples altogether, that they represent.

Senator Hitchcock. Business flows readily between them, they are in very close contact, and both France and Germany together are not as large as the United States in territory.

Mr. Forgan. I do not see any analogy between them at all and the United States.

Senator Nelson. If you will allow me, Senator, to say there is one great difference. Our national banks are banks of issue, and theirs are not, outside of these big national banks—outside of the central bank. They are just banks of discount and deposit.

Senator Hitchcock. I am now speaking to the point that we now propose to create these regional reserve banks, which are to perform some of the functions toward the banks in their territory that are now performed by the great banks of Europe to the banks in their own territory.

Mr. Forgan. Even if they did that, all that I have said would be true—they would enter into competition and it would not be necessary that they should. They could serve the whole country much better if the central organization had the interest of the whole country before them in all the transactions as they came before them, and loaned the money as it was wanted—placed the money where it was wanted in this country.

Senator Hitchcock. Europe is generally held up to us as a model, and in Europe we have these great banks, in what you might term competition with each other, and yet it works satisfactorily.

Mr. Forgan. That is between nations. If we had one central reserve bank, it would be infinitely stronger to compete with the other banks of the world, as compared to 12; that is an argument in favor of having the one. That is the way that it appears to my mind.

The Chairman. Before leaving that point, under the rule adopted by the committee, it will be in order for the members, if they desire, to question the witness in the order of their seniority. Senator O'Gorman? Senator Reed?

Senator Reed. I may want to ask something later on, but I will waive it now.

Senator Pomerene. Just one question, which I wanted to ask. I take it from what you said that you prefer one central bank rather than one or more regional banks?

Mr. Forgan. Yes, sir; with branches, wherever necessary.

Senator Pomerene. Waiving, for the time being, the method of appointment of this reserve board, if you had the one central bank, of course it would be controlled by the one board?

Mr. Forgan. Yes, sir.

Senator Pomerene. And if you had the 12 regional banks, the 12 regional banks would be under the control of this same board. Now, I would like you to point out the difference between the one bank, under the control of one board, and 12 regional banks under the control of one board.
Mr. Forgan. The first thing that appeals to me, in answering that question, is in regard to the reserves of the banks. The reserves would belong to one institution—the gold would belong to one institution, if it was one institution with, I should say, 12 branches; and therefore it might control these reserves better. Take the transfer of money from New York to Chicago, and from Chicago to San Francisco, and from San Francisco to New Orleans, without the change of ownership, as I have already explained. Wherever that money was lying, it would belong to one institution, and the same percentage of gold to total liabilities assumed would exist, whereas if they got into competition with each other, one might be down below its reserves, and the other above, and in that way you get competition among them for the reserve money of the country, which, if it was all in one reservoir—I use this as an illustration—it would not be all in one reservoir, but it would be in a number of reservoirs owned by the same institution, and it would serve the purpose of the whole country.

Senator Pomerene. Mr. Forgan, as I understand this scheme, where you have the 12 or more regional banks, the plan of the bill is that this reserve board will have the right to compel one regional bank to loan to another regional bank as the necessities of the occasion should require, and that they shall fix the rate of interest. Now, then, is it not practically one board in control of 12 reservoirs, and is not the difference, in fact, in the number rather than any material difference?

Mr. Forgan. No; there is a very serious material difference that I have been trying to explain. I do not think I can put it any plainer than I have put it in what I have already said.

Senator O'Gorman. There is this difference, Mr. Forgan. If you have 12 reserves, as contemplated in this bill, you have 12 separate and distinct organizations, and while they are under the control of a central reserve board, it is quite natural that the officials in those several separate organizations will have special interests in their own localities, and while they would have to submit under the provisions of this bill to the final decisions of the central board in Washington, there would doubtless be many instances where they would bear protest, feeling that their own localities were being prejudiced by the action of the central board?

Mr. Forgan. Yes, sir.

Senator O'Gorman. While, on the other hand, if you have a central organization, it would not be required to consult another organization, but simply make its direction, which would have to be respected by its branch.

Mr. Forgan. That is very well expressed, sir. I wish I was as ready with my answers to give that explanation; unfortunately, I am not. I am always afraid of committing myself to something that I do not understand.

The Chairman. Are there any other members of the committee who desire to ask Mr. Forgan any questions about that first subject before we leave it?

Senator Reed. Are there any advantages, to your mind, at all in having 12 reserve banks with the organizations provided in the bill; that is, separate organizations?

Mr. Forgan. I do not know of any.
Senator Reed. And you think that, in any event, the 12 organizations would all come under one control in the end, just as one bank is under one control? I take it, therefore, that you think these 12 organizations are in the nature of unnecessary machinery.

Mr. Forgan. I think so; yes, sir.

Senator Nelson. If you are through, Senator Reed, I will ask a question. Would it not lead to this, in practical operation, Mr. Forgan, that, in the first place, there would be some friction in the matter of distribution of Government funds among the several reserve banks? One might claim that it got less than its share.

Mr. Forgan. Yes, sir.

Senator Nelson. Then, would not this difficulty arise: Suppose that a reserve bank at Minneapolis should be well supplied with funds, and suppose the reserve bank at New Orleans lacks funds, and suppose the board should order a transfer of funds directly or indirectly from Minneapolis to New Orleans, would not it lead to some friction?

Mr. Forgan. It would lead to a great deal of friction.

Senator Nelson. Would not the Minneapolis reserve bank feel they were discriminated against and that it was not fair to transfer their funds to New Orleans?

Mr. Forgan. Yes, sir. And, to follow that idea up, the Minneapolis banks might at that time be compelling their customers to dispose of their wheat in order to turn it into money for local necessities, while down in New Orleans they might be holding their cotton and borrowing the money for that purpose, and they would be enabled to carry their cotton, while Minneapolis would have to sacrifices their wheat.

Senator O'Gorman. Mr. Forgan, I would like to ask one more question: If the central board is to be controlled entirely by Government officials, would the banking interests prefer to have a central organization without the reserve banks, or would they prefer to have reserve banks plus the central bank, assuming that in any event the central organization would be controlled entirely by appointees of the President?

Mr. Forgan. I think they would rather have a central organization even in that case.

Senator O'Gorman. Even if it be a Government-controlled organization?

Mr. Forgan. Yes, sir.

Senator Crawford. May I ask a question?

The Chairman. The Senator from South Dakota desires to ask a question.

Senator Crawford. Mr. Forgan, I would like your opinion as to whether or not, if the subscriptions were optional on the part of the banks instead of being coercive, there would, in your judgment, be a doubt as to whether a sufficient number of banks would voluntarily subscribe to this stock to furnish the amount of capital required here in this system?

Mr. Forgan. Well, I think, if the bill was made attractive enough to the banks, that sufficient national banks and the State banks would also come in.

Senator Crawford. I mean that if it is allowed to become a law in its present form, with this mandatory provision changed so that it would be optional, would, in your opinion, enough national banks
voluntarily subscribe or banks of any sort voluntarily subscribe to yield the necessary amount of capital?

Mr. Forgan. I am sorry to say that I do not believe they would voluntarily supply sufficient capital.

Senator Crawford. Well, just one other question. For instance, in the community which I represent there are no banks except small country banks, it being a purely agricultural State, with no large cities and no large commercial transactions such as you have in manufacturing and commercial centers, the capital of these banks running from $25,000 to $100,000. They loan their money to a constituency that borrows for a longer period than this class of paper called “prime” paper and “commercial” paper. Do you think it would cripple this bill and prevent the raising of sufficient capital if an exception was made in it under which those small country banks might have the option to subscribe or not to subscribe, and would it not then be possible to secure the capital by simply making the exception in their cases?

Mr. Forgan. So that the banks in the larger cities would subscribe enough capital?

Senator Crawford. The little banks who can not use the rediscount provisions of this bill or get any benefit of that—do you think it would obstruct the success of the bill to make an exception?

Mr. Forgan. I will answer to this extent, at least, that I think the greatest objection to the bill and the banks that are least likely to come into it are small country banks, for the reasons that you have given.

Senator Crawford. What benefit would the little country banks, who do not deal in this kind of paper, get from these reserve banks?

Mr. Forgan. Practically none.

Senator Crawford. Do you think that it is fair to compel them to furnish capital for banks that they can not use or from which they can get no benefit?

Mr. Forgan. I think not.

The Chairman. Are there any other questions by members of the committee?

Senator Reed. Mr. Forgan, you used the expression in your advocacy of one bank, “one bank authorized to issue circulating medium protected by an adequate gold reserve”?

Mr. Forgan. Yes, sir.

Senator Reed. I take from that that you think this one central bank that you advocate should have authority and a right to issue a circulating medium?

Mr. Forgan. Yes, sir.

Senator Reed. Would you retire the notes which the Government now has out?

Mr. Forgan. That is a subject that another gentleman is to address you on.

Senator Reed. Unfortunately, I am afraid you are going to divide yourselves up—

Mr. Forgan. We take these subjects up as they come in the bill. It would require quite a long explanation to go into that; there is a gentleman here who is going to do it for you.

Senator Reed. Would you mind saying what you think is an adequate reserve?
Mr. Forgan. We recommend in the bill, when we come to it, 40 per cent.

Senator Reed. Forty per cent?

Mr. Forgan. Yes, sir.

Senator Reed. Thank you.

Mr. Forgan. The next material change——

Senator Weeks. I think this may come in at this point as well as any other. It is well known that the administration desires to have public control of such reserve banks as are organized, and bankers who are furnishing the capital to the reserve banks think that they should be represented in the reserve board. Have you considered whether it would be a desirable and fair method of adjustment of that difference for the banks of the country who are furnishing the capital to select a list of 50 or 100 men, we will say, those who have no direct connection with banks at the time, and submit that list to the President, and he appoint the reserve board from that list?

Mr. Forgan. That would be a very good modification of it.

Senator Weeks. If you are not prepared to answer that finally, I wish you would think of it seriously, because I would like to have you make a definite reply to it to-morrow or the next day or some other time.

Senator Pomerene. May I ask a question in that connection, along the same lines. Senator Weeks's thought is evidently and Mr. Forgan's thought is that the bankers should have the right to suggest the names of the members of this reserve board. What reason is there for giving that power to the bankers in connection with the naming of this reserve board that would not apply with equal force to the suggestion that the railroad companies should suggest the names of the persons from whom the Interstate Commerce Commission were to be selected?

Mr. Forgan. The railroad companies do not part with the initiative control of their business, as we would have to do. We supply the capital. We own all the capital in the banks, and own all the deposits in the banks, with the exception of the Government's deposits. It is our money, and we believe it to be a well-recognized principle that the owners of property are entitled to some say in the management of it.

Senator Pomerene. The railroads own the railroads?

Mr. Forgan. Yes.

Senator Pomerene. And all the capital invested. Why should not they fix the rules for transportation?

Mr. Forgan. I do not really know why they should not.

Senator Nelson. I want to call your attention to the fact that the railroads in the first instance initiate and fix the rate, and it is simply subject to review by the board—the Interstate Commerce Commission.

Senator Pomerene. But the board is not named or even suggested by the railroad companies.

Senator Nelson. No; but the powers are different. One is simply a board of review to review the action of the railroad companies in fixing the rates, in the first instance.

Senator O'Gorman. Senator, you might add that under our interstate regulations there is no provision that the United States Government gets any part of the earnings of the railroads, as is provided in this bill as introduced in the House.
Senator Reed. And he may further suggest that the Government is not required to deposit any of its money with the railroad companies, from time to time, in order to enable them to do business.

Senator Hitchcock. If suggestions are in order, I would suggest there is an appeal from the decisions of the Interstate Commerce Commission, and there is no appeal from this board under this scheme.

I would like to ask Mr. Forgan, before he stops, whether he has some one who is going to discuss the subject of furnishing this capital?

Mr. Forgan. Yes, sir.

Senator Nelson. He has a man elected for every one of these subjects, and we are getting ahead of him.

Mr. Forgan. Every one of these subjects has been arranged for, and you want me to take the powder away from these gentlemen, and I do not want to do it.

Senator Hitchcock. I want to ask some questions on that subject, but I will defer them for the present.

Senator Shafroth. Mr. Forgan, do you think that inasmuch as a banker representing a banking institution, being on this central board in Washington, which has the power of lowering or raising the discount, that it would give him an advantage, and his banking institution an advantage to know in advance that the rate would be increased or decreased?

Mr. Forgan. I do not think the increasing or decreasing of the rate of the central institution would have much effect on the business of the other banks at all.

Senator Shafroth. Is it not a fact that in the European banks where the rate is increased or decreased there is a corresponding rise or decline in the market of all securities nearly, and if that is true, does it not give an advantage to the bank which is represented by that man, by which that bank can obtain advantages over other banks—

Mr. Forgan. I think not.

Senator Shafroth (continuing). Dealing in bonds or stocks?

Mr. Forgan. I do not think so, sir. I do not see any advantage in it. I would not consider it any advantage.

The Chairman. You may proceed, Mr. Forgan.

Mr. Forgan. The next material change we have to suggest occurs on page 6 of our report, section 2, and I will ask Mr. Sol. Wexler, vice president of the Whitney Central National Bank, of New Orleans, La., to explain to you our reason for reducing the subscription to the capital of the Federal reserve banks from 20 per cent of the unimpaired capital of the subscribing banks to 10 per cent, and requiring one-half of such subscription to be paid in cash and one-half subject to call upon 60 days' previous notice.

Mr. Wexler will also explain the change which occurs in section 4, at the bottom of page 8, and give you our reasons for believing that the Federal reserve board should not have power to remove any director of class B in any Federal reserve bank, and why the Federal reserve agent should not also be the chairman of the board of directors of the Federal reserve banks.

Senator Weeks. Mr. Chairman, before Mr. Forgan takes his seat, I want to ask him a question.

The Chairman. Just a moment. Senator Weeks, of Massachusetts, would like to ask you a question.
Senator Weeks. I would like to ask him a question about what he has been discussing. Mr. Forgan, you stated, in commencing, that certain State banking associations and others were invited to meet the currency committee of the American Bankers' Association at Chicago?

Mr. Forgan. Yes, sir.

Senator Weeks. Did all of the associations invited accept the invitation and send representatives?

Mr. Forgan. I understand there were representatives there of 37 States, and 117 cities or towns and clearing houses.

Senator Weeks. They came from all sections of the United States?

Mr. Forgan. From all sections of the United States. There is a list of them to be found at the end of the report.

Senator Weeks. Was the report made a unanimous one?

Mr. Forgan. Absolutely.

Senator Weeks. Was there any dissent whatever to that report?

Mr. Forgan. No dissent whatever.

Senator Weeks. Do you know that any members there were opposed to any conclusions to which you came?

Mr. Forgan. No, sir; they were asked if there were any they should stand up. After the vote had been taken and decided in the affirmative, in order to make sure that there was no dissenting voice, the chairman asked anyone that did not approve of the action to rise, and he waited for quite a while and no one arose.

Senator Weeks. Then, we may assume that this is the unanimous judgment of the representatives of the different banking associations in the United States?

Mr. Forgan. I think so, sir. We present it as such.

In further answer to Senator Weeks all these changes were voted on as they occurred, and as we are bringing them before you now, and there was not a dissenting vote in connection with any of the sections; and then after all had been passed upon separately it was put to a vote as a whole and there was no dissent.

STATEMENT OF SOL. WEXLER, VICE PRESIDENT WHITNEY CENTRAL NATIONAL BANK, NEW ORLEANS, LA.

Mr. Wexler. Mr. Chairman and gentlemen of the committee, coming as I do from an entirely different section from the gentleman who has just spoken to you, and our section of the country doing somewhat a different class of business, being more particularly agricultural than that represented by Mr. Forgan, before passing on to the particular matters which have been given me for attention I would like, with your permission, to say just a word on a matter which Mr. Forgan has discussed with you. There were one or two points raised which I feel have not been quite sufficiently cleared in the minds of the committee. One very important one was the question asked by the gentleman as to whether or not the fact that a banker was a member of the Federal reserve board might not give his bank an advantage over other banks in being aware of any change in the discount rate in advance.

Senator Shafroth. Yes, sir.

Mr. Wexler. It has never been contemplated at any time that any man interested in any bank in the United States should become a
member of the board of directors of the Federal reserve board. We admit that there might be an advantage in that, but any banker who might be appointed on such board would necessarily have to sever his connection with any banking institution with which he might have been theretofore connected. That, however, would be no good reason why a banker of tried experience, who has been successful in his banking career, should not be a member of the Federal reserve board, because he is distinctly better qualified to serve the banking interests of the country and the people at large by reason of that experience than would a man who has never had any banking experience. The banking business, gentlemen, is a profession. It is not a business in which any man can engage simply by renting a place and having a counter and putting some money in a safe. It is a profession. It must be learned by many years of practical experience, many hard knocks, and frequently many severe losses before the necessary experience has been acquired; and the board of directors of the bank of which I am vice president would not elect as its executive officer a merchant, or a farmer, or an engineer, or a man in any other line of business as the head of that bank to run it, and no more should the Federal reserve board be composed entirely of men without necessary banking experience. They should be men who have been tried long in the business; who have proven their success.

Senator Shafroth. There is no question about that, and I understood Mr. Forgan to say that there should be a certain number of these bankers.

Mr. Wexler. Precisely.

Senator Shafroth. All I wanted to direct attention to is this, that in European banks it is not that way, and it should not be in this. A banker to be a member of this board should retire.

Mr. Wexler. He would have to retire. In regard to the European banks, the personnel of the board of the Bank of England is made up of what is known as private bankers, the largest banking business in England is done by private bankers. They are bankers in thorough touch with international banking all over the world. They are accepting bankers of the world who furnish the credit for the importation and exportation of merchandise. Every man should have had a peculiar training for being upon the board of the bank, such as the Bank of England, which is dealing with the vast colonial possessions of England and with the whole world at large.

Senator Shafroth. Just a moment. "Peculiar training" as to what?

Mr. Wexler. As merchant bankers.

The Chairman. Just a moment, Mr. Wexler. You do not understand that this bill precludes a man from this board who has had training and experience as a banker?

Mr. Wexler. No, I do not; but I do not think that quite sufficient provision has been made that there must be a number of men who have had that training. I think that is sine qua non to the success of the institution.

The next point that occurred to me: I recognize it——

Mr. Forgan. Would you allow me a word? The idea occurred to me which did not occur when I was asked the question by the gentleman to the chairman's left, that this board is to devote all of its time to the Federal reserve board—to the management of the affairs of
these institutions—and they are to be paid what is supposed to be an adequate salary for their services. The directors of the Bank of England do not get salaries.

Senator Shafroth. No; but unless there is some provision that required them to dispose of their assets in a bank, they could still devote their time to it and be connected with the bank in the interests of the bank. That seems to me to be precluded if your theory as to directors or the members of this central board should prevail.

Mr. Forgan. I agree with what Mr. Wexler has said, that they should be disassociated with other banks.

Mr. Wexler. Entirely.

My attention has been called to the fact that in my remarks I might be discussing subjects that have been allotted to some other gentleman. So, I am going to proceed to the discussion of the subject which has been allotted to me.

We have to deal in connection with this subject with probably 24,000 to 25,000 banks eligible to membership in this system. Of this number some 17,000 are State banks, upon which no coercive nor compulsory measure will prevail to make them come into the organization. In order that any currency or banking scheme shall be a success, it is imperative that there shall be general participation and cooperation among the banks of the country. In order to have this general cooperation and participation there must be some distinct advantage to banks in coming into the system, or at least there must be no disadvantage to them in coming into it. That must be recognized by everyone at present here. Now, for the purpose of making the proposition more attractive, particularly to the smaller banks throughout the country, we have suggested that the capital requirement to be contributed by banks be reduced from 20 per cent of the capital of the respective banks to 10 per cent of the capital. We believe that if your bill is amended to that extent that quite a number more banks would come in than would come in if the requirement is 20 per cent.

We have understood that it is the opinion of the framers of the bill, and we concur in that opinion, that it will probably never be necessary to call for more than the first 10 per cent. That being the case, why is it necessary to intimidate this great number of banks by imposing upon them this additional possible liability? In many sections of the South and West—the sections of the country which are now under the most rapid development—the withdrawal of 20 per cent of the capital is looked upon by many as being quite a hardship, and while that argument may be met by the statement that these banks will have the discount privilege in the Federal reserve bank, and that they may fill this void created by borrowing the deficiency, but they have an additional liability by borrowing from the Federal reserve banks, and no bank feels nearly as much disposed to borrow money for the purpose of tending at it does to lend money out of its own resources. It is impossible to even approximate the amount of capital that will be furnished to the Federal reserve banks, whether under the 20 per cent requirement or the 10 per cent requirement, until we know how many of the suggestions which are being made by this committee here to-day are going to be adopted. From the expressions which I have had from a great many southern banks, without any influence whatever having been used upon them, most
of them entirely voluntary expressions on their part, I do not believe unless the greater portion of these amendments which we are suggesting be adopted, that many of them, particularly the State banks, will come into the system; and I fear very much that a great many national banks will go out of the national system and become State banks. Therefore, it is quite imperative that every one of these suggestions be given very serious consideration, and particularly this one requiring only an obligation of liability on the part of the contributing banks of 10 per cent. We have suggested that 5 per cent should be immediately paid in in cash, and the remaining 5 per cent subject to call of 60 days' notice.

If the bill is so amended that it will strike favorably that great number of banks throughout the country, it may never become necessary to call for more than the original 5 per cent, which would be a distinct advantage, as it would enable the bank to accumulate much more rapidly the 20 per cent surplus required under the bill; it would enable them to make a distribution of the surplus earnings of the various contributing banks over and above the dividends which you have named to be paid upon the stock, which in itself is not deemed to be adequate, but it would enable a larger distribution to the Government as its share of the profits to be applied to the retirement of the greenbacks and the national-bank notes.

If the bill is made so attractive that a great number of banks will come into the system, and only the first call of 5 per cent is found to be adequate, it will be a distinct advantage; if it is not adequate, then the other 5 per cent may be called upon 60 days' notice, and then the liability ceases; and there certainly can be no good reason for imposing this liability, which very few banks care to assume, when there is almost not the slightest shadow of a chance of its being called, yet it is a liability which every bank will have to recognize.

I have calculated that if all of the important suggestions which this committee is making should be adopted, that at least 80 per cent of the national banks and 50 per cent of the State banks and the trust companies would come into the system. If that were the case, 10 per cent would produce about $130,000,000 of capital, which, in my opinion, would be adequate.

The necessity for the larger capital of the Federal reserve banks does not exist to the same extent that it does for National and State banks, for the reason that capital of the National and State banks is fixed in their charters and can not be increased except by a vote of the stockholders, but the capital of these Federal reserve banks is movable, in the sense that as new banks are started over the country they may come into the system. There would be constantly increased capital of these Federal reserve banks, and under the provisions which you have the surplus must be built up to 20 per cent of the total capital and constantly maintained there, so that you will have a constantly increasing capital, if the bill is properly drawn, and a constantly increasing surplus.

I believe that the acceptance of this suggestion will add to instead of diminishing the amount of capital that will be furnished to the regional banks, by reason of the fact that a greater number of banks will come into the system, and it must be admitted that the greater the number of banks coming into the system the more efficient and more cohesive the bank will be. To my mind, these are reasons...
sufficient to justify you in making the change which we have suggested on that point.

We next come to the provision of the bill, as drawn, that provides that the directors of class B, namely, those elected to represent the agricultural and commercial interests of the country may be removed by the Federal reserve board if it is found that they do not properly represent the agricultural and commercial interests. This provision is, in our opinion, fraught with considerable future embarrassment, if not possible danger. These particular directors, known as directors of class B, will be in constant fear of removal, and upon every loan upon which they will be called to vote they will naturally be influenced as to how the Federal reserve board will look upon their action, instead of being governed entirely by their sound judgment as to whether or not they should pass favorably or adversely upon the particular proposition, as it is presumed that they will want to hold their positions.

There can be but one guide to the action of a director of class B in voting upon a proposition, and that is his own honest opinion as to whether or not the loan is safe and sound and should be made. Now, let us presume that an agricultural loan is presented and he votes against it upon his honest conviction that such a loan should not be made, and that the bank presenting such a loan should make a complaint to the Federal reserve board. Who in the Federal reserve board shall pass upon whether or not this director has been in good faith in declining this credit? Credit itself is a very delicate matter. A man extending credit can not always give a distinct and definite reason why he declines.

The extending of credit is frequently a matter of intuition, what is commonly called a "hunch," and a man feeling that way frequently takes the negative and safer side of the proposition, without really being able often to give a definite reason why he has done so, and very often we find that those intuitions are very correct. In any event, I doubt very much if the Federal reserve board, unfamiliar with the local conditions, located many miles from the regional bank, which may have declined the particular proposition, and perhaps composed of a number of men untrained in the extending of credit—I doubt very much if they would be in a position to pass upon the motive of the particular director, and if his motive has been honest in declining a loan of that kind, even though he might have made a mistake, he certainly should not be subject to removal.

We take the position that as the directors of class A and of class B have been elected by the shareholders of the Federal reserve banks they should only be removed by these shareholders.

I am rather of the opinion that there is not any particular class of business that requires any special representation upon a board of that character. The bankers who are going to pass upon the loans presented to them by various banks are not going to pass upon loans made to themselves; they are not going to pass upon loans made to any bank in which they are interested, but they are going to pass upon loans made by other banks, to whom? To farmers, and merchants, and manufacturers, and others. Why should there exist any prejudice? Where is the necessity for a particular class of directors representing a particular class of borrowers? However, there is no objection to distinguishing these classes, but I
think there is a distinct objection to allowing them to be removed at the pleasure of the Federal reserve board.

My idea of the strongest function of the directors of class B is to keep in touch with the agricultural and commercial conditions of the various sections tributary to the particular regional banks, and to see to it that loans are not made when the conditions do not justify that loan, rather than to see that loans are made.

The law, furthermore, as written, provides that the agent of the Federal reserve board shall be the chairman of the board of directors of the Federal reserve bank to which he is assigned. The position as chairman of the board in many corporations is higher in authority than the position of president. He presides over meetings of boards of directors and upon him would therefore devolve the necessity of presenting to the board the various details of the business and matters coming before it for action.

As the agent of the Federal reserve board will not be the active manager of the bank, he will not be in position to properly act as the chairman of such a board. He will not be sufficiently familiar with the details.

Senator Reed. Who will be the active manager?

Mr. Wexler. The governor or president elected by the board, as is provided by the bill. Chairmen of boards of directors are either in active management of the institutions, or they are mere figureheads rewarded with the position for past services rendered; and it is practically a notice that they have passed their time of usefulness, except in an advisory capacity. In fact, the chairman­ship of a board of directors in many corporations, particularly in banks, is the twilight, the retirement of that particular officer; it is the first step on the road to his effacement.

As I have said, as the Federal reserve agent will not be the responsible active manager of the bank nor an officer to be rewarded for past services, he should not be the chairman of the board, but should be what he really is intended for—the agent of the Federal reserve bank, its representative, its supervisor, to see that the bank is properly, safely, and economically administered, that it maintains the required reserve, that it obeys the law, and serves the public. It should be the mouthpiece of the Federal reserve board to the Federal reserve bank, and of the latter to the former.

But his position should never be one to create a conflict in authority or of prestige between himself and the president or governor. I am rather of the opinion that while he should be present at all meetings of the stockholders, directors, and committees, he should not vote. I do not think that he should bear any part of the responsibility of management. I think he should be outside of the management and there as the watchdog of the Federal reserve board, to see that the management does its duty. If he is a member of the board and votes upon what action may be taken, he is responsible in part for the management. I think it would be a good thing if he were present at all meetings without voting. It would keep him in absolute touch with what was going on and enable him to report it back to the Federal reserve board; in fact, his duties to be similar to those of the Comptroller of the Currency at the present time.
These, gentlemen, are the reasons for these suggestions which we have just discussed. There is no particular advantage to any bank coming into the system to have you carry those out. They are simply in the direction of having a more sound and workable bill. It will not put a single dollar more into the earnings of any bank, but it will make for a better institution, which is all we are striving for; and these suggestions are made in absolute good faith, with no ulterior or selfish motive, for the good of the Federal reserve board and of the Federal reserve banks and of the public to be served, and simply with a view of endeavoring to take out of this bill which you have constructed the bad timber and bad material, not with a view of tearing down the structure but simply taking out the defective parts and supplying sound parts in place of them.

That is all. I thank you.

The Chairman. Senator Hitchcock, do you care to ask any questions?

Senator Hitchcock. Mr. Wexler, do you think that the bank capital of the United States to-day is adequate, considering the volume of business and the amount of deposits taken?

Mr. Wexler. In some sections of the country it is entirely adequate. In other sections it is very inadequate. In the Eastern States and in some of the Middle Western States I think there is adequate capital. In the Southern States and the far Western States it seems to me it is quite inadequate. It is in our section of the country, for which reason we are borrowers.

Senator Hitchcock. There has been a growing disparity between the capital of the national banks and the deposits that they receive, and is that constantly diminishing the comparative size of the capital to the detriment of the depositors?

Mr. Wexler. I do not think the capital is diminishing, but as you have said, perhaps the deposits are increasing, which is making the relative proportion of capital to deposits somewhat smaller than ordinary.

Senator Hitchcock. I will give you the figures. At the present time the capital of the national banks represents 12 per cent of their total deposits. Ten years ago it was 16 per cent; 10 years before that it was 30 per cent; 10 years before that it was 38 per cent. Is not that constantly diminishing relative size of capital detrimental?

Mr. Wexler. It would be were it not for the fact that—take the figures of surplus increase during the same period and I think you will find that the surplus of banks has increased as much or probably more than the ratio of capital to deposits has diminished. A bank rarely ever—it does occasionally, but the great majority of banks do not—increases its capital, and pays but small dividends and constantly increases its surplus to create a greater security to the depositor.

Senator Hitchcock. That is true—that is, it would modify it somewhat—but while including the surplus and the capital it would only be 20 per cent of the deposits at the present time. Under those circumstances I want to ask you if you think it is wise to withdraw from these banks so large a portion of the capital with which they are doing business?

Mr. Wexler. I think that a contribution of 20 per cent is too large, and I have suggested that the amount be cut to 10 per cent; and if
a sufficient number of banks come in, the first 5 per cent call may be sufficient. Twenty per cent margin to the depositor—the ratio of capital and surplus to deposits—is, in my opinion, quite adequate. That would mean that the value of loans of a bank would have to shrink 20 per cent before the depositor could lose a cent.

Senator Hitchcock. Is it not a fact that in European banks a much broader margin of safety is observed?

Mr. Wexler. I do not think so.

Senator Hitchcock. That is true of the Bank of France, is it not?

Mr. Wexler. But you cannot compare those banks with the various national and State banks scattered over the United States. If you want to make comparisons of that kind, you must make your comparison with the Federal reserve bank that we would like to see established in this country.

Senator Hitchcock. What do you think of the idea of providing in this bill that a portion of the capital shall be furnished and supplied outside of the banks?

Mr. Wexler. I do not think that it would do at all, because the moment that you furnish any portion of the capital from the general public, the next suggestion would be that the general public would ask for the discounting privilege, and the moment you did that, you would require such an intricate organization for the carrying on of the business of this bank and you would come in direct competition with all of the other banks of the United States, that you would create in the end, if it resulted the way I think it would, a monopoly of the banking business in the hands of this particular institution. And I doubt very much if the commerce of the country would like to feel that its whole commercial welfare was dependent upon one institution.

Senator Reed. Do you think that this bill as proposed and with the amendments which your committee suggests would be a good bill for the country?

Mr. Wexler. I do.

Senator Reed. Do you think it would be a good bill for the bankers?

Mr. Wexler. I do.

Senator Reed. Do you agree with Mr. Forgan that a better scheme would be one central bank?

Mr. Wexler. I do, most emphatically.

Senator Reed. Do you think that any part of the virtue of this bill consists in the fact that if it is not one central bank it approximates or approaches that idea more than the present condition?

Mr. Wexler. I think one would be better than two; and right on down the line, with the fewer number you have the better it will be.

Senator Reed. Your preference would be one?

Mr. Wexler. One.

Senator Reed. And your second preference would be two?

Mr. Wexler. Yes, sir.

Senator Reed. But you think you could stand 12?

Mr. Wexler. You will meet practical difficulties in the carrying out of that bill, if you pass it with 12, that you gentlemen do not see now, but which we see, having figured it out on a piece of paper. You are going to have difficulty in dividing up the country with
respect to these regions. Do you appreciate the difficulty? That each town is going to want to have one of these regional banks? There are going to be overwhelming difficulties and embarrassments.

Senator Reed. That, however, is aside from the question of——

Mr. Wexler. The question of economics, yes.

Senator Reed. That has to do with the difficulty of putting the plan in operation; but what I am trying to get your idea on—and I think I have got it, now—is the reason you bankers favor this bill as amended, or one reason, and that is that it means a concentration of the capital, and the nearer it comes to being concentrated in one place, the better you like it.

Mr. Wexler. The concentration of capital, and especially of reserve.

Senator Reed. Yes. You get a bank—head and heart and center—in other words.

Mr. Wexler. It is very much like the illustration, if you will remember, Senator Reed, of the old man who, when he was about to die, called his seven sons up and he had a bundle of seven sticks, and he asked them all to try to break them, and none of them could. He pulled one out after the other and broke them up, and they said, "That is easy."

That is the proposition. If we get all these reserves in one spot, we will have a bank with the largest gold reserve of any country in the world, and we will have so strong a commercial and financial center that France and England and Germany will be insignificant to us in importance in the commerce of the world. But if we scatter these in 12 institutions, owned by 12 different States, you are bound to have competition between them. Human nature is the same everywhere, and this provision that you have here for requiring one Federal reserve bank to discount for another is going to involve these banks in endless difficulties. If you come to a Federal reserve bank in New Orleans and think that they must discount for the Federal reserve bank in California, and the Federal reserve bank in New Orleans is not in a condition to discount, I would tell you: "I will not do it. This money belongs to other stockholders, and I have not the right to take this money out of their pockets and send it to California."

You would be up against just that proposition.

Senator Reed. Let me follow that a little bit. I just want to get your ideas. If you had a Federal reserve bank in New Orleans and one in California, and the California bank called for aid and you got orders from the controlling board to send them a million dollars, you would decline to do it if you thought your bank could not afford to do it?

Mr. Wexler. Precisely.

Senator Reed. You added to that this statement, that it would not be right; you would decline, because you would not take the money from that district and send it to another district. Suppose you had one central bank. This money would not have been in New Orleans at all; it would have been in Washington or some other place where that bank is situated. Do you think that is preferable?

Mr. Wexler. Yes, sir. There would have been no more in New Orleans than what was needed in New Orleans, and no more in the other place than what was needed in the other place, and if the money all belonged to one set of stockholders it would be properly within the province of this board to distribute it where it was needed, all over the country.
Senator Reed. But it would originally all have been sent from these various places out of their respective communities to some central point, and to that extent would have bled those communities of that money?

Mr. Wexler. Only constructively, not actually. For instance, the head of the Federal reserve bank, or the central bank, if we should have one, would be in Washington, and they would establish not 12 branches, but probably 200 branches throughout the United States, and the money would be kept in these various branches in the United States. With the central board, having the control, fixing the rate of discount for its branches, raising and lowering it according to conditions, and directing the management of all these various branches, there would be one ownership, one reserve, one statement, and there would be such a vast base upon which the credit of the country would rest that it would be impregnable.

Senator Reed. I catch that point; but about the distribution of money. You met what I suggested by the further suggestion that we would not have one central bank, but one central bank with many arms reaching in every direction?

Mr. Wexler. Precisely.

Senator Reed. So let us say that one had 12 arms. Why would not the first 12 branches, as were originally proposed in this bill, the 12 systems, be substantially identical in regard to the matter of the distribution of money?

Mr. Wexler. Because of the difference in ownership. The essential thing is the ownership of the bank. If you will permit the capital to be contributed to the 12 regional banks to be put into the Federal reserve board, and the stock issued from that Federal reserve board, and let it apportion it among the 12 banks, then the situation would be identical.

Senator Reed. Do you think that would be preferable?

Mr. Wexler. That would be a central bank. You come right back, then, to that proposition. But suppose, now, Mobile, which is a sister city of ours, and a people of whom we are very fond, should get into hard straits and need money badly. If we had it, we would be glad to rediscount it for it.

Senator Reed. And strain yourselves a little to do it?

Mr. Wexler. And strain ourselves a little to do it; but if we had our local reserve loaned up to the handle ourselves, we would say, "We are sorry, but we can not help you." We would have to say that. That would be a duty upon us, because if we broke ourselves in trying to help somebody else, the only criticism would be to say, "You did a foolish act." Nobody would say, "You did a generous act."

Senator Reed. I think I catch your point. I want to ask you now about another matter. Of course you have examined this bill and you have spoken about the chairman of the board of directors' duty under this bill. Of course the chairman is one of the men appointed by the Federal reserve board.

Mr. Wexler. Yes, sir.

Senator Reed. You say that, generally, the chairman of the board in the ordinary practice of banking is not an important individual unless the chairman of the board happens also to be the president of the bank?

Mr. Wexler. Or the active manager.
Senator Reed. As you understand this plan, is there anything in it that would take away from the president of the bank that degree of management and control which the president of a bank ordinarily has when he is backed up by a board of directors that are in harmony with him, or the majority of which is in harmony with him?

Mr. Wexler. Nothing, except the fact that the chairman will preside. The chairman of a board, as you understand, presides at the board meetings. What is the object of a board meeting? At the meeting of the board of directors, after the minutes are read and the loans are read that have been made, and loans are submitted and passed upon and the details of the institution are discussed, etc.: here is the chairman of the board; he is not a member of the management at all; he is in no position to bring these matters to the attention of the board. That is the duty of the governor.

Senator Reed. He is, under this bill, so much of a figurehead that he is not even in good condition to lay the business of the bank before the board of directors?

Mr. Wexler. Absolutely not.

Senator Reed. Then, if I get you right, the president of the bank and the majority of the board of directors will run this bank absolutely, except as the espionage of the central board might prevent?

Mr. Wexler. Or interfere; that is exactly it.

Senator Reed. So that if the banks elect three bankers directors and then elect three other directors, I suppose you would concede those three other directors of course would be friendly to the banks and desirous to serve the banks as the directors in class B should be ready to serve the banks, or the same as in class A? What you will do, as a matter of fact, will be to get three men that will act in harmony, three men in class B who will act in harmony with the three men in class A?

Mr. Wexler. That is a very distinct mistake, and it is an impression of which I would like to disabuse the minds of the gentlemen of this committee. When we select the board of the bank we do not consider whether this board is in accord with the president. We pick out a man who is an experienced wholesale grocer, another man who is a retail dry-goods man, another man who is in the machinery business, another a planter. Why? Because when these propositions arise from persons engaged in these various lines of business it makes it possible for us to have men who are more or less expert in the particular line.

Senator Reed. I understand that, but all these men are members of the board. They are stockholders in the bank and they are interested in its welfare.

Mr. Wexler. Yes, sir.

Senator Reed. Therefore when you pick men who are experts in these various lines of adventure, you, of course, know when they come to sit on the board they will use their best judgment?

Mr. Wexler. Yes, sir.

Senator Reed. Do you mean to tell me that you or any other man, not more selfish than the average man, but just using the ordinary business sense, will not get three men that are going to side with the banks rather than with the Government in these matters?

Mr. Wexler. I certainly do not, unless the Government were endeavoring to impose something that we did not believe was right.
Senator Reed. I do not mean that they are going to be bad men, but I am talking about who is going to control in that board of directors. Who is going to control?

Mr. Wexler. The people that have put the money in the bank, who have invested their money, are going to control, and they ought to control.

Senator Reed. The banks are going to control?

Mr. Wexler. Yes, sir; there is no question about that.

Senator Reed. There is nothing in this bill, is there, that provides that those three men who are elected—that is, all of the directors of class B—may not own any amount of bank stock they want to own?

Mr. Wexler. No; there is nothing in there to prevent their owning bank stock.

Senator Reed. The only bar there is that they shall not actually do business with the banks, and shall not be interested as an officer of a bank?

Mr. Wexler. Yes, sir.

Senator Reed. And as their election makes them officers they can not hold two offices very well, and as they can be stockholders to any amount, it might work out that the largest stockholders in the bank would qualify themselves for these positions by resigning their offices in the bank; so that, in fact, the six men might all be wealthy stockholders in the bank—these men constituting classes A and B?

Mr. Wexler. That would be a desirable situation.

Senator Reed. And that is what the banks would like to have?

Mr. Wexler. I think it would be desirable, because the more money you have invested—

Senator Reed. And you would like to have the other three, of course?

Mr. Wexler. They would be selected by the President—

Senator Reed. I say you would like to have the other three?

Mr. Wexler. No; we would not care anything about that, so long as we had a majority.

Senator Reed. That is what I wanted to get at. So that these central reserve banks, under this scheme proposed in the bill, will be absolutely and entirely and completely in control of the banks except as the Government may exercise some power, whatever it may be, through the central reserve board?

Mr. Wexler. The Government would have a representative on the spot to report to it every infraction of the law, and it has the right to take away the charter of this Federal reserve bank at any time it sees fit.

Senator Reed. You have no doubt that these banks would not deliberatley violate the law. The question, of course, would be—though it is one we need not enter upon—how this control would go in practical operation?

Mr. Wexler. We cover that a little bit farther on.

The Chairman. Mr. Wexler, you spoke of what would be your natural duty if you had charge of one of these reserve banks at New Orleans and a demand was made upon you by the Federal reserve board to lend a portion of your funds to one of the reserve banks of California. Do you think that any such an organization as the Federal reserve board would not accord you careful consideration to any communication you made?
Mr. Wexler. I think they would; I think they should; but suppose a very strong influence were brought to bear from California—and we know how influences work; we might as well be perfectly frank with each other. That might be a State that was antagonistic to the particular administration at that time, and California might be one favorable to it, and there might be a good deal of pressure brought to bear; but if I knew that loaning money to California might break the bank I had charge of, you can readily see the position I would be placed in. I can not conceive of a Federal reserve board that would endeavor to do that.

The Chairman. Do you know of a Federal reserve board that would take an action that would cause the breaking of one of the banks?

Mr. Wexler. I do not think they would if they knew it.

The Chairman. Your suggestions of political influence of improper character would indicate an indifference to the welfare that might be affected in a neighborhood that was not in complete harmony with the Federal reserve board.

Mr. Wexler. Of course, such conditions might exist. I am very hopeful that we have not reached to that point. But the point I make is this, that it would be the natural disposition and to the interest of one Federal reserve bank to rediscount for another if it were able to do it, and that no compulsion is necessary. You can not imagine how distasteful compulsory acts of that kind must be to a bank or a banker.

The Chairman. Do you not, then, recognize that there is some force in having the right to protest and point out to the Federal reserve board that it would be an injurious thing to such a bank to make this required loan?

Mr. Wexler. Yes, sir; surely.

The Chairman. Do not think that it is advantageous, then, to that community to be allowed to protest?

Mr. Wexler. For the community called upon to make the loan?

The Chairman. For the bank of a certain district to have the right to protest?

Mr. Wexler. I certainly do think so.

The Chairman. Would they have any protest whatever as to a central reserve bank?

Mr. Wexler. There would not be any necessity for a protest, Senator Owen.

The Chairman. Nor would there be any organization by which they might protest.

Mr. Wexler. But the occasion to protest would never arise. There would never be surplus money in any one place that was needed in another.

The Chairman. The point to which I call your attention is that the protest which you might make as the manager in charge of a reserve bank you could not make after there was any such organization because these funds would all be in the central reserve control directly, or no organization by which you could protest. Am I right?

Mr. Wexler. You are right in the suggestion, if the condition existed. But if you had a Federal reserve bank it could not exist,
because all the money would belong just as much to San Francisco as it would to New Orleans or New York, or any other place.

The CHAIRMAN. And in that contingency the reserve which would be furnished by the banks in the country surrounding New Orleans would be capable of use by a Federal reserve board, the protest of the banks surrounding New Orleans to the contrary notwithstanding?

Mr. WEXLER. Absolutely.

The CHAIRMAN. Do you think that is desirable?

Mr. WEXLER. I think it is eminently desirable, presuming always that you had a Federal reserve board that knew its business.

The CHAIRMAN. Was that a part of your original proposal?

Mr. WEXLER. That goes without saying, that it should know its business. If it were made up of the various districts of the country, I think each one would see to it that its own particular section was not slighted. This country is so big and the crops are so diversified and the nature of its business is so different that the demand for money in different places differs at different seasons of the year. The Federal reserve board, properly constituted, would see to it that when the surplus permitted at one place it might be sent out to California when the fruit was being moved, or out to Minnesota when the grain was being moved. That is where the advantage of having the funds under one control exists as against having it under twelve different controls.

Senator REED. How would it be if you just came down to the Government and did not have any central reserve banks? How would it do to take the plan that now exists and enlarge it and make it so that it would be more flexible?

Mr. WEXLER. I do not think the Government ought to be in the banking business.

Senator REED. I am not speaking about it being in the banking business. I am speaking about letting the banks or groups of banks have some of its money.

Mr. WEXLER. You mean similarly to the method being pursued just now?

Senator REED. Yes, of course; only enlarging it and perfecting it.

Mr. WEXLER. The method of doing it is quite cumbersome—

Senator REED. I am speaking about fixing that part of it, assuming that it can be fixed.

Mr. WEXLER. A number of experienced bankers might be able to set down a figure exactly by which some system could be evolved of that kind, but it is so contrary, in our opinion, to sound finance, that we never conceived the idea of having the Government in any way mixed up in the banking business. We have no other machinery for helping ourselves. I will state our case right now. We borrowed such money as the law allows us, and we are using it to move our cotton crops, our rice and our corn and the various business that comes through our port. I can not get any more; I have not the light.

Senator REED. Suppose you were given the right. I do not want you, in answering my questions, to answer whether you think that the present system just as it stands would be adequate, but whether, since you gentlemen all, thus far, seem to want a central bank—one power—how would you like to have the Government of the United
States, under a plan similar to the one now existing, simply to furnish money when it was needed to the groups of banks?

Mr. Wexler. I would be very much opposed to it, Senator, for this reason: The moment any section would make application to the Government for relief it immediately attracts attention to its condition, it creates fear in that particular section, and it causes a withdrawal of money from the bank and the hiding of it.

Senator Reed. You are speaking now of cases of emergency?

Mr. Wexler. Yes, sir.

Senator Reed. I am speaking now about the right of the banks of New Orleans, through their clearing house, to come up here to the Treasury and say to the Secretary of the Treasury or to a branch of the Treasury—it might be in New Orleans—"We need money to move crops, and here are our securities. We would like to have some Government money."

Mr. Wexler. It would not be practical, Senator. The Government has no machinery for handling it in that way. It is a cumbersome method, at best. It has to surround its operations with a lot of red tape, and the Government does not always have the money.

Senator Reed. I am assuming that it has.

Mr. Wexler. But, Senator, this is the one thing you ought to get into your mind, and that is the further you can separate the Government from the banking system of the country the better it is. When the Prussian Army was encamped in the streets of Paris, in the Gardens of the Tuileries, the banks of Paris paid 100 cents in gold against their bank notes just the same. Why? Because the bank was separate in its reserve against these notes from the Government. In the city of New Orleans, where we had the Citizens' Bank, with a gold reserve of 35 per cent against its outstanding notes, when the Federal Army occupied the city we went right on paying those notes—until Gen. Butler came in and took the gold. We paid right up to that date.

Senator Nelson. I was there at the time.

Senator Reed. I want to say, in view of the confession of the Senator from Minnesota, that you probably know, Senator, that the statute of limitations has run?

Senator Nelson. I want to tell you one thing: You are not old enough to remember it, but their State bank currency was good, and they had no change. They would take a dollar bill, or a two-dollar bill, or a five-dollar bill and cut it into halves, crosswise, and each half would pass current, just as good as gold. That was in 1862 and 1863.

The Chairman. The Senator says he was there. He did not say he got any of it. [Laughter.]

Mr. Wexler. Suppose we got into a general war with a big country, and we needed a lot of money, and we had to sell bonds. Do you not want this big banking system to be able to absorb these bonds so as to furnish the Government with the gold necessary to carry on an operation of that kind? If it—the Government—had loaned its money to the banks, and the banks had loaned it out to merchants and farmers and had to call it in, it would create a panic.

Senator Reed. Of course everybody understands that in the case of desperate war the fact that there was a gold reserve elsewhere than in the Government would be very desirable; yet you would
hardly think that a banking system ought to be constructed so as to meet emergencies, disregarding payments——

Mr. Wexler. Oh, certainly not; exclusively with that idea.

Senator Reed. What I was trying to get at was just your idea. I do not want to argue, because we would not gain anything by doing that.

Mr. Wexler. No; of course not.

Senator Reed. Suppose the Government of the United States was to simplify and enlarge the present Aldrich-Vreeland Act and make it so that banks or groups of banks could come here and get money to move crops in two ways, by the deposit of money in the nature of a loan or even in the issuance of money in case the Government found that necessary. Why would not that relieve the present situation to a large extent?

Mr. Wexler. I will tell you why, briefly. It could be said in a very full manner, but I am only going to say a little on the subject. Every bank in a particular city does not necessarily need money at the same time. Suppose our bank desired to avail itself of the Aldrich Vreeland bill, as amended, in the manner that you are going to suggest. It would have to go before the clearing house and expose its condition to all the other banks in the city. They would have to come in and pass upon our securities, the clearing house would have to guarantee the repayment of the loans. Then you would have to send your securities up here to be passed upon. By the time you went through all of that it would not be worth a cent.

Senator Reed. You are talking consistently about the present condition not being simplified. I am assuming that there are methods for the simplification of it and giving the right relief. Now, as a parallel of what you say, suppose that these banks belong to the central reserve bank; that is, to one of these 12 banks; or if you have a central bank and want to get relief, would you have to expose your condition?

Mr. Wexler. They would go up to the central bank and say: "Here is $1,000,000 of good notes. Can you discount them?"

Senator Reed. How do you know?

Mr. Wexler. Because they have men in charge of the bank that know the conditions and have investigated them.

Senator Reed. It is a local bank?

Mr. Wexler. Yes, sir.

Senator Reed. A local regional bank?

Mr. Wexler. Yes, sir.

Senator Reed. You would have a local regional bank in every State?

Mr. Wexler. I would have a branch of a central bank in every city of any consequence.

Senator Reed. Then there would not be any use of going into the banking business unless you belong to this organization?

Mr. Wexler. I think every bank would naturally become a member of that system.

Senator Reed. This would be very powerful——

Mr. Wexler. And very satisfactory.

Senator Reed. Power would cut some figure?

Mr. Wexler. That would be the least of it. Here is what we suffer from: A bank has all of its liabilities payable on demand.
Anyone can come there and demand his money. It is loaned out to keep the wheels of commerce greased. Where can the banker go to get the money to satisfy that demand? He has simply got to throw up his hands and shut his doors and fail. What I wanted to do is to provide a central bank where it can take its portfolio and go over to that central bank and get enough money to pay every single man, woman, and child who has got a dollar in there, upon demand. They would soon be redepositing it in the same bank.

Senator Reed. I agree with you that that is the principal trouble with the banking system. It is so arranged that every obligation of the bank is due on a moment's notice, barring time deposits, and every credit of the bank, everything that is owing to it, is out for 30 or 60 or 90 days. If you can take those securities and go to a privately owned central bank and get your money and it can discount it safely, why can not the Government of the United States do the same thing?

Mr. Wexler. Because it can not get itself in shape to do it.

Senator Reed. Why not?

Mr. Wexler. Because I can not conceive of any machinery operated by the Government that could or should be used for this purpose. What is the use or advantage of mixing the Government up in it? What is the use of using something worse when you have something better at hand?

Senator Reed. I can say to you frankly, in my humble judgment, if you agitated it for 25 years longer, the people would never vote for a central bank. I want to get your idea of a privately controlled central bank. I was trying to get your idea upon the thought of a Government-controlled central bank.

Mr. Wexler. I am in favor of a Government-controlled central bank.

Senator Reed. Absolutely controlled by the Government?

Mr. Wexler. Absolutely controlled by the Government, but with representation from different sections of the country; but the control should be in the hands of the Government. I am not afraid of that. We are in favor of that, but we do not want the Government to guarantee the notes or to be any part of the system except to control it and to see that it is operated for the good of everybody.

Senator Reed. You want to issue the money?

Mr. Wexler. Surely. We want to issue the paper, the circulating medium; we do not want to issue money.

Senator Reed. You want to issue paper. Commercially we call it money and it goes as money.

Mr. Wexler. Certainly. It is highly advantageous.

Senator Reed. If I get your idea, it would be one great central bank with numerous branches running into every community of the country?

Mr. Wexler. Yes, sir.

Senator Reed. And the Government would control absolutely that central bank?

Mr. Wexler. Control it, yes; but there would be representation.

Senator Reed. How is it that you are willing to completely surrender the control if you have 1 bank, but unwilling to surrender the central control if you have 12 branches?

Mr. Wexler. We are.
Senator Reed. I understand that the very thing that you contend for here is that the Government ought not to undertake to manage or control these 12 branches?

Mr. Wexler. No; we have only asked for a minority representation by the Federal reserve board.

It is necessary because of their expert management. That is where the business is going to be done and that is where the local knowledge of conditions must be and where the people have their money invested. The people have their own money in there and their friends' money, and there is a local reputation to maintain.

Senator Reed. I think I understand you. You think that a lot of bankers—that is, all the bankers of the country, nearly—would put their money into an enterprise and trust to making one central bank a bank of issue and a bank of deposit, and they would trust that to officers appointed by the Federal Government?

Mr. Wexler. Yes, sir.

Senator Reed. And that could be safely done?

Mr. Wexler. That could be safely done.

Senator Reed. But that the moment you transfer those powers into the Federal authority having still the same control, it is dangerous?

Mr. Wexler. This Government should have control, the banks minority representation. The Government would not dare to do anything that would not be right. Public opinion is the great corrective influence in this country.

Senator Reed. That is what I think would be true if we had a Federal bank instead of a bankers' central bank. I think public opinion would control.

Mr. Wexler. Senator, what do you want with a Federal bank? If you have a Federal bank the whole thing is as weak as its weakest link. If anything happens the whole thing breaks down. If you mix them in together and anything happens the whole thing breaks down.

Senator Reed. What becomes of your stick argument? You say if you take two sticks separately they are stronger than the two sticks tied together?

Mr. Wexler. That is a different proposition altogether. They are not the same kind of sticks. One is a rope of sand, the other the stick.

Senator Reed. No.

Mr. Wexler. Absolutely. The Government has absolutely no money except what it takes away from the people; and under the principles of our party they ought not to take I cent more than they actually need. That is the principle of the Democratic Party, with which I am affiliated. Consequently the Government has no business with a lot of money to be scattered around. If it takes any more by taxation than is just and proper for running the Government, it is a wrong principle. But we have gone along many years without any trouble. You can have a war any time that will cost this country a thousand million dollars. Where will you get the money? You would have to go around and get the bankers to buy your bonds. Do you want to be behind another thousand million of notes, with the possibility of having to sell a thousand million of bonds? Would
you bring the whole structure down at one time? You must look to
the future.

Senator Reed. We are getting a little away from what we were
talking about.

Mr. Wexler. No, we are not.

Senator Reed. We always get to talking about war.

Mr. Wexler. I am talking about what could very well happen. It
happened in 1776, and in 1812, and in 1845, and in 1860, and in
1898. We have had one about every 30 years since we have been a
Republic, and we are about due for another one.

Senator Reed. But we have not had a war since 1860, of course——

Mr. Wexler. How about the War with Spain?

Senator Reed. That did not amount to as much of a war as some
good strike on a railroad.

Mr. Wexler. It cost us $300,000,000, I think.

Senator Reed. And it will cost us more when we get through pay­
ing pensions.

Mr. Wexler. Yes, sir.

Senator Reed. But I think that is aside. If you had this great
central bank and the Government was liable to go down, do you
think that bank would stand?

Mr. Wexler. Absolutely, like a rock.

Senator Reed. But you think now, if the banks were to put this
money into the hands of the Government, that both banks and the
Government would go down together?

Mr. Wexler. I do, emphatically; just as certain as that the sun
rises.

Senator Reed. What do you think about the creation of these
enormous financial powers outside of the Government, in times of
peace?

Mr. Wexler. That is all right. We should dominate the financial
business of the world.

Senator Reed. Would not they fix the discount and the rates of
interest for the entire country?

Mr. Wexler. Yes, sir.

Senator Reed. Would not that be a powerful factor?

Mr. Wexler. Yes; to that extent.

Senator Reed. And you think that ought to be the case in the
Republic?

Mr. Wexler. Yes, sir.

Senator Reed. If it put its power in behind a great railroad
project——

Mr. Wexler (interrupting). If the business of the country was
going too fast, and everybody was expending too much and buying
too many automobiles, and every man wanted to buy his neighbor’s
land and build houses there, they would raise the rediscount rate and
cause a slowing up. On the other hand, if business became dormant
and dull and needed stimulation, put the rate down and stimulate
business.

Senator Reed. In other words, they would be the great regulator
of all the commerce of the country?

Mr. Wexler. Absolutely.

Senator Reed. They could make business prosperous, or they could
shut down on it?

Mr. Wexler. They could, yes, to some extent; they could do that.
Under similar circumstances, what could the Czar of Russia do? He could not do any more, could he?

Mr. Wexler. All they have to do, all that this central bank has to do, is to furnish credit for carrying on the business of the country. If more notes were demanded than in its judgment it was safe to put out, it would not do so. If you put in charge of that bank a board of directors of crooks and incompetents, why they could of course wreck for the time any business. They could create havoc; but it would not last long. You would have a certain minority member on that board representing the business interests of the country; he would soon arouse public opinion—and public opinion will check any abuse in this country; I do not care what it is or how bad.

Senator Hitchcock. Do I understand whether this is a single bank or 12 regional reserve banks you favor a central board of control here in Washington, appointed by the President?

Mr. Wexler. Yes, sir.

Senator Hitchcock. You are not at all afraid of placing the financial interests of the country under such a board of control?

Mr. Wexler. Not if we have a minority representation.

Senator Hitchcock. You are confident enough of being able to influence the actions of the central board?

Mr. Wexler. It is not that. We are confident enough. If we know what the majority is doing we can check it before the abuse goes too far without any idea of using any undue influence.

Senator Hitchcock. Of course the financial interests of the country would have a tremendous interest in the control of that board—the actions of the board?

Mr. Wexler. I do not think so. My dear sir, the banking interests do not want anything but peace and quiet and safety. The banker wants to sleep at night. That is all he is asking.

Senator Hitchcock. I think perhaps you misunderstood me. I have understood the whole tenor of your argument to be that you were vitally interested in the personnel of the board?

Mr. Wexler. Yes, sir.

Senator Hitchcock. And of course you must be interested in the actions of the board?

Mr. Wexler. Unquestionably.

Senator Hitchcock. And the 25,000 bankers of the United States, if they were all in the system, would be vitally interested in the organization and the selection of the board?

Mr. Wexler. Precisely.

Senator Hitchcock. It would give them a tremendous interest in presidential elections?

Mr. Wexler. No, I do not think so. I think any President who was honored by the nomination of the people of this country could pretty safely be trusted to put the right kind of men at the head of a bank of that sort. If I did not think so I would feel that the time had come to change our form of Government.

Senator Hitchcock. You have a perfect organization of bankers, have you not?

Mr. Wexler. Each one is a separate entity. We have no organization except for discussing our general affairs just as the merchants do and the hardware men and lawyers and doctors.
Senator Hitchcock. You came here to-day practically with the banking interests of the United States united, represented by a small body?

Mr. Wexler. Precisely.

Senator Hitchcock. It is possible you might be united in an election?

Mr. Wexler. I can not conceive of it. We are only about 24,000 bankers. If we all voted for one man it would not be more than a drop in the bucket. I do not think it would be all one way.

(At this point the committee took a recess of 10 minutes, after which the following proceedings were had:)

The Chairman. Mr. Wexler, the Senator from Ohio would like to ask you a question.

Senator Pomerene. Mr. Wexler, a moment ago, in stating your objections to the regional bank system, you used this illustration, as I recall it: That if California should want $1,000,000, the central board might say to the regional bank in New Orleans, "You send $1,000,000 to California."

Mr. Wexler. Yes, sir.

Senator Pomerene. And you suggested that you might not be in condition to do this?

Mr. Wexler. Yes, sir.

Senator Pomerene. And that if you did do it, it would be an injustice to your own people?

Mr. Wexler. Yes, sir.

Senator Pomerene. Well, why do you assume under those circumstances that this central board would make an order of that kind that would work a hardship to the New Orleans regional bank?

Mr. Wexler. I do not assume that they would.

Senator Pomerene. Well, you suggested that it was a probability—or, a possibility, at least.

Mr. Wexler. Surely a possibility; but I did not assume that they would.

Senator Nelson. They have the power?

Mr. Wexler. They have the power to do it.

Senator Pomerene. I did not understand.

Mr. Wexler. I say, they have the power to do it.

Senator Pomerene. But it seems to me that you are in error when you assume that they would do this thing which was wrong simply because they had the power to do it.

Mr. Wexler. Well, my dear sir, you must admit that you would never as a man, in any of your general affairs, give anybody else the power to ruin you, even though you have not the remotest idea he would ever exercise that power.

Senator Pomerene. Very well; let us go to your other illustration. In speaking of the central bank, you say that if New Orleans wanted to move her crops——

Mr. Wexler (interposing). Yes, sir.

Senator Pomerene (continuing). All she would have to do would be to go to the central bank and get the money?

Mr. Wexler. Yes, sir.
Senator Pomerene. Is it not just as reasonable to suppose that the board of this central bank might refuse to give you your money when you needed it—

Mr. Wexler (interposing). Yes, sir.

Senator Pomerene (continuing). As it is to assume that the board which had control of the regional banks would order you to do a thing when you ought not to be required to do it?

Mr. Wexler. Yes, sir; and the central reserve board should have the right to refuse to give it to me. They should have that right, for this reason: If in our section of the country everybody had a craze, for instance, for holding their cotton, and everybody was spreading out; and if we called for more money than we ought to have, and we were in an expanded condition—if that central bank was properly run, it should say: "No, you can not get any money; you sell your cotton, and draw in your horns and go more conservatively."

Senator Pomerene. I agree with you, Mr. Wexler, that they ought to have the power to do it.

Mr. Wexler. Exactly.

Senator Pomerene. But they might as well misuse that power in the case of the central bank, as the central board might in the case of the regional bank; and it seems to me—that is my point—that the power is as liable to abuse in the one instance as it is in the other.

Mr. Wexler. I do not think so. The situation is altogether different. For instance, the central reserve board would never use the power to say: "Here, you are not lending enough money down there in your country; you go and put out more money; loan everybody down there all they want." They would never use that kind of power. And I would not give the power to demand of a bank that it must lend somebody else where it is contrary to its judgment; but I certainly would give it the power to refuse to lend. There is the essential difference.

Senator Pomerene. And they might refuse it at the very time you needed it.

Mr. Wexler. That is right; and it might be wisdom to refuse. I have had many a man come to me for a loan that needed it very much, and I have turned him down. And I have also had banks come to me for a loan that needed it, and I have turned them down; and they failed because I would not give it to them—because they were not entitled to it, and the loan, if made, would not be repaid.

Senator Pomerene. I simply called your attention to this fact, because I realize the possibility of power being abused in either instance.

Mr. Wexler. Yes, sir.

Senator Pomerene. And I do not think that the one is more objectionable than the other, as I say.

Mr. Wexler. I see your point.

Senator Shafroth. Mr. Wexler, relative to the matter that you first referred to, on arriving, that relationship of the Bank of England and the European banks—

Mr. Wexler. Yes, sir.

Senator Shafroth. We ultimately did not disagree very much as to that matter?

Mr. Wexler. No, sir.
Senator Shafroth. But I want to read to you a little paragraph from Walter Bagehot's book, Lombard Street, which probably clears the matter up more thoroughly than we did. He says:

In London no banker has a chance of being a Bank of England director, or would ever think of attempting to be one. I am here speaking of bankers in an English sense—those who accept deposits subject to check. Not only no private banker is a director of the Bank of England, but no director of any joint-stock bank would be allowed to become such. The two situations would be taken to be incompatible. The mass of the Bank of England directors are merchants of experience and drawing a considerable capital in trade, in which they have been brought up and with which they are well acquainted. The direction of the Bank of England has for many generations been composed of such men.

Mr. Wexler. Yes, sir.
Senator Shafroth. That is, I believe, the correct explanation.
Mr. Wexler. I am very glad you brought that up, because one point I overlooked with regard to the Bank of England is this: The stock of the Bank of England is not owned by the banks.
Senator Shafroth. No.
Mr. Wexler. Banks are not required and compelled to subscribe to the stock of the Bank of England.
Senator Shafroth. No.
Mr. Wexler. The banks have no interest in the bank, except to borrow from it.
Senator Shafroth. They can not be subscribers.
Mr. Wexler. They may be—
Senator Shafroth. No; I think not.
Mr. Wexler. They may not be, then; I am not sure of that. The case is not analogous at all.
Senator Shafroth. Yes; but the question is that that power of lowering or raising the discount rate on paper affects the market value of all securities, and the result is that it would be an improper thing or an incompatible position for a person to be in a banking business and dealing in securities, perhaps buying and selling stocks and bonds, and at the same time knowing in advance just what the action of the board would be.

Mr. Wexler. We thoroughly agree that the controlling members of this board should be men more or less disinterested, so far as any bank is concerned. There is not any argument on that.

Senator Crawford. Mr. Chairman, I would like to ask a question before this witness leaves the stand; I have been waiting for two hours.

Senator Reed. I thought there might be some delay in finishing with this witness, and I was about to submit a motion to adjourn.

Senator Crawford. But this witness may be excused and may not be here to-morrow. It is a very small matter; but I want to get it in the record.

Senator Reed. I do not want to shut your question off. If you are not content to take it up in the morning, I will not make the motion, but if you are, I prefer making the motion.

Senator Crawford. It is only a question to and relates to a matter I want to follow in this bill; and I want to get it in the record, because it affects very much a very large number of small banks.

Senator Weeks. Mr. Chairman, I desire to ask the witness some questions, and if there is a desire to adjourn, these various questions may delay the adjournment considerably. Will the witness be here to-morrow?
The Chairman. He will be here to-morrow. We have a caucus to-night at 7 o'clock.

Senator Hitchcock. Will the committee meet to-morrow morning?

The Chairman. Yes.

Senator Nelson. I suggest that we adjourn until 10 o'clock to-morrow morning.

Senator Crawford. I only want to ask two or three questions.

Senator Hitchcock. I suggest that the Senator be allowed to ask the questions he desires.

The Chairman. In the absence of objection that will be done.

Senator Crawford. The question I want to ask, which is largely on account of the fact that all of the banks in my State are in the situation I will suggest, is this: You stated that if you were called upon at New Orleans to discount paper in California, and you thought it was against the interest of your community, you would refuse to do it. I want to call attention to the fact that in one of the western agricultural States, which has not a city in it and whose largest town has not more than 15,000 people, there are 102 national banks, capitalized at from $25,000 to $100,000 each. By this bill, if it is enacted in its present form, Congress will go into that State with a big stick, and it will say to these little banks, "You are required to take a million and a half dollars out of your loanable assets." It would be reducing their loanable assets, would it not?

Mr. Wexler. Yes, sir; it would.

Senator Crawford. You are required to take $1,500,000 out of your loanable assets that are now being employed in such little community, developing that new growing State, money that you are now loaning to the farmers and stockmen and retailers.

Mr. Wexler. Yes, sir.

Senator Crawford. You are required to lift that money out of your banks and away from your local customers. Under the penalty of dissolution, we compel you to invest it in stock in a regional reserve bank, 500 or 600 miles away, outside of your State entirely and beyond the reach of ordinary business transactions, for the purpose of capitalizing an institution of that kind. We are not going to allow you to have more than 5 per cent on your investment—you are now making 12, or 15, or 20 [laughter]—but on this money we are going to compel you, by a big stick, to lift out of your banks here and take away from your merchants, and your stock growers, and your farmers and put it over there; and we will only let you have 5 per cent on it, and we will not allow you to have any voice whatever in its final control——

Mr. Wexler (interposing). Control; yes, sir.

Senator Crawford (continuing). Control over it. And unless you have got a certain class of paper that we prescribe in this bank (of which you have none and will not have) you can not rediscount anything that you have in the way of paper in this bank. Now, does that comport with your idea of what is just and fair to the little banker in this country?

Mr. Wexler. It does not, except——

Senator Crawford (interposing). Does it comport with what is fair and just to the small customers, and the farmers, and the merchants, and the tradesmen in those small communities that are now getting that money?

Mr. Wexler. No.
Senator Crawford. Do you know anything in the history of banking legislation, in this country or any other, where such a thing as that has been done or attempted?

Mr. Wexler. I do not know of any instance in any country where any man has been called upon and compelled to invest his money in something, whether he wanted to or not.

Senator Crawford. That is what I mean.

Mr. Wexler. But I think you have drawn your picture in rather a dark and gloomy manner.

Senator Crawford. Well, if I have, I should like to know wherein it is defective.

Senator Nelson. How about the deposits?

Senator Hitchcock. Mr. Chairman, can not we adjourn at this time? It is getting late, and the witness will be here to-morrow.

Senator McLean. Let him answer that.

Mr. Wexler. I will answer it. I do not think there ought to be any compulsion about the subscribing to these banks. I think the proposition should be made sufficiently attractive—or, at least, not so disadvantageous—but that banks will want to come in; and I think that can be done without any sacrifice of any fundamental principle.

Now, your banks that you refer to will have to contribute this $1,000,000 or $1,250,000 toward the capital. There is no hardship upon them in doing that at all. You have got a new State, a growing State; and anything which contributes to stable conditions in the United States helps your State and mine and every other State. Under our present banking system we have no stable conditions; we are on the mouth of a precipice all the time. We never know when things are going to blow up.

Senator Crawford. Then, you think that the benefit we will get there is this public-welfare benefit?

Mr. Wexler. Not only public benefit, but your own benefit as well.

Senator Crawford. Well, you big banking people in New Orleans, and Chicago, and New York, who have been working on this great banking scheme, have you really considered very much the interest of our little fellows?

Mr. Wexler. Yes, sir.

Senator Crawford. With these small agricultural banks in country communities?

Mr. Wexler. Yes, sir; I assure you we have. We have some 500 or 600 correspondents among such banks, and we have considered them very carefully and many have offered the same argument that you have.

Now, let us go on just a little further. You say they will not have any of the kind of paper that can be discounted. That is an exaggeration; they have enough of that paper to rediscount every day to take care of their requirements. For instance, you have made the requirement in the bill that rediscounts must be of paper not running beyond 90 days. Suppose a bank wanted to borrow money on the 1st of March, for instance; and they went to their portfolio and found that they had $5,000 maturing in 90 days, out of a total of $100,000. They could use that much. They take that and discount it. Then in another 90 days, they would have that much more; it might have
been originally a six months' note; but three months has run on it, and it still has 90 days to run. They can rediscount all of that. And all through the three months' period they will have other paper accumulating which they can rediscount. And then there is the sense of security the banker can feel, so that he can do his business with confidence and say to his customer, "John, you can get the money you need"—and knowing that he can give it to him. That is worth a whole lot in the banking business.

Senator Crawford. Why not make it optional, so that if he feels that he can get any benefit out of it he can go into this; and if he can not get any benefit from it he can stay out?

Mr. Wexler. It must be optional. If it is not optional, it has to be made so good and advantageous that banks will come into it anyhow; and if it is made that good, it does not need to be compulsory.

Senator Crawford. But this is made compulsory.

Mr. Wexler. I know, and that must be changed.

Senator Crawford. Well, I will only say this, and I will not keep you any longer: I have talked with bankers in my State, and the best and most representative men, and they said, practically, that they would not have occasion to use this rediscount privilege of the regional reserve banks.

Mr. Wexler. Well, I have heard a good many say that, and I thought so. When we first considered this bill I objected to the 60 and 90 day provision. I said, "We objected to the 60 and 90 day provision." I said, "We have not enough paper of that kind;" and I looked through our portfolio, and I found that we had twice as much as we needed.

(Whereupon, at 5.30 o'clock p.m., the committee adjourned until to-morrow, Wednesday morning, September 3, at 10 o'clock.)
FURTHER STATEMENT OF SOL. WEXLER, OF NEW ORLEANS, LA.

Senator Weeks. Mr. Wexler, how many banks make your bank a reserve agent?

Mr. WEXLER. Our particular bank?

Senator Weeks. Yes.

Mr. WEXLER. Well, I could hardly answer that just offhand. We have about, I should say, 450 banks.

Senator Weeks. Well, are those generally located in Mississippi and Louisiana?

Mr. WEXLER. Mississippi, Louisiana, southern Alabama, eastern Texas, southern Arkansas and western Tennessee.

Senator Weeks. Well, you are naturally in pretty close touch with those banks, are you not?

Mr. WEXLER. Yes, sir; very close touch.

Senator Weeks. It is currently reported that country banks, generally speaking, are more favorable to the pending legislation in its present shape than large banks; and the intimation is made that there is some coercion to bring the country banks into line in favor of this legislation. Do you know of any such thing?

Mr. WEXLER. No, sir; I do not. I have rather observed the contrary. I found that the greatest objection to the bill has arisen from the smaller banks. I had occasion to go to the little city of Hattiesburg, Miss., at the request of a group of bankers about 10 days ago, for the purpose of explaining the provisions of this bill, and the sentiment there was unanimous against coming into the system unless there were a great many amendments made to the bill.

Senator Weeks. Well, in the section of the country which you represent, there certainly would be a desire to cooperate with and further the wishes of the administration, would there not?

Mr. WEXLER. Yes, there would.

Senator Weeks. Your answer to the last question leads me to another question: What proportion of the country banks doing business with you do you think would come in—national banks, I am speaking of now—under this bill, if it were not changed from the form in which it was presented to the House?

Mr. WEXLER. I think a very few, if any.

Senator Weeks. Suppose the bill is changed to conform to the suggestions made by the Chicago conference, what do you think the result would be?

Mr. WEXLER. I think, as I said in my previous remarks, that fully 80 per cent, and possibly even more than that, would come into the system.

Senator Weeks. How about the banks in New Orleans?

Mr. WEXLER. I think the banks in New Orleans would all come into the system. After the meeting in Chicago our clearing house had a meeting, at which they expressed themselves unanimously in favor of the system provided these amendments were made.

Senator Weeks. You made a suggestion in your testimony yesterday, in your argument against establishing (or authorizing) 12 reserve banks, that one bank should not be compelled to loan its resources to another, for sectional and other reasons. There was one argument which came to my mind, which you did not refer to, which seems to me to be especially pertinent, and that is the difference
which will exist in the conservatism with which these reserve banks are managed—the far-seeing board of directors of a reserve bank, believing that they see trouble ahead, will make preparation for it. Now, they having made that preparation for it, would there be any justice, in your opinion, in compelling them to come to the assistance of a board of directors, or a bank, which had been managed in a different way—carelessly and unwisely?

Mr. Wexler. I think it would be extremely unjust and unfair if a bank which had conserved its resources in anticipation of a stringent condition were forced to impair that condition, which it had so laboriously built up, for the benefit of another section which had pursued a contrary course; and I can readily conceive that such a condition might arise.

Senator Weeks. Do you understand that these reserve banks would have any particular influence over local business? Would not all local business be conducted by banks as they are now organized?

Mr. Wexler. They would entirely.

Senator Weeks. So that, in fixing a rate of discount, that would be simply a general guide, would it not, to the community, rather than a specific reflection on one bank or set of banks?

Mr. Wexler. It is my opinion that the rate of discount would really be fixed by the conditions existing in that section at that time. The function of the Federal bank would simply be to promulgate, in a sense, that rate; the rate would not really be made by the bank; the rate would be made practically by all of the other banks in that section, by the conditions prevailing and the demands for money, whether scattering or active; and the Federal reserve bank, if properly managed, seeing these conditions and taking notice of them and properly diagnosing them, would promulgate a rate that fitted that situation.

Senator Weeks. What have you to say about the reserve banks in different sections of the country establishing different rates? It has always seemed to me that one of the strongest arguments in favor of one reserve bank is that every section of the country, as far as the reserve banks of the United States are concerned, would be enabled to get rediscounts at the same rate; that a bank in Arizona, for instance, if it had the paper of the qualified class, would be able to get its accommodation at the same rate as a bank in New York.

Mr. Wexler. Yes, sir.

Senator Weeks. And that it would put all sections of the country on the same basis. What do you think of the policy of allowing different rates to be made by the reserve banks in different sections of the country?

Mr. Wexler. I do not think that different rates should be made by different reserve banks in different portions of the country. I think any such action would be extremely unpopular. I believe that if these banks are to enjoy the privileges which are to be granted them by the Government, the whole people should receive the same benefit, as far as rate is concerned.

But one of the strong arguments, to my mind, against a number of regional banks is the difficulty which the Federal reserve board, isolated from the various Federal reserve banks and not composed of
representatives of each section, are going to find in fixing a rate that will properly fit the conditions; whereas a central bank with representation from various sections of the country, even though controlled by the Government, having its fingers on the pulse of the whole commerce of the country, whose duty it is to oversee all of the commerce and not that of any particular section, would be in a better position, in my opinion, to establish a rate, or, rather, to pro­mulgate a rate, in accord with the prevailing conditions at that time throughout the country.

Senator Weeks. Well, would not fixing the different rates by different reserve banks militate directly against the section of the country which you represent, and the undeveloped sections of the West, and be favorable to the metropolitan centers?

Mr. Wexler. Undoubtedly. I have not understood that this bill contemplates, however, the Federal reserve board making a different rate for the different sections.

Senator Weeks. Oh, I think it does.

Mr. Wexler. What was that?

Senator Weeks. I think it does; distinctly so.

Senator Nelson. It does not really contemplate it; but it is undoubtedly within the power of the board.

Mr. Wexler. It is undoubtedly within the power of the board, yes. But I have not ever believed that public opinion would ever stand for their making a lower rate in one section of the country than they do in another. I believe that would be immediately met with most serious resistance.

Senator Weeks. The original bill directly provided for that.

Mr. Wexler. It gave them the right to fix rates. It would be very bad, if they established a different rate.

Senator Weeks. Well, fixing "rates" is different from fixing "a rate," is it not?

Mr. Wexler. Undoubtedly. They have the power. But it would be very bad if they fixed a different rate in one section from that fixed in another section.

Senator Weeks. That would not necessarily mean, however, that the borrower in Mississippi would borrow at the same rate that the borrower in Illinois would of his own bank?

Mr. Wexler. No.

Senator Weeks. But it would mean that the rediscount coming from the reserve bank would be "on all fours" in all sections, would it not?

Mr. Wexler. That is it exactly.

Senator Weeks. That is all I wish to ask now.

Senator Nelson. I would like to ask a few questions. Is not this, in its essence, under this bill, really a central bank with 12 headquarters; with 12 regional banks under one administration; is it not, after all, in its essence, equivalent to one central bank?

Mr. Wexler. It is in one sense; and it distinctly is not in another sense. The ownership of the stock of each of the Federal reserve banks, being entirely different from that of every other Federal reserve bank, makes it distinct and gives to each bank a certain local interest antagonistic in a sense to all the other 11 regional reserve banks. As far as the control and management is concerned,
within certain limitations it would be under the Federal reserve board, as provided in this act; but——

Senator Nelson (interposing). Excuse me, there is one other question I want to ask just at this time.

Mr. Wexler. Yes, certainly.

Senator Nelson. Is not this currency which it is proposed to issue under this bill, aside from the fact that it purports to be the promise of the Government—is it not, in its essence, asset currency based upon the assets discounted? Is not that what the banks who obtain it do? They obtain it on their commercial assets—on their commercial paper?

Mr. Wexler. They obtain it upon commercial paper, which is presumed to be a good asset——

Senator Nelson (interposing). Yes; but I mean does not that amount in substance to an asset currency?

Mr. Wexler. It does, yes; except that in addition to the asset which it has, it maintains a gold reserve.

Senator Nelson. Certainly.

Mr. Wexler. Sufficient for the constant retirement of these notes——

Senator Reed. How much reserve?

Mr. Wexler. This bill provided 33 1/3 per cent reserve.

Senator Reed. Pardon me for interrupting you now. I will ask my questions later.

Senator Nelson. Certainly. Mr. Wexler, what is the radical defect of our present system of currency?

Mr. Wexler. The radical defect of our system of currency is that it is based upon a Government bond as security, and the volume of it has absolutely no relation to the requirements of the business of the country, but only a relation to the value of Government bonds.

Senator Nelson. Yes. Well, you will admit this, Mr. Wexler, that that paper currency has been, so far as the public is concerned—the bill holders—a safe and sound currency?

Mr. Wexler. Absolutely.

Senator Nelson. It could not be better?

Mr. Wexler. Well, yes; it could be better.

Senator Nelson. I mean as to quality; the quality of the money as money?

Mr. Wexler. Well, it could be better in that respect. That would bring on a long argument; but I will say it could be better. The evidence of it lies in the fact that when these Government bonds are selling at 98, the notes are secured by those Government bonds; so that the note you have is only worth 98 cents on a dollar, if you come down to the final analysis of it.

Senator Nelson. Now, we come down to this question: Why could not we build on the present system, and gradually allow the national banks to do what you propose to have these reserve banks do; in substance, issue notes, to some extent, if not altogether, on their assets—on their commercial assets?

Mr. Wexler. The objection to that is that we might come back to the old days of wildcat banks before the Civil War, when you would have to keep a little book in your pocket to see the value of the different notes that you might have.

Senator Nelson. Yes.
Mr. Wexler. And in a country like this, as large as the United States and that has so many banks, I do not know that any system permitting all of these banks to issue notes would be feasible. Of course in Canada you have a condition where the banks are permitted to issue their own notes; but you have a very small number of banks, with a great number of branches; and it has worked in Canada.

Senator Nelson. Well, one part of your proposition is that these notes should be issued, not, as proposed in the bill, by the Federal Government to be the promise of the Government, but they should be issued by the respective reserve banks and be the promises of those banks? That is a part of your proposition, is it not?

Mr. Wexler. Not exactly. The idea is that they should be issued from the Federal reserve board——

Senator Nelson. Yes.

Mr. Wexler (continuing). To the respective Federal reserve banks, and should be designated by a number and the redemption chargeable against the particular bank to which they were issued, and that all of the Federal reserve banks should be responsible for the whole system of notes. That is the suggestion that you will find that we had. Shall I explain that to you a little further?

Senator Nelson. I understand; but that is not in the bill?

Mr. Wexler. That is in the bill.

Senator Nelson. That it makes each bank liable for its own issue? Is that not the plan of the bill?

Mr. Wexler. The plan of the bill makes each bank liable, and then makes the Government again liable behind the bank.

Senator Nelson. Yes; but it does not make the whole group liable?

Mr. Wexler. I do not think it does, unless it has been changed in this bill of the 29th.

Senator Nelson. I notice in the bill that provision is made for the redemption of these notes in gold or lawful money. That would mean, under our present system of currency, silver and greenbacks as well as gold, would it not?

Mr. Wexler. Yes.

Senator Nelson. Do you think they ought to be redeemable in anything but gold?

Mr. Wexler. I do not. I think that we should maintain religiously the gold standard that has been established in this country.

Senator Nelson. And then you would have these reserve banks provide for a gold redemption?

Mr. Wexler. Gold reserve.

Senator Nelson. Gold reserve. Well, do you think 33 per cent is sufficient?

Mr. Wexler. I think 33 per cent would be sufficient; yes. We have suggested that there should be 40 per cent.

Senator Nelson. Yes.

Mr. Wexler. We have raised it, because we believe that it would be better to make the notes so absolutely good and impregnable that we would rather err on the side of too much reserve than too little reserve.

Senator Nelson. That is all for the present.

Senator Hitchcock. Senator Reed, do you wish to ask any questions?
Senator Reed. I have a number of questions I would like to ask now, but I think perhaps some of the other members of the committee might desire to interrogate the witness farther now, and I can ask mine later.

Senator Weeks. I have some questions I should like to ask, if Senator Reed does not wish to go on now. Is there any unusual emergency existing in banking, financial, and business conditions in your section of the country at this time, Mr. Wexler?

Mr. Wexler. Well, I can not say that conditions are unusual; no. We have at this period always a very stringent demand for money. We move four agricultural crops at one time, which requires a large amount of reserve money, which goes out to the cotton pickers and the sugar-cane and rice harvesters; and that, of course, attacks the reserve of the banks and diminishes their lending capacity; and our country is not wealthy enough, from its own resources, to take care of this seasonal demand at that time.

Senator Weeks. Well, is your condition at this time different from what it was a year ago or two years ago?

Mr. Wexler. It is somewhat different, due to the fact that our sugar section has suffered two quite serious reverses in the crop, and is now threatened with annihilation by the proposed removal of the sugar tax—which, of course, has had the effect of injuring sugar credits, causing a general feeling of unrest in that section; and that has had somewhat of an effect upon our condition just at this time.

Senator Weeks. I am sorry I am not in a position to prevent that annihilation which you are anticipating. [Laughter.]

Mr. Wexler. I am sure that I am sorry, too.

Senator Reed. Have you finished with your questions, Senator Weeks?

Senator Weeks. I just wanted to ask one more question. Is the financial stringency coming over the country different, in your judgment, from what it is at this season of the year all years?

Mr. Wexler. Do you mean to ask whether the condition is more stringent this year than other years?

Senator Weeks. Yes; year in and year out.

Mr. Wexler. Yes; it is just a little more so. We have the promise of very abundant crops; the larger the crops the more money it takes to handle them; and, as I say, we have passed through several years of devastation of cotton crops by the boll-weevil throughout our section; and then we have had one year of early frost in sugar, and a second year of disastrous overflow in the same section; and that has reduced the available funds of people engaged in these lines of business, and it has naturally required more credit to take care of them during this period. We are in that condition just now.

Senator Weeks. You are speaking of the section around New Orleans, are you?

Mr. Wexler. Yes; the section within a radius, I should say, of 200 miles around New Orleans.

Senator Weeks. Well, you do not anticipate any particular trouble, do you, in harvesting your crops?

Mr. Wexler. No; I do not. I think we will get through the season and take care of our crops very nicely, and I see nothing to cause us any anxiety or to cause financial distress other than to give us an uncomfortable feeling during this period of greatest demand.
Senator Weeks. Which you always have?
Mr. Wexler. Yes; which we always have to a greater or less degree.

Senator Reed. Mr. Chairman, I move that the witness be allowed to sit down during the examination. It is too long a strain upon a man.

Senator Hitchcock. Without objection, the order will be made.

Senator Reed. There are a number of questions I desire to ask; and as it will perhaps take some time I thought perhaps the witness would prefer being seated.

We frequently hear the statement, Mr. Wexler, that we have the poorest banking system in the world. Do you agree with that statement?

Mr. Wexler. I do, emphatically.

Senator Reed. I want really to get your judgment about that.

Mr. Wexler. I am going to give you my very best judgment.

Senator Reed. Do you mean by that it is the most unsafe to the country, or the most unsatisfactory to the bankers?

Mr. Wexler. I mean that it is most unsafe to the country, and that it does not meet the requirements of the business of the country. I think the banker is least interested in the faults of the system, from a pecuniary standpoint, than any other class of people in the country.

Senator Reed. Will you tell the committee, in just as terse a way as you can, what are the present defects or faults of our system which make it the poorest banking system in the world?

Mr. Wexler. Well, the greatest defect is that, in the first place, the requirements for currency vary at certain seasons of the year. That you can readily understand. It varies in one year from another year. In other words, during the crop-moving period a greater amount of circulating medium is necessary to pay labor than during the growing period.

Then, again, in years when manufacturers are thoroughly employed, more money is paid out for pay rolls than in years when labor is not thoroughly employed. Therefore there is a constant variation of the amount of circulating medium necessary for carrying on the business of the country.

Now, the only circulating medium that we have is the reserve money, which is the basis of our credits; and when the greater demand for this circulating medium comes along it attacks our reserves; it takes the money which is the basis of our credits out of the banks; it circulates them for a longer period in the pockets of the people and in cash drawers, thus reducing the credit facilities of the banks. Then, again——

Senator Reed. Now, Mr. Wexler, permit me to interrupt you. Can you put that reason No. 1 of yours into one short statement? You have added an explanation.

Mr. Wexler. Yes.

Senator Reed. You say the principal evil is what—lack of flexibility?

Mr. Wexler. I think I can tell you. The principal evil is the lack of elasticity of our circulating medium.

Second, the inability to rediscount, having no place to which a bank can go when it has exhausted its own credit facilities.

Senator Nelson. Excuse me just here. In other words, you mean there is no general credit reservoir for the banks to resort to?
Mr. Wexler. Absolutely none. Now, the next is the fact that the entire reserves of the country are scattered in some 20,000 to 25,000 little piles, where they are ineffective, instead of being concentrated in one great reservoir where they would be effective.

There are many other defects that would require explanation. All these should have explanations, but you have asked for it as tersely as possible.

Senator Reed. I have asked for it because I wanted to call for an explanation later, but I wanted first to get the heading.

Mr. Wexler. Yes.

Senator Reed. Taking up the question of flexibility——

Senator Nelson (interposing). I think "elasticity" is a better term.

Senator Reed. Let me change that again. I want to get some light regardless of this bill.

Mr. Wexler. Yes, sir.

Senator Reed. So far as I am concerned, I am wedded to no bill. If we are going to legislate in regard to currency and banking generally, I would like to see it done in the best possible way. So the questions that I am asking would like to have answered just the same as though this bill had never been proposed or dreamed of. You speak first of lack of flexibility or elasticity. Just what do you mean by that?

Mr. Wexler. I mean by that that the present circulating medium does not expand and contract according to the requirements of business.

Senator Reed. Now, why?

Mr. Wexler. Because it is based upon Government bonds as security, and can only be issued against security of this character.

Senator Reed. Does not that apply now more to the general volume than to the matter of flexibility in distribution?

Mr. Wexler. No; it does not. If the supply of Government bonds is small, as has been the case several years ago, and the demand was great and bonds went to a price of 107, or 108, or 109, it would be extremely unprofitable for any bank——

Senator Reed. Yes.

Mr. Wexler. To take out circulation, even though that section of country required a greater amount of circulating medium.

Senator Reed. Pardon me; I do not want to cut your answer off so that you are not satisfied with it——

Mr. Wexler. No, sir.

Senator Reed. But, having a sort of idea in my mind when the question is answered, I will take the liberty of cutting you off for a moment.

Mr. Wexler. Yes.

Senator Reed. You have answered now, so far as I need to have you answer my last question. My next question is, if there was a sufficient amount of securities—Government bonds—so that the banks could acquire them at par and then take those bonds to the Government and get money, would that relieve the particular evil we are now discussing?

Mr. Wexler. No, sir; it would not, because after that circulation was out and was no longer needed, there is no provision for the elimination of it, or the retirement of it; and a plethora is just as bad as too little.
Senator Reed. Well, that would get you the money in the first instance, anyway, would it not?

Mr. Wexler. That would get it, yes.

Senator Reed. Then we come to the question of retirement as a separate proposition. Do I understand you, then, to mean this, that if, for instance, your bank was in need of money and Government bonds were easily obtained by your bank and other banks at par, if they could take those bonds to the Government and get money upon them that would relieve the difficulty, so far as giving you the money in the first instance was concerned? Would that answer the objection?

Mr. Wexler. No; it would not. That would give you the circulating medium necessary for moving the crops, and the payroll requirement during that particular period.

Senator Weeks. Yes.

Mr. Wexler. But would not give you 1 cent more money or currency facilities, because just as much money as you would get for the notes you would have to invest in the bonds.

Senator Reed. Yes; that is just the point I want to get to. You take $1,000,000 and buy $1,000,000 worth of Government bonds. Now, you have not got that $1,000,000 any more?

Mr. Wexler. Not at all.

Senator Reed. But you have got an interest-bearing security, which if it was great enough, would pay you a return upon your $1,000,000?

Mr. Wexler. Yes.

Senator Reed. Then, having invested in these bonds which bear you an interest, you go and get $1,000,000 of money, and you have that money; so that you have an interest-bearing security deposited with the Government, and you have $1,000,000 to use. Now, if the interest was high enough, I presume there would be a good deal of money invested in these bonds, would there not?

Mr. Wexler. I do not think there would. I do not believe that there is any rate of interest that any Government of the standing of this could afford to pay that would make it attractive for bankers to withdraw money from the channels of trade for the purpose of investing in Government bonds, except in periods of governmental stress, when the patriotic side would naturally appeal to citizens, and not as far as the investment is concerned.

Now, as to the circulating mediums, banks might, if Government bonds were maintained constantly at par and the banker felt that he could go and redeem the bond at any time he saw fit at the Treasury Department for par, he might be willing to increase the circulating medium, when more currency was required for business, by purchasing bonds and using that credit to issue a note against it—which is all it amounts to. The bank only makes a very small percentage on the transaction. But that would not furnish an increased credit which may be kept at certain times to prevent the whole banking and credit system of the country from breaking down. It has absolutely no relation, you understand, to that side of the question.

Senator Reed. Mr. Wexler, I was a little inclined to the opinion you now express; that is to say that when the Government permits a bank to buy $1,000,000 worth of bonds, it then locks up $1,000,000 of the bank's money; and then by issuing another $1,000,000 it seemed to me that it had not very greatly expanded the currency. Yet I
understood you to say that the reason we did not have a flexible currency was because there were not enough bonds which—you said something like that, I believe?

Mr. Wexler. No.

Senator Reed. Well, at any rate, I am trying to get your views.

Mr. Wexler. Let me get this very clear, because it is important. The statement is that the present circulating medium does not bear any relation to the requirements of the country for circulation, and that there is no means in the possession of bankers at the present time to expand this circulation to meet an additional requirement, or to contract it when it is no longer needed. Now, that is the proposition as far as the currency is concerned.

Senator Reed. And if you had more bonds, it would not help out much?

Mr. Wexler. Absolutely not.

Senator Reed. And that brings us, then, to a second proposition. I take it now (and I will ask my question in this leading form in order to bring it out more clearly) that what you want is to be able to take the assets of the bank, and upon those assets to get more money; that is, you want, directly or indirectly, to effect that result?

Mr. Wexler. I want to be able to convert the credit which I extend to an individual from one form to another form. Let me make it clear: If you come into the bank and borrow $1,000, we take your note for $1,000, and we give you in exchange for it our credit, which you can use. You could not use your own credit generally. And we give you our credit. How do we give it to you? We give you credit on our ledger for the net proceeds of that note of $1,000. Now, the result of that operation is that we owe you just as much as you owe us; that is correct, is it not?

Senator Reed. Yes.

Mr. Wexler. Now, as long as you can pay your bills and carry on your business with checks, you draw checks against that $1,000, and you gradually reduce this liability from us to you in that way.

Now, whenever you need cash—currency—and you come and draw that from the bank, we should be in a position to give you our obligation—a note, and to change the form of that credit from a book credit usable by check, to a note credit, usable by circulation—which privilege we do not have to-day.

Senator Nelson. In other words, exchange your note for his note?

Mr. Wexler. That is the whole proposition.

Senator Reed. In other words, issue money?

Mr. Wexler. Issue, not money, but issue evidences of credit; issue obligations.

Senator Reed. Well, bills that circulate as money?

Mr. Wexler. Yes.

Senator Reed. In other words—let us just abandon the text of it and go across lots—if you are running a bank and you have $1,000,000 of notes representing loans to your customers, and you have paid the last dollar out of your till that you can pay out in safety, you have to stop?

Mr. Wexler. That is it.

Senator Reed. But if you took that $1,000,000 of notes and transformed it into what I am going to insist on calling money—although there is a technical difference, as you put it—
Mr. Wexler. Yes.

Senator Reed. Transform it into bank bills, or bank money—
Mr. Wexler. Notes.

Senator Reed. By some process—then you have multiplied your ability to serve your customers, have you not?
Mr. Wexler. Precisely.

Senator Reed. Now, I take it that what you want, then, in the way of flexibility or elasticity of currency gets down to this: You want to be permitted, by some device or plan, to take the notes of your customers, and either against those notes or against your ownership of those notes, issue bank paper; or you want to be able to put them up with the Government, or some agency of the Government, and have the Government issue the money on them?
Mr. Wexler. Well, not exactly. I want to be—

Senator Reed (interposing). I am not speaking of what you want.

Mr. Wexler. I understand.

Senator Reed. But this plan involves this idea of flexibility— involves one or the other of those propositions?

Mr. Wexler. Well, the flexibility is only a side issue of the proposition you have just made. One is a question of circulating medium, and the other is a question of credit.

Senator Reed. No; I am talking about just how you are going to meet this kind of an additional demand at times?

Mr. Wexler. That is it. Here is the idea: If the condition existed in our bank that you have referred to, we would want the privilege of taking $1,000,000 of good customer's paper maturing in 30, 60, or 90 days, and not beyond 90 days, to a central reservoir of credit, which we will call, for convenience, a central bank, which has the note-issuing privilege, and which could take these obligations of these various farmers, merchants, and manufacturers with our indorsements—which is not in a form of credit that we can use—and exchange for it their credit in the form of a bank note which we can use.

Now, what happens? We have got this $1,000,000 of the bank notes of the central bank, and the central bank has $1,000,000 of the notes of various customers with our indorsement. Now, our customers who have book credits draw their checks upon us, and we pay out the bank notes which we have received from the central bank.

Now, this bank note does not count as reserve for any bank. You have drawn $50 in cash, we will say, and you have taken it over and paid it to your tailor, for instance. He has no use for it except to put it in bank. He deposits it in another bank. When that bank gets it, it does not count as reserve for that bank. It has answered its purpose, that note has. It has performed all the functions for which it was issued. It is deposited in some bank by your tailor, and that bank in turn deposits it in the central bank, probably; and that note will go out of existence.

Now, in the course of 30 days, 60 days, or 90 days this paper which we have taken to the reservoir of credit and rediscounted has matured. Now, what happens? The man who owes the money, the maker of the note, has had to accumulate just as many of those notes which the central reserve bank originally issued as may be necessary to go and give to the central reserve bank to get his note back. So you have constantly this exchange of credit going on, and when the
requirements of credit fall off and are no longer needed the notes go back into retirement, because they have necessarily been used to meet the original rediscounted obligation. So that a note issued in this manner, and it is the only manner possible, adjusts itself at all times to the requirements of the country for credit. Do you understand that?

Senator Reed. Yes. I think I understand. I have no doubt your statement is illuminating; but I want to come down to the present. You have told me how it works out.

Mr. Wexler. Yes.

Senator Reed. But I want to see if I am right on this proposition, that, at bottom, what you claim is necessary for flexibility or elasticity means this, that there must be a plan devised by which the bank can take its assets—its commercial assets—I may be wrong in the use of some technical terms, but you know what I mean.

Mr. Wexler. You are correct.

Senator Reed. It must be able to take its commercial assets and convert them into what we ordinarily call money; that is, bank notes, or Government notes or some kind of notes, must be given to the bank in lieu of these securities which it puts up?

Mr. Wexler. Yes.

Senator Reed. Now, that is the thing that is necessary for elasticity. And it can not be reached, if I understand you correctly, by the plan of having the banks buy bonds, because that absorbs the money—an amount of money equal to the amount of money which they have issued. Am I correct, now, in that?

Mr. Wexler. You are correct; yes.

Senator Reed. Now, that is what I wanted to get at, and I was then ready to pass to another subject.

Senator Weeks. Before you do so, I wanted to ask one question or make one comment. I will ask Mr. Wexler if the volume of these notes which you have been discussing does not depend on the needs of the business community, and also on a sufficient reserve being maintained against them?

Mr. Wexler. Of course no bank is going to take out of its portfolio notes of its customers and rediscount them unless there is a need for the additional credit facility in that particular section, because by so doing they are sacrificing a part of the interest which they would earn on the paper for the remaining length of time to maturity. In the second place, the central bank would not be permitted to rediscount and issue its notes for such rediscounts unless it had a gold reserve of the amount which may be prescribed in the bill, anywhere from 30 to 50 per cent, for the redemption of these notes when they appear at their window, which may occur the next morning.

Senator Reed. Senator Nelson wanted to ask a question.

Mr. Wexler. Yes, sir.

Senator Nelson. Mr. Wexler, does not this, in its primitive form, amount to this. Senator Reed comes to your bank and says:

I want to borrow $1,000, or $10,000, and will give you a note.

You say to Senator Reed:

How do you want this? Do you want it in the form of a credit on our books that you can check against, or do you want it in the form of notes?

Mr. Wexler. Yes.
Senator Nelson. And Senator Reed says:
At present I have got a need for it in the form of little bills. Put it in little bills. I do not want checks; I want currency.
And instead of giving him the credit for $10,000 on your books, you issue the promissory notes to Senator Reed and he uses them. Now, that is a transaction that arises from a commercial demand, is it not?
Mr. Wexler. Yes, sir.
Senator Nelson. It arises from trading?
Mr. Wexler. Yes, sir.
Senator Nelson. And not by any artificial method of going and buying bonds?
Mr. Wexler. Absolutely not. It is the result of an absolutely commercial transaction.
Senator Nelson. And it is for the benefit of Senator Reed?
Mr. Wexler. Yes; not for the benefit of the bank.
Senator Nelson. Whether he wants that in the form of a checking account or in the form of currency that will pass as money?
Mr. Wexler. Yes; that is it.
Senator Reed. Now, I want to spend a minute more on this question. You say that this system responds to commercial demands. By that I understand you to mean this: There are seasons of the year when the deposits pile up in your banks and you have so much money that you can not loan it out; that is, you have a large surplus of deposits. Then there comes along a season of the year when nearly everybody wants to borrow money.
Mr. Wexler. Yes.
Senator Reed. And you get down to a point where you have to begin to refuse your customers whom you would like to accommodate?
Mr. Wexler. Yes.
Senator Reed. And so you want to be in a position to stand those conditions?
Mr. Wexler. Yes, sir.
Senator Reed. And you say that this system—I grant you, now, that the plan which you outlined would meet that condition—I want to see whether there is another side, whether it is not possible, and entirely possible, for a bank (not a good bank, not a bank that is properly managed) to issue these notes for some other purpose than merely to meet the legitimate demands of a community. Why is it that a bank having this power of multiplying its assets—for that is what it amounts to, loaning them and reloaning them—might not, if it saw fit, use this plan for a vast expansion of the currency, for an inflation?
Mr. Wexler. Well, there are two distinct checks upon it. One is that a bank is required to carry always on hand a certain gold reserve against its own demand liabilities.
Senator Reed. Well, that is 33 per cent, is it not?
Mr. Wexler. No; that is, under the present law it varies from 15 to 25 per cent, according to whether they are country banks or reserve city banks.
Senator Reed. That is what I am speaking of.
Mr. Wexler. And under the new law there is some reduction in that reserve requirement.
Now, in the next place, where does this bank go to get the additional accommodation? It goes to the central bank. Now, the central bank is not permitted to discount paper, except such as arises from commercial transactions, and such as matures not beyond a certain stipulated period. Now, would you, as a safe banker, expand your credits upon a class of paper that you could not go to the central reservoir of credit and rediscount? You certainly would not if you were conservative.

Senator Reed. You have put in figures the qualification which takes away the danger——
Mr. Wexler. That is in the bill.
Senator Reed (continuing). When you say "the safe banker." But all bankers are not safe; and the country once had an experience, years ago, I am glad to say, when the whole thing was very unsafe. I am talking now about how this plan might be abused.
Mr. Wexler. Oh, I can not see——
Senator Reed (interposing). I am not saying it might be; I am asking you what you think.
Mr. Wexler. I understand. I do not think there is any way they could abuse it, because there would be a definite limit to the amount of paper of this kind that they could take, because after they had all they could reasonably take care of from their own resources, there would be no place they could go to rediscount the paper. They could not go to a central bank and get any money on that class of paper.
Senator Reed. Well, as long as they wanted to borrow and had reasonably good credit——
Mr. Wexler. Yes.
Senator Reed. They could continue to come and borrow money, and the bank could continue to furnish it, because it would have an unlimited supply of money as long as it had an unlimited supply of security?
Mr. Wexler. No; but the class of securities which it could rediscount at the central reserve bank would be limited to that which was necessary for carrying on the commercial and agricultural and industrial business of the country.
Senator Reed. Well, but who passes upon that?
Mr. Wexler. Who passes upon the class of that paper? The directors of the Federal reserve bank, and the Federal reserve board, and the banker himself.
Senator Reed. We have a little different thought in mind, Mr. Wexler.
Mr. Wexler. Yes, sir.
Senator Reed. Of course, if the central bank exercises the same kind of espionage—I do not use the term offensively——
Mr. Wexler. No.
Senator Reed (continuing). Over the bank which comes to it for money— that you exercise over me if I come, namely, you know something about the business that I am embarked in; you know something about my capacity and ability; you know something about my personal integrity and honor; and, taking those matters into consideration, you figure how much you can safely let me have.
Now, of course, if that kind of policy was pursued by the central bank, and wisely pursued, then there would not be a great stretching
of credits. But does it not get down after all to the question of whether there will be an extension, an inflation, and get down to the question of the management of this central bank, so that if it be conservative and wise and prudent there would be no great expansion, but if it should be otherwise, why there might turn out to be an expansion?

Mr. Wexler. No; I do not think there could, Senator Reed. There is another very strong check upon expansion, and that is the gold reserve required against the note, which the central reservoir of credit would issue.

Senator Reed. That is from 33 per cent to——

Mr. Wexler. From 33 to 40 per cent. Now, we have a bank which had reached the point where its notes which it had outstanding—we will say that the reserve requirement of that bank was 40 per cent, and it was down to 41 or 42 per cent; why, its ability to continue to extend credit would stop; it could not go beyond that. It would not be permitted to do it, except in times of emergency or stress, when they might be permitted to waive the reserve requirement. But the management of the central bank would always have in mind the necessity of paying the gold against those demand notes which were given out for credit and which might appear at the window for redemption the day after they were issued. And that will prevent any undue and extraordinary expansion of credit.

Senator Reed. How would this central bank put a limit or a brake upon the natural tendency to expansion? Would it be by raising rates of interest to the member banks?

Mr. Wexler. Yes; that would be one way to raise it.

Senator Reed. But after all do you not get down to the question—is not there a real, genuine danger of an inflation, provided you get a management of that central bank which is not absolutely wise and prudent?

Mr. Wexler. I think the danger is very, very slight, Senator. If that bank obeys the law (which it will have to do) and maintains the gold reserve required under the law, and observes the ordinary common sense that I can not conceive that it would not exercise, when the demand was getting too great or raising the rate where it would not be profitable for the borrower to take it—I can not see that under those circumstances there can be any great expansion arising from the organization of an institution of that kind.

Senator Reed. Do you think that this right to raise rates of interest then, ought to be vested in the management of the central bank?

Mr. Wexler. Yes; unquestionably.

Senator Reed. And the management of that central bank, after all, then becomes the arbiter of the whole financial scheme by raising and lowering the rates of interest—by raising rates of interest it stops undue expansion; by lowering rates of interest it invites——

Mr. Wexler (interposing). It encourages trade?

Senator Reed (continuing). Trade and expansion.

Mr. Wexler. Yes.

Senator Reed. Now, I am asking you a great many questions that may seem to the bankers present to be unnecessary——

Mr. Wexler. Not at all, Senator.

Senator Reed. But you all understand that I am just a farmer, trying to get some light.
Mr. Wexler. Senator, let me make one appendix to my remarks: That is, that you remember that these notes must be redeemed whenever they are presented at a bank. Consequently, you can not have any very great expansion. The paper that the central bank rediscounts, maturing in 60 or 90 days, is coming due all the time for payment; and in order to pay its own obligations arising from the indorsement of the discounted paper——

Senator Reed (interposing). Why can not they be renewed and the renewals be put in place of them?

Mr. Wexler. Well, but in the meantime it must be paid. The central bank would never renew an obligation; there would never be a single discounted note renewed by it. The bank originally discounting might renew for the customer or individual, and in the course of time, if they wanted the money they might rediscount the new obligation; but in the meantime the note originally issued for which notes would have come from the central bank would have been paid and the bank notes retired. It may come out again if the bank requires it; but the bank notes issued against that rediscount would have performed its functions. It would have circulated, done its work, come back, and gone out of business, or, which is the same, an equal amount of the bank notes would have taken this course.

Senator Reed. Now, what would be the great possible expansion of the currency under a plan with a central bank and a gold reserve of 40 per cent? How much could that by any possibility expand the currency? And when I say "currency" I mean money.

Mr. Wexler. Well, that is something I do not believe any man could answer with sufficient accuracy to be of any value. I believe that in the fall of the year we need an expansion.

Senator Reed. Well, I am asking the possibilities, not what you need, but the possibilities of expansion under this plan. Of course, if you gave a 40 per cent reserve of gold, that must mean that when the gold is exhausted you——

Mr. Wexler (interposing). Well, Senator, there have been some accurate calculations made on that particular subject by some of the gentlemen who are going to follow me, from which you may be astonished to see that there will not be any expansion at all; in fact, we are in considerable doubt, and we rather lean to the belief that it is going to bring about contraction if we do not have considerable amendment to this bill. In other words, we have not been able to find where we are going to get gold enough to carry the reserves that are necessary.

Senator Reed. I am not talking about the bill. I am talking about the plan of a central bank which has the right to issue money, and which must keep a 40 per cent gold reserve, and which can keep on issuing money, as far as the law goes, as long as it can maintain that 40 per cent of gold reserve. Now, what would be the possible expansion of our circulating medium under those circumstances?

Mr. Wexler. Well, I think the only way that that can be answered is to say that the possible expansion would be equal to the excess amount of gold which there might be in the country. In other words, if our crops here were very abundant, and foreign crops were very small, and the balance of trade was largely in our favor, and we drew from Europe two or three, or four, or five hundred millions of gold in payment of our crops, then that gold coming into this country
would form the basis of just that much more credit, and the expansion would be measured by the extent of that gold that might be available for credit purposes. I do not know any other way of answering that question. Some of the other gentlemen might.

Senator Reed. Perhaps we can get at it in another way.

Mr. Wexler. Yes, sir.

Senator Reed. At the present time, under the existing system, there is no gold reserve whatever required back of the national bank notes, or "greenbacks," is there?

Mr. Wexler. The greenbacks have $150,000,000 of gold against an issue of about $350,000,000.

Senator Reed. But it is not a safety reserve; it is just here in the Treasury; is that not right?

Mr. Wexler. Well, they have set it aside for that purpose; and I believe it is held that way. I do not know that there is any particular law that requires it.

Senator Reed. Well, there is $150,000,000 of gold back of $350,000,000, you say?

Senator Shafroth. $346,000,000.

Mr. Wexler. Yes, $346,000,000.

Senator Reed. So that, in round numbers, you have what—40 per cent?

Mr. Wexler. A little over, yes; about 43 per cent.

Senator Reed. Now, we have Treasury notes?

Mr. Wexler. The greenbacks are Treasury notes.

Senator Reed. I mean gold notes?

Mr. Wexler. Yes.

Senator Reed. Amounting to how much?

Mr. Wexler. $1,150,000,000, about.

Senator Reed. $1,150,000,000. And we have got gold in the Treasury for each of those notes?

Mr. Wexler. Yes; they are nothing but warehouse receipts for the gold.

Senator Shafroth. There are $1,100,000,000 now.

Mr. Wexler. Well, it fluctuates, just like warehouse receipts for a bale of cotton.

Senator Reed. Well, we have that much gold?

Mr. Wexler. Yes, sir.

Senator Reed. Now, where else is there any gold piled up, except just as the banks individually may hold it?

Mr. Wexler. Well, there is no other in this country available that I know of. There may be a lot of it hidden around that is not deposited in the banks. But when you speak of available gold outside of that in the vault of the Treasury and that held by the banks, well, I do not know of any other.

Senator Shafroth. Senator Reed, I saw an account the other day stating that there were $552,000,000 of gold in circulation and in banks.

Mr. Wexler. Yes, sir.

Senator Shafroth. Not gold certificates.

Mr. Wexler. Yes, sir.

Senator Reed. Now, if there are $550,000,000 of gold, and you had paper issued against a reserve of 40 per cent amounting to that, how much would that give you?
Mr. Wexler. Two and one-half times as much; about $1,330,000,000 of notes.

Senator Reed. Well, that would make an absolute contraction in the currency, even if there were $550,000,000 of gold, would it not? When I say "currency" I mean the whole circulation.

Mr. Wexler. But you have, in addition to that $550,000,000, the $1,100,000,000 of gold certificates which are outstanding, which are just the same as gold.

Senator Reed. But is that not included in that $1,400,000,000?

Senator Shafroth. No.

Senator Nelson. No; that is outside of that.

Mr. Wexler. Then you have got $150,000,000 back of the greenbacks, which gives you $1,750,000, which is a very respectable stock of gold.

And if it were all in one place, all in one reservoir of credit, within a very few years the United States would be the commanding commercial and financial nation in the whole world. The business we now send to London or to Paris or to Berlin or anywhere else would come to the United States. We would be invincible from every standpoint. And with the balance of trade in our favor every year, and with good crops, and with gold coming in, we would practically accumulate the gold of the world. They could not prevent it. There is the greatest opportunity for bettering the welfare of our people through the organization of a bank of that kind than anything I know of.

Senator Reed. Well, I do not just understand that. I want to understand it if I can. I know so little about money, and that is the reason I am asking you so many questions. How does that follow?

Mr. Wexler. Well, gold, as you know, is the recognized ultimate standard of measurement of value for the civilized commercial countries of the world. It is the basis of all credit. Why? Because you can take a gold dollar in any country and purchase for it all that you require.

Senator Reed. Yes; I understand that.

Mr. Wexler. You could not take a silver note, for instance, and do it.

Senator Reed. I want to know how you can get that gold into the central bank; that is what I want to find out; how it gets there.

Mr. Wexler. I will tell you how it gets there: The circulating medium that would be carried around in the pockets of the people, and so on, would be these bank notes; and the gold would gradually find its way into the vault of the central bank, because it would never pay out any gold. Nobody would ever pay out a gold note. We would never pay out any, nor would any bank anywhere, nor would the Federal reserve bank ever pay it out, except in the circumstance where a note holder came and said, "I want this note paid in gold." He might have some particular reason for wanting gold in that case.

Senator McLean. Pardon me, you said "gold note"; you meant "gold coin," did you not?

Mr. Wexler. Yes, sir; nobody would pay out a gold coin except in instances where the holder of the note had some very particular reason for asking for it.
Senator Reed. What you mean is this: That whenever a $20 gold piece came into the bank the bank would inevitably drop that into the bottom of its vault and never pay it out unless somebody came up and absolutely demanded payment in gold?

Mr. Wexler. That is the idea exactly.

Senator Reed. Of course if there was any real financial fright or scare which came over the country——

Mr. Wexler. Yes.

Senator Reed (continuing). You would have a good many people at the windows wanting the gold?

Mr. Wexler. Yes.

Senator Reed. Now, if the faith and credit of this big institution ever became seriously impaired, it might have to get up gold very quickly, might it not?

Mr. Wexler. Well, of course, if the people lost confidence in the note issue and everybody came to the window and demanded the amount in gold, it would require a general liquidation of credit of all the notes of everybody which the bank had, and the system would break down. But that has not been the experience of any other country. As I said yesterday, the Bank of France had no difficulty in paying gold when the Prussian Army was camping in the streets of Paris.

Senator Reed. Now, just as to that matter of illustration—you want to settle this question right, you bankers, do you not?

Mr. Wexler. Yes.

Senator Reed. You are more interested than anybody else, and I hope that we also want to settle it right. Do you think, now, that, fairly speaking, we are absolutely safe in assuming that European nations—that their experience can be taken as a safe and conclusive precedent for our country?

Mr. Wexler. I think with modifications it can.

Senator Reed. Now, let me suggest to you, for instance, that the State of Missouri is two-thirds as large as Germany, and it is two-thirds as large as France. You could take France and Great Britain and Germany—I have not figured it up, but I think you can—and drop them down in the State of Texas and still have some territory left. When I say "England," of course I mean England, Scotland, and Wales. I merely mean by that to call your attention to the fact of the difference in territory. Then, I want to call your mind to the fact of the difference of the density of population, the great disparity there is between the population here and there; then I want to call your attention to the fact that the trade there is in settled channels, very much more so than are conditions here; that the country is not expanding its energies and its industries as it is here; that you are not developing a new country; that the speculative feature which enters into our life is necessarily largely absent there, because the speculative period has been long since past—I mean by that that speculation which is based upon new development. Taking all those things into consideration, is it safe to assume that because a plan works in Europe that it will necessarily work here?

Mr. Wexler. Senator, I am absolutely certain it will work here; and, as far as the speculation in Europe is concerned, while they have not the new development in which to speculate in their own country, they speculate in the development of every country on the face of the
earth. They speculate in our development; they speculate in the development of Africa, Asia, and South America, and everywhere else. As far as expansion is concerned, trade in Germany has expanded in the last 20 years more rapidly than here, and yet the Imperial Bank of Germany meets that requirement there. There may have been a little tightening of the rates; and there is no doubt in the minds of anyone who has given this subject serious study but what the adaptation of the better systems of Europe, with some changes to meet our requirements, will work to perfection in this country.

Senator Reed. I want to pass to another matter. Of course, when you tell me that you bankers have figured out a plan, and that from your own judgment you think that that plan will work, that has a very great weight with me; but if you base it upon the experience of Europe, while I think that is valuable, I can not agree with you that it is conclusive, because they do not do things over there in the way that we do. They are not in the habit of going out on the bald prairie and building a city of 50,000 people in 10 years; they do not do much of that, and I think that makes a difference.

Mr. Wexler. We have only taken their experience as a guide to our judgment in the matter.

Senator Reed. You said the second difficulty is that there is no place of rediscount to which a bank which has exhausted its own credit facilities can go. In a word, I take it you mean this: That every obligation the bank owes to its depositors is payable on demand, and it can not realize under the present system upon its assets quick enough to meet that demand. That is the idea?

Mr. Wexler. When that demand, of course, comes all at one time.

Senator Reed. That is the possible demand?

Mr. Wexler. The possible and extraordinary demand.

Senator Reed. Is it not true that if that one difficulty should be removed that we would never have another general panic? I am not speaking about hard times now. I am distinguishing between hard times, close times, tight times, and a panic.

Mr. Wexler. Well, we would never have a panic, in my opinion, arising from the same condition as the last two panics, we have had.

Senator Reed. Could it arise from anything—a genuine panic?

Mr. Wexler. I can not conceive how a general panic could arise where the banks could not pay out to the people money that they could use to make their general purchases with, but I do not believe that there could ever be a perfect, complete panacea against the folly of mankind. I do not think it is possible to create anything of that kind, and you might, after a period of terrific expansion, wild and extravagant living, perhaps great speculation, where the saving classes, instead of being thrifty and saving, had plunged their money into mines and dozens of things of that kind, similar to the conditions which existed when John Law operated in France in the last century. You might have from such causes a panic, but that has nothing to do with a case of this kind. To say that you could never have a panic, I would not care to make that bald statement.

Senator Reed. I was trying to get a starting point.

Mr. Wexler. Yes.

Senator Reed. If your bank had $10,000,000 of deposits and you had been doing a sound, safe banking business, so that your
$10,000,000 was worth approximately $10,000,000, and in addition to that you have the stock of your bank, the double liability of your stockholders, the good will of your bank and all that—nobody could close your doors, if you could take those assets and go across the street and bring back $10,000,000 of money?

Mr. Wexler. That is correct.

Senator Reed. And every other bank situated as you are, if it had a place to go, and meet all demands, would not its doors close?

Mr. Wexler. That is correct.

Senator Reed. And it would not be 10 minutes after they began to get their money out until they would begin to put it back, and, if you could arrive at that condition, would it not mean the end of any real panic?

Mr. Wexler. Yes, it would.

Senator Reed. What are the things and conditions which would bring about this sort of situation: A large bank or two large banks in New York City close their doors. What makes that crash, so that the demands began to be made on banks all over the country, and then banks have to close their doors—what causes that?

Mr. Wexler. That is caused by the fact being advertised. The two banks were heretofore considered perhaps safe, but have been compelled to close their doors, and the individual here and there begins to feel afraid of the money he has in his own bank, and he begins to talk to his neighbor:

Did you hear about those two banks failing in New York? I wonder if such and such a bank is all right.

And the whisper goes along, and you find these men presently appearing at your window with checks and they take the money home and put it in a stocking or rent a safety deposit box, and they are gradually taking your reserve money out. Then you look at your statements and you find that instead of having a 25 per cent reserve, which is the figure which the law requires to be carried, that you are down to 23 per cent, and maybe the next day down to 22 per cent, and the next 21 per cent, and that begins to be known and reflected in the weekly published bank statement, and then further fear takes place, and further withdrawals, and if everybody comes to get their money and you have no place to go to replenish it, why, of course, you have to close your doors. That is the way a panic works.

Senator Reed. Is there any difficulty that the bank suffers under in addition to that? I mean, I am directing your attention to just what I have in mind—to what extent does the fact that banks deposit with each other affect the ability of a bank to meet these extraordinary demands which may be made?

Mr. Wexler. You understand that we have three classes of banks—the banks in the central reserve cities. They carry all of their reserve in cash in their vaults.

Senator Nelson. They are supposed to.

Senator Reed. They do. The law requires them to do it, and their published statement shows it. Oh, except that it may fluctuate a half point up or down.

We have only three reserve cities now.
Mr. Wexler. New York, Chicago, and St. Louis are central reserve cities, and then we have reserve cities, of which class the city in which I live is one.

Senator Reed. You have a large number of those?

Mr. Wexler. A large number.

Senator Reed. Probably 20 or 30?

Mr. Wexler. Forty-eight now, and we are only required to carry one-half of our reserve in cash, and the other half we may carry with these three reserve cities. In the operation of our business it is necessary for us to carry a certain amount of money in these cities, whether we wanted to or not, even if there was not this reserve requirement.

(At this point the committee took a recess of 10 minutes, after which the following proceedings were had:)

Mr. Wexler. Might I be permitted to say a word? There are a number of gentlemen who have been designated to study and speak upon the points which Senator Reed and others are asking me about, and I feel that I am monopolizing the opportunity, and I feel very much as if I might be excused. There are others present who can answer these questions as well or better than I can, and who have written and studied a great deal upon the very point you are raising now.

Senator Hitchcock. One trouble is that we do not know in advance what the subjects are—if they could be given to us we would know.

Senator Pomerene. Mr. Chairman, I want to suggest that it is possible there may be a difference of opinion among these gentlemen on the different subjects.

Mr. Wexler. I am glad to say we are a unit.

Senator Pomerene. If there are a half a dozen men engaged in one kind of business who are a unit on everything, I have never come in contact with it, and I think it is very illuminating to get the views of all these men.

Senator Shafroth. If the gentleman is willing to return to the stand at any time—I want to ask some more questions, because he is answering some of them very clearly.

Mr. Wexler. I will be perfectly willing and glad to remain on the stand.

The Chairman. What is the pleasure of the committee?

Senator Hitchcock. I move that Senator Reed conclude his examination, and that any others then desiring to ask Mr. Wexler questions have the opportunity.

(The motion was carried.)

Senator Reed. I want to say by way of explanation that I find it very difficult to follow any line of thought out, as long as about the time we get to the point it has to shift to another gentleman. These men are all experts in their line, and I would like to have all their views, just as Senator Pomerene has suggested. Besides, each man states a thing in a different way, and sometimes that tends to elucidate matters.

You had just concluded stating that the central reserve banks actually keep their reserve in cash on hand?

Mr. Wexler. Yes, sir.

Senator Reed. How much reserve do they keep?

Mr. Wexler. Twenty-five per cent of their demand liabilities.
Senator Reed. And they count nothing as a reserve which they have put into any other bank?
Mr. Wexler. Nothing at all.
Senator Reed. So that under the present scheme we start out with the fact that there are three central reserve banks—one in St. Louis, one in Chicago, and one in New York—which have a reserve of 25 per cent of their deposits?
Mr. Wexler. Yes, sir.
Senator Nelson. It is not one bank in each place?
Mr. Wexler. All banks.
Senator Nelson. It is the banks in these places?
Mr. Wexler. All national banks.
Senator Reed. All those national banks?
Mr. Wexler. In those cities.
Senator Reed. Can you tell me, without stopping to refer to any documents, about what the reserves of those three cities run on the average?
Mr. Wexler. I think it is about $400,000,000 to $450,000,000.
Senator Nelson. Measured by their deposits?
Mr. Wexler. Measured by their deposits.
Senator Reed. I know that. Say $400,000,000. Then that would mean that they had deposits of——
Mr. Wexler. $1,800,000,000; four times $400,000,000 would be $1,600,000,000. I said $400,000,000 to $450,000,000. The correct amount is $1,800,000,000 of deposits if they have $450,000,000 of reserves.
Senator Reed. Of course, if there was a run on banks, as soon as $400,000,000 was drawn out, when they had drawn down to the limit——

Senator Shafroth. The reserves, according to the report of the Comptroller of the Currency, June 4, 1913, amounted in those reserve cities to $486,468,614.26. That is the total.
Mr. Wexler. That is not correct. The figures I have here of the deposit in central cities is $1,800,000,000, which would require $450,000,000 of reserves. I think that is nearer correct.
Senator Nelson. Mr. Wexler, do they not get credit for the 5 per cent collection on future bills?
Mr. Wexler. Yes.
Senator Nelson. That is deducted from it?
Mr. Wexler. From it.
Senator Reed. I did not get your question, Senator—on which they get credit of 5 per cent of the 25 per cent redemption fund deposit deposited for bills.
Mr. Wexler. That is the only money they are allowed to keep outside of their vaults—the 5 per cent for redeeming notes, deposited in the United States Treasury.
Senator Reed. That is for redeeming notes?
Mr. Wexler. Yes, sir.
Senator Reed. So that you really have 20 per cent?
Senator Nelson. No, no; that is 5 per cent on circulation, while the other is 25 per cent on the profits.
Mr. Wexler. Five per cent for outstanding circulation at the time.
Senator Reed. The ordinary bank keeps how much cash in its vault?

Mr. Wexler. The reserve city banks, or the next class—have deposits aggregating $1,900,000,000. They are required to carry 25 per cent reserve, of which one-half must be in cash and the other half they may keep in any one or in all of the three central reserve cities.

Senator Reed. So that they can keep in Chicago and New York and St. Louis 12 1/2 per cent of their deposits and count it as a reserve?

Mr. Wexler. Yes.

Senator Reed. Then there is another class of bankers?

Mr. Wexler. A class known as country banks. They carry deposits of $3,400,000,000, or nearly twice as much as the two others combined. They are required to carry 15 per cent.

Senator Pomerene. Not twice as much?

Mr. Wexler. Nearly twice.

Senator Pomerene. As much?

Mr. Wexler. As much. The other two have $3,700,000,000, and the country banks have $3,400,000,000.

Senator Pomerene. You stated twice as much.

Mr. Wexler. Oh, no. I beg pardon—I should have said as much as the two others combined.

Senator Reed. The 15 per cent that they are required to keep, how much of that is kept in vaults?

Mr. Wexler. Six per cent of it must be kept in cash; the other 9 per cent of it may be carried either with the banks in the reserve cities or in the central reserve cities.

Senator Nelson. And in each of those cases the 5 per cent on circulation is credit?

Mr. Wexler. Is credit—a deduction from the total reserve requirement.

Senator Nelson. Both as to the reserve cities and country banks?

Senator Reed. That makes a system like this, as I understand it: If a bank in Oklahoma had $1,000,000 of deposits, it would have to have $150,000 of reserve, of which it would have to keep in its own vaults—

Mr. Wexler (interposing). $60,000.

Senator Reed. $60,000; and it would have deposited either in Kansas City—it might deposit it all in Kansas City, but how much would it have to have there?

Mr. Wexler. It would have to have $90,000.

Senator Reed. That becomes a deposit of the Kansas City bank?

Mr. Wexler. Yes, sir.

Senator Reed. Then the Kansas City bank can keep of that $90,000 in its vaults—

Mr. Wexler. One-half, or $45,000.

Senator Reed. $45,000; no.

Mr. Wexler. One-half of the $90,000—no, no; I beg your pardon. Against the $90,000 it would have to carry a reserve of 25 per cent, which would be $22,500. It would carry one-half, or $11,250, in cash and $11,250 either in Chicago, New York, or St. Louis.

Senator Reed. How much does that leave us? You can figure quicker than I can.

Mr. Wexler. How much where?

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Senator Reed. Of this $90,000 sent up there by the bank in Oklahoma?

Mr. Wexler. $67,500, taking out $22,500 of reserve.

Senator Reed. I do not want to take it all out. I want to take out what they kept cash.

Mr. Wexler. Yes. Well, we keep out $77,750.

Senator Reed. It sends that down to Mr. Wade's bank.

Mr. Wexler. It sends $11,250.

Senator Reed. It sends all that it has got down to Mr. Wade's bank.

Mr. Wexler. How do you mean "all," Senator?

Senator Reed. We started out with $150,000 in the Oklahoma bank?

Mr. Wexler. Yes.

Senator Reed. The Oklahoma bank had reserved in its own vault of that $150,000, $60,000?

Mr. Wexler. Yes.

Senator Reed. And sends——

Mr. Wexler. $90,000 to Kansas City.

Senator Reed. And sends $90,000 to Kansas City. The Kansas City bank holds as a reserve against that——

Mr. Wexler. $22,500.

Senator Reed. Only half of that.

Mr. Wexler. All right; $11,250.

Senator Reed. And that leaves us?

Mr. Wexler. That leaves us $77,750.

Senator Reed. Yes. That is put with Mr. Wade's bank in St. Louis. Mr. Wade can take that and take his reserve out of that and send it to Chicago if he wants to, can he not, or send it to another bank in St. Louis?

Mr. Wexler. But it is not doing him any good to do it. His reserve only counts if he has it in his vaults. If he sends it to another bank he can not count it. He must have the reserve of 25 per cent, in addition to whatever he may have in another bank.

Senator Reed. When it gets to Mr. Wade the chain is broken?

Mr. Wexler. It is broken; it stops; you have reached the ultimate.

Senator Nelson. You understand, Senator Reed, that when the $90,000 of the Oklahoma bank comes to the Kansas City bank it swells the deposits of that bank to that extent?

Senator Reed. Exactly. I have been accounting for that. When it gets to Mr. Wade's bank he has to keep 25 per cent of it?

Mr. Wexler. Yes.

Senator Reed. And then he can take the 75 per cent that is left and deposit it in Chicago?

Mr. Wexler. It will not do him any good if he does deposit it in Chicago. There is nothing to prevent him from depositing it where he pleases.

Senator Reed. If he wants to loan it to Chicago, he can do that?

Mr. Wexler. He must keep 25 per cent cash.

Senator Reed. The only difference is that the amount of reserve becomes greater when it gets to him. The Chicago bank in turn can take out the reserve and send the balance to New York?

Mr. Wexler. If it chooses to.
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Senator Reed. As a loan or in any other way it wants to?

Mr. Wexler. Senator, there is one mistake in your proposition. You have calculated that the Kansas City bank would send to Mr. Wade all of the money in excess of the 12½ per cent that he is required to keep in cash in his own vaults. As a matter of fact, it would only send down there the 12½ per cent of the $90,000.

Senator Reed. Why?

Mr. Wexler. Because that is the amount of the reserve which it must carry against that deposit of that $90,000 from Oklahoma. The rest of the money it would loan out in Kansas City.

Senator Reed. I am talking about what it could do in loaning to other banks. I am not talking about the necessity of deposits, but what I am asking now is to what extent the banks do pass money from one to another in that way. Is it practiced largely?

Mr. Wexler. I will explain that to you. Let us take our own case. We have a reserve of about 2½ millions cash in our vaults and 2½ million dollars with the reserve agents in Chicago, New York, or St. Louis. We carry that in those three cities, because they are our legal reserve centers and because we get demands from people who have bought goods in St. Louis for exchange on St. Louis, exchange on New York or Chicago. The bills of exchange we buy on foreign countries we sell in New York where the demand exists for such exchange. The money gradually comes to these centers, because they are the natural channels of trade through which the money of the country drifts. In addition to that, we will carry some money in Louisville, Cincinnati, Baltimore, Philadelphia, Kansas City, and various other cities, to which our funds drift in the natural course of business, and upon which we need exchange, and this is in addition to the reserve requirement, because what we have in those last-named cities we can not count as legal reserve. The lending on our part to banks is only to those banks in our immediate vicinity who carry accounts with us. If a bank, for instance, in the city of Vicksburg, Miss., does business with our bank and it needs accommodation in the fall, we loan to that bank.

The CHAIRMAN. The stenographer will please make a note that that $150,000 required on the deposit of $1,000,000 would take $60,000 in their own vaults as a minimum, $11,250 as a minimum in Kansas City, $2,812.50 in St. Louis, making a total of 7½ per cent minimum out of the 15 per cent required by statute.

Senator Reed. Could you tell me to what extent the banks do deposit their reserve with other banks?

Mr. Wexler. Do I think it is advisable?

Senator Reed. No; I say, can you tell me to what extent that is done?

Mr. Wexler. To what extent do the banks deposit their reserves with other banks?

Senator Reed. Yes.

Mr. Wexler. In the exact amount that the law requires, together with such additional reserve as particular banks may think it necessary for them to carry for safety.

Senator Reed. I do not know whether you quite caught me or whether I quite catch you. A country bank is required to carry a certain per cent in its vaults, and it may carry the rest of its reserve in another bank?
Mr. Wexler. Yes.

Senator Reed. I am not asking whether it complies with the law and keeps the 6 per cent in its own vaults. To what extent does it deposit that part of the reserve in other banks which it is permitted to so deposit?

Mr. Wexler. All of it. It may keep it in cash. The general rule is to carry the nine-fifteenths required to be carried by country banks in addition to the six-fifteenths in cash in other banks in reserve cities.

Senator Nelson. But the country bank may keep the whole in its own vaults?

Mr. Wexler. It may.

Senator Reed. But I understand, as a matter of fact, it generally does not.

Mr. Wexler. Generally it does not.

Senator Reed. And generally all banks avail themselves of the privilege of depositing that part of their surplus with other banks which the law allows them to so deposit.

Senator Hitchcock. Senator Reed, it is time to put in the record the fact that the statement shows that the bank deposits of the national banks consist of $6,000,000,000 individual deposits and $2,000,000,000 bank deposits; about one-fourth of all their deposits are bank deposits.

Senator Reed. That, of course, includes, Senator Hitchcock, not only the reserves which they transfer from one to the other, but such other deposits as they see fit.

Senator Hitchcock. National banks, their total individual deposits are $6,000,000,000 (about) and their total bank deposits from other banks are $2,000,000,000.

Senator Reed. In other words, the reserve and also other deposits. [To the witness.] I am now about to ask you this question—if Senator Hitchcock will let me have his figures I will be obliged: What degree of peril is added in the case of a panic, if any peril is added, by virtue of the fact that these reserves are in part deposited with other banks and other moneys, so that about one-fourth of the moneys in the banks are deposited with other banks?

Mr. Wexler. The question is to what extent that adds to a panicky condition in time of stress?

Senator Reed. In other words, if there was $1,000,000 started in Oklahoma and part of it went to Kansas City and to St. Louis, and part of it went to Chicago and finally part of it went to New York, if you tied that money up in New York, you would tie up that chain of banks to the extent of the money so held?
Mr. Wexler. The percentage that finally finds its way, however, to central reserve cities, as you have observed in here, is a quite small part of the total.

Senator Reed. But, I say to the extent——

Mr. Wexler. To whatever extent that may be. If you needed the actual currency and you had it in New York and could not get it, your ability to pay it out would be impaired just to that extent.

Senator Reed. In reference to the panic of 1907—just a word on this point, not to go into it generally—was not the fact that the banks were largely tied together by their business relations and their interdeposits—I presume I may use that term—responsible for the forcing of the suspension of payment by the banks generally throughout the other portions of the country? Was not that largely responsible?

Mr. Wexler. Well, it is a good deal like a doctor diagnosing a case of sickness, Senator. When an attack comes on it is very hard to diagnose the original cause of the disease and its inception. There is a great deal of diversity of opinion about it. Of course, the first radical reduction in reserves exhibited itself in the New York bank statement, and that attracted the attention of the whole country to the condition in New York. The moment we all saw that condition, we had to draw our money out of New York in order to intrench ourselves, and in doing so we further weakened New York, so that we contributed in a sense to the acute condition that existed in New York. Our country bank correspondents, when they found that we were drawing our money out of New York with a view of strengthening ourselves, turned around and drew it out of us to strengthen themselves. So that the whole system broke down because of its inefficiency.

Senator Reed. And finally ended with the fellow with the stocking.

Mr. Wexler. With what?

Senator Reed. Ended with the gentleman with the stocking—the man that was going to get the money out and put it in his stocking.

Mr. Wexler. It finally went to the individual who took it out of the bank and put it in his stocking. That was what created the panic. So that we all finally contributed to the acute condition that existed.

Senator Reed. So that it must be true that this practice of banks carrying large deposits with other banks is an element of danger in the present system?

Mr. Wexler. In the present system; yes.

Senator Reed. That is what I am trying to get at—the difficulties of the present system. Still keeping away from this bill.

Mr. Wexler. For the reason that, Senator Reed, the New York bank has no place to go and get this money when called upon for it, having no privilege of rediscount.

Senator Reed. Suppose that the New York bank had a place it could go and get this money. That would pretty nearly solve the difficulty, would it not?

Mr. Wexler. Absolutely.

Senator Reed. But you do not think if he could go and get it down here out of the Treasury that that would do much good?

Mr. Wexler. No, sir; it would not. It is too cumbersome.

Senator Reed. Why not?

Mr. Wexler. In the first place——
Senator Reed. I'm talking about—following the present method—a condition of affairs where he could walk right down to the Federal Treasury, promptly, and get the help. Would it not then be able to meet this condition?

Mr. Wexler. Yes; if the central Federal Treasury had the money and the Federal Treasury had the machinery for passing upon these loans, and was willing to make the loans at that time promptly—immediately upon the minute—why, of course, it would answer the purpose.

Senator Reed. Very well. I understand, of course, that you are talking about any plan that can be worked out. I am trying to get at the principle now. The whole difficulty, then, simply lies, as far as panics are concerned, in the inability of the great banks of the great centers to get money for their assets and get it quick?

Mr. Wexler. Yes.

Senator Reed. I thank you for that.

You have already, I think, answered the third proposition, in which you said that the third difficulty was that the entire reserves were scattered in the various banks, and you thought that they ought to be gathered into one common reservoir; and I do not care to press that further at this time. I am taking too much time, anyway.

Just one other matter, in regard to rates of interest: I believe you have stated that money goes to New York and to Chicago and to St. Louis and other large cities because it is following the demands of trade and commerce. Do you think, therefore, that the real laws of trade must be considered in that respect?

Mr. Wexler. Undoubtedly.

Senator Reed. I want to get your views as to whether or not a similar law does not apply to the question of interest charges—that is to say, we find that you can get a greater rate of interest on money in a new State. I have always found that it was not so much on account of the risk as on account of the fact that the man who borrowed the money had a better chance to make money probably than he did in older places. Is not that the situation?

Mr. Wexler. I do not think it is, Senator. I think the higher rate paid in the newer State is due to the less liquid character of the security. It may be just as good. A man may have a vast tract of timber; that is an excellent asset, yet it may not find a ready market. You will find that the higher rate is paid on account of two things: One the risk, and the other the liquid condition of the collateral—how readily the money can be collected and converted back into cash. In new States—and largely in the Southern and Western States—our collateral is not as liquid as the collateral in the New England and Eastern States.

Senator Reed. I know. You have been so manifestly fair all through this interrogation, and I want to ask you a little further.

A man out in a Western State perceives an opportunity to invest in something and make 100 per cent. Is not he more willing to pay a higher rate of interest, and do you not think that cuts some figure in the matter?

Mr. Wexler. I think it does. He is more willing to pay a higher rate and he ought to pay a higher rate. What would just be the class of thing that you have in your mind upon which he sees an opportunity of making 100 per cent? Might it be the boring of an oil well,
might it be the buying of a piece of timber, or the erection of a saw-mill or stave factory or an ice plant, or many things that new countries require, which is more or less fixed capital, not credit? He puts the money in with the idea of making a big profit out of it or selling it to somebody else. He could not make 100 per cent by the operation of any one of those plants. Therefore it is more or less fixed capital that has to go in for a long time, and his judgment may be correct, and he should pay a higher rate, and that class of securities should never go into the central bank as a basis of a note circulation.

Senator Reed. Do you think the same conditions that make it possible for this man to invest in the class of business ventures you have spoken of has its effect all along the line—the wages of men are higher, the profits on goods sold are higher, and do you not think that has something to do now with the building of the bank, and consequently the ability of the bank to ask more?

Mr. Wexler. Senator, I do. You are entirely correct that that employs labor and pays out wages and makes business better, but whenever the investment in enterprises of the character to which you refer is widespread and general and upon credit—that is, that the man who makes the investment has not his own money in the bank that he can use—that is what we class dangerous expansion, when he goes to borrow for such purposes, and that is what really brings about a panic, when we go too fast in investments of that kind.

Senator Reed. That is illuminating, but a little aside from the thought I have. I am directing your attention to this, whether it would not violate these—I will call them "natural" conditions for the want of a better term—if we had one fixed rate of interest, the same for New York that you would have for Portland, Oreg., the same for Boston that you had for Seattle or San Francisco, are you not there trying to fix an iron rule and fastening upon conditions that are widely variable and where the unobstructed laws of trade have already met the varying conditions by varying rates of interest?

Mr. Wexler. No, for this reason, that the central bank or a Federal reserve board controlling the regional banks would have no control over the rate of interest which the individual National and State bank would charge. It has nothing to do with it. It simply makes the rate at which it gives rediscount for the various banks. If John Smith should contemplate an enterprise of the nature that you refer to and wanted to borrow the money, he could not go to the regional bank, because he could not trade with it. He would go to the bank located in his town, and that bank would charge him a rate commensurate with the liquid character of his collateral and upon the risk. That rate he would have to pay, and that would have no regard to any rate fixed by the Federal reserve board. After the bank got that collateral it would have to know that it had the money to take care of it for the full length of time that it had loaned, because it is not of the character that he could go and rediscount that paper, even with its own indorsement, in the Federal reserve bank.

Senator Reed. Why not?

Mr. Wexler. Because it would not be permitted.

Senator Reed. Suppose it is a merchant. I will take that.

Mr. Wexler. All right, take that.
Senator Reed. We will say that the natural rate of interest in the East is 5 per cent. The present rate in the West, let us say, is 7 per cent. You establish this system, and your central bank says to its branches, or the Federal reserve board up here says to the Federal reserve banks, "We loan you money at, say, 3 per cent." Your bank out West would get its money at 5 per cent, and still continue, you think, to charge the same rate of interest to its customers?

Mr. Wexler. No, I think the rate of interest on this class of paper would decline. I believe the public would be served to better advantage and at lower rates on liquid commercial paper than it is being served at the present time; it would be an advantage to the whole country.

Senator Reed. If the rates came down on liquid commercial paper, that would necessarily, at least indirectly, affect the rates on all paper, would it not?

Mr. Wexler. I do not think it would.

Senator Reed. You do not think it would at all?

Mr. Wexler. No, sir. I have seen a condition where you could rediscount good commercial paper at 4 per cent in New York in banks and through commercial note brokers, when a railroad would have to pay 7, 8, or 9 per cent in order to get money—a good railroad corporation.

Senator Reed. You say the bank would be able, although it got money at, say, 3 per cent, to nevertheless charge the customer in these western places 6 or 7 or 8 or 9 per cent, as the case might be; in other words, charging whatever they saw fit, limited, of course, by his disposition to pay?

Mr. Wexler. Yes, sir.

Senator Reed. If there was only one bank in his community he would have to pay what they fixed, would he not?

Mr. Wexler. That is what he has to do now; but he could get in his buggy or automobile and go to the next town 10 miles away and get a little competition on his loan.

Senator Reed. He could do that now.

Mr. Wexler. Yes.

Senator Reed. But if you had one central bank and it had its branches in every city and town, I believe you said every national bank would join it and practically every other bank would join it, and if this man left his town and went across the country 10 miles to the other town he would be dealing with the same gentlemen, in fact, that he was dealing with in his own town?

Mr. Wexler. Senator, he would not. You are confounding in your mind the Federal reserve bank or the branch of a central bank with the 23,000 to 25,000 State and national banks throughout the country who are merely subscribers. The competition amongst us as general bankers is extremely keen, and what makes the rates to-day? It is the competition that exists between bankers. If a man comes to me and wants to borrow, I do not ring up and ask every other banker, "Has he been to you?"

Senator Reed. I understand that. As it appears to-day you bid for the borrower.

Mr. Wexler. We give him the prevailing rate of interest upon loans of that character.
Senator Reed. If he is not satisfied with you he comes to me?
Mr. Wexler. Exactly.
Senator Reed. The result is there is competition.
Mr. Wexler. There is competition.
Senator Reed. If you have one central bank and that central bank has its branches, and all banks in order to avail themselves of its help must be members of it, then I want to know why there would not be one rate of interest fixed clear down to the customer.
Mr. Wexler. Because——
Senator Reed. Inevitably.
Mr. Wexler. Not at all. There would be absolutely no more relation between the individual banking institution than there is to-day. They would simply be subscribers of one central reservoir of credit with which they could discount liquid commercial paper, but the remainder of the resources which they could not rediscount and their discounting privilege would be governed to some extent by the lending ability. Under the reserve bank system or the central bank with branches there would be the same competition that there is to-day.
Senator Reed. I understand you to say——
Senator Nelson. Let me interrupt you. I think that you have overlooked the fact that it is only banks that can be customers either to discount or to deposit with these national reserve banks, and they can not deal with individuals.
Senator Reed. I am not talking about the national reserve bank now at all. I am talking about this suggested plan with one central bank with numerous branches. Suppose that is established, and it has its numerous branches. I asked the question of Mr. Forgan, I think—I may be in error, if I am I apologize—whether or not that would not compel all banks ultimately to become members of the general system, and I understood him to say it would.
Mr. Wexler. I think it would have the effect—the privileges should be so great that they would all want to join the general system.
Senator Reed. Suppose that is established, and it has its numerous branches; I asked the question, I think, of Mr. Forgan—I may be in error, if I am I apologize—whether or not that would compel all banks ultimately to become members of the general system. I understood him to say that it would.
Mr. Wexler. I think it would have to be so. The advantages would be so great that we would all want to join the general system.
Senator Reed. Under that scheme which is suggested, what would be your relations to the great central bank with its numerous branches?
Mr. Wexler. What would be our relations with the central bank located in Washington in connection with the banks in New Orleans? I would be a subscriber to the stock of the central bank and a depositor in the branch in New Orleans. My general customers doing business with me to-day would continue to do business just as heretofore and would not know of the existence of this branch.
Senator Reed. The New Orleans bank would rediscount at a rate of interest upon which to loan money to you and everybody else?
Mr. Wexler. To me and every other bank.
Senator Reed. That is what I mean. We will say they fix that rate of interest at 4 per cent.
Senator Crawford. Senator Reed, pardon me, but would it include every other bank?

Senator Reed. If they all subscribed, and I think they all would have to.

Mr. Wexler. All right, now, we have that condition.

Senator Reed. Your advantage in belonging to that system is that you can go and rediscout your customers' paper?

Mr. Wexler. That is it.

Senator Reed. The first thing necessary, therefore, is that your paper shall be of such character that it will be passed by the central reserve bank?

Mr. Wexler. Yes.

Senator Reed. Therefore is it not only possible, but is it not inevitable that the central bank would prescribe the kind of banking you should do in order that you should be a safe bank?

Mr. Wexler. No; no more so than the comptroller's department at the present time prescribes the class of banking I can do.

Senator Reed. But the comptroller's department at the present time does not have to let you have money.

Mr. Wexler. No; but it prescribes the kind of business I can do.

Senator Reed. Let us see how it will work out. We might discover that it would be a bad thing for banking, and we might discover that it would be a bad thing for the country. I know the bankers do not want to hurt the country.

Mr. Wexler. No, sir; we do not.

Senator Reed. Would not the central bank necessarily say in the end to you:

We think you are paying too much interest on deposits; when we loan your bank money we do not want this kind of collateral; we want a good bank back of the collateral.

Would they not in that way, by suggestion, if not by command, influence the rate of interest paid upon deposits?

Mr. Wexler. I do not think so, sir. I think that the Federal reserve bank located in New Orleans would simply act in its relations with me in this capacity: We would be a subscriber to it, and the general borrowing public would have no relations whatever with the Federal reserve bank. It would have its relations with me.

A wholesale dry-goods man, for instance, would come to me. He is in good credit, and he can sell his paper on the markets of the country, and he carries a large average balance, and he only borrows money for three or four months of the year, and he carries this balance all the rest of the year. I fix him as low a rate as my judgment might justify. It may be as low a rate as 4 per cent, as I can rediscout his paper with the Federal reserve bank in that district, or I may charge him 4½ or 5 per cent, as the case may warrant.

Now comes along a sugar planter who is perfectly good; he owns a magnificent plantation, he carries an account with us. He has his crop to bring in, and he wants $25,000 to finish his crop with. We will say that is a three or four months' loan. His balance may not be as large, his paper is not quite as liquid, and he will pay me probably 1½ or 2 per cent more. That is, I would exercise my business judgment of the value of the two accounts to the bank. I come along to the middle of September and I find that people want to borrow money on cotton, sugar, rice, and various other commodities. I find
that we need more money in order to carry all these commodities, and I take the note of the dry-goods merchant or of the sugar planter, to the extent that I may need money, and take it over to the central bank and offer it at the prevailing rate on that day and they discount it. They do not discriminate with regard to the rate. The paper must be of that quality and standard required by the by-laws and rules of that bank or they will not take it at all. If it is of that character they discount it. They give me their rate on that date and the commercial transactions of the country are facilitated, and the commercial interests of the country are benefited. The rates of interest on that class of paper may decline, but it will have absolutely no relation to the money borrowed. The money borrowed for the general development of the country will have to pay the rate which the risk of the loan and the character of the assets justify.

Senator Reed. That is a limitation?

Mr. Wexler. Yes, sir.

Senator Reed. After the establishment of this central bank and its numerous branches, how would it proceed to protect itself for loans or rediscounts that it made to your bank, for instance?

Mr. Wexler. Protect itself? Well, for instance, the board of that bank would be six members, as the bill proposes, selected from that immediate section, three probably bankers, and three merchants or agriculturists, who would be presumed to be familiar——

Senator Reed. I am not speaking of the plan proposed in this bill. I am speaking about the central bank.

Mr. Wexler. The branch central bank would have a governor at this central bank, and an advisory board there who would pass upon this paper. Its duty would be to be just as familiar with conditions as the board and officers of our bank are to-day. If they did not think well of the paper they would refuse it.

Senator Reed. That all relates to an examination in regard to the paper itself?

Mr. Wexler. Yes.

Senator Reed. But in addition to the paper it would have to take into consideration the character of your bank and stability of your bank also. Do you think that would cut any figure?

Mr. Wexler. Decidedly so.

Senator Reed. Then they would take that into consideration?

Mr. Wexler. Yes, sir; we would be the indorsers of the paper.

Senator Reed. Therefore, if you went there to get credit, they would consider, not only the credit of the man who signs the note which you presented, but also your credit?

Mr. Wexler. Yes, sir.

Senator Reed. Then do you think that if they made a suggestion to you that you were paying too much interest on deposits that you would not take heed to that suggestion?

Mr. Wexler. I think that if they made such a suggestion and the suggestion was wise I would certainly take heed of it.

Senator Reed. Don’t you think you would take heed of it a little on the line that this was the place you had to go to get your money in the time of rediscounts of these notes?

Mr. Wexler. I can not conceive, Senator, of a suggestion being made that would not be in the direction of sound and conservative banking.
Senator Reed. Suppose they said:

You must not pay interest on deposits at all.

That would be in the interest of making the bank safe and it would be sound banking in that sense. Suppose that he said to you:

You must not extend any more credit to A B; we don’t like his paper.

It might be sound banking, but I am thinking a little about A B now just for a minute, about the customer, and the possible effect of one central body fixing this sound rate and one central body supervising in the way I have indicated all of the banking business of the country. I am thinking of the possible effect that might have upon the borrower.

Mr. Wexler. I do not think, Senator, it could have anything but a salutary effect. Let us presume that the condition you have just mentioned arose, in which they should say:

We do not believe it to be good policy for banks to pay interest on deposits subject to check.

Let us presume that. I am not so certain but that such a recommendation might be very good. Who pays the interest in the end? Nobody but the borrower. If I am paying 3 per cent interest to all my depositors, I must get that much higher rate from the borrower. He has to pay the freight in every circumstance.

Senator Reed. That is true, but the man who has the money in your bank gets part of the freight.

Mr. Wexler. If he has a lot of idle money, he has means of investing it. He can put it into savings banks where he can get interest, but I can not conceive of any branch of a Federal reserve bank or of a central bank inflicting upon the general banking interests of the country arbitrary rules that would be injurious to the people doing business with those banks. I am sure such a condition would not exist.

Take Canada, where they have the branch-bank system. These branch banks do the local business. They have never inflicted upon their customers any arbitrary rules and regulations. I do not believe that we have anything at all to fear from that source. I think it will make for sounder and better banking.

Senator Reed. I do not want to have my questions misinterpreted.

Mr. Wexler. I understand; you are trying to develop the fact.

Senator Reed. The bankers are high-class business men; I think a good deal of them; indeed, I borrow money from them.

Mr. Wexler. They are very necessary.

Senator Reed. And as long as they continue to loan money I am going to have a soft spot in my heart for them; but the question now is whether or not it is not entirely possible for this central control to finally manifest itself in the conduct of the business of the individual banks in such manner that the business will be perhaps safer and sounder and for the best interest of the customers of the banks in the end? Will he not find that there is practically only one place to get his accommodations and that competition has been largely wiped out?

Mr. Wexler. That is not the result in Europe. I am confident that this plan will make for sounder banking; that it will make for certainty of the banker being able to accommodate his customers. The great thing to be accomplished is to enable the man who needs
credit to conduct his business with confidence and with certainty that the credit he requires will be furnished him and that he need not be constantly under fear and hesitation as to whether or not he can get that credit. I believe that would be accomplished by the central banks or Federal reserve banks.

Senator Reed. That is all I wish to ask you at the present time; I thank you, Mr. Wexler.

Senator Hitchcock. Mr. Wexler, you were just referring to this European practice, and if I understood you correctly, you spoke of the European system as being preferable. Which system do you refer to?

Mr. Wexler. The Bank of France appears to me to have an organization that is more nearly fulfilling all of its requirements as far as that country is concerned than the other systems that I know of. However, I have not made a study of the European systems lately and I am hardly in a position to make any definite statements in regard to them.

Senator Hitchcock. You objected when I said that the capital of these proposed new reserve banks might be owned outside of the banks, and yet the Bank of France is owned entirely outside of the banks, and they have no control over them.

Mr. Wexler. I admit that. I think that is true of all the European banks. In fact, the capital is owned outside of the banks, but if you allow the capital here to be owned outside of the banks you will have to open the doors of the banks to the general public, and you will create a competition between your Federal reserve banks and the general banks which will ultimately result in this country in a monopoly of the banking business, in my opinion, and the dangers to which Senator Reed has just referred might very well occur.

Senator Hitchcock. Is it not a fact that the bank borrowing of every European country is much more concentrated than the bank borrowing of the United States?

Mr. Wexler. Yes, much more.

Senator Hitchcock. And if we adopt one of those systems we are going to concentrate and centralize that bank borrowing?

Mr. Wexler. Not under the plan we propose here where each bank maintains its independent entity all the way through. I can not see how we can possibly have the condition of centralizing our banking systems. We will simply centralize our reserves and rediscount facilities, and we will have just as many separate entities as we have to-day, and they will increase as the demand for additional banks occurs.

Senator Hitchcock. The bank that desires to borrow currency under your plan, however, must ultimately seek relief of the central association?

Mr. Wexler. Undoubtedly.

Senator Hitchcock. And seeking that relief, it is bound to present paper which is satisfactory to the central association?

Mr. Wexler. Yes.

Senator Hitchcock. And if the central association has the power of refusal it would result in giving the central body the power of suggestion to all banks and the power to considerably control their methods?
Mr. Wexler. Well, it would to the extent where such methods are
unsafe. The same condition exists to-day. When I go to our cor­
respondent in New York for a loan and he does not think conditions
are as they ought to be, he does not hesitate to say:

I do not think you are loaning your money at a proper rate of interest, or you are
paying too much interest on your deposits.

That is a perfectly proper suggestion. I make it to the banks
which come to me. I have no hesitancy in saying to them:

You are not on the right track; you must mend your ways.

Why should not the central reserve banks have that privilege?

Senator Hitchcock. But you take away from New York, St. Louis,
and Chicago, and all these 48 other cities, this power of suggestion
and give it into the hands of one bank.

Mr. Wexler. Not at all. Take, for instance, our case. The banks
doing business with us will probably have to use our facilities to a
certain extent just as they have heretofore. They will not have
enough liquid commercial paper of the proper character which this
bank would accept. They will have to come to me with paper of a
character which this bank will not take and I will have the same
power of suggestion that I have had heretofore.

Senator Hitchcock. This power of suggestion is now divided up
in these three central reserve systems and as many banks in each
system, and you propose to concentrate it all in one system?

Mr. Wexler. No. They, as lenders of money, will have the power
to suggest, which is an ordinary human right. The banker in the
small town suggests to the individual. If one of his customers who
borrows money from him is not running his business properly he tells
him so. That is just in the ordinary human course of affairs that the
man who is doing business with another man and feels an interest
in that man's welfare suggests to him the proper course of business
which he should pursue. Of course he may reject that suggestion.
I have had men reject my suggestions to them, and the only thing
they can say is—

If you do not like the way I am running my business I will take it to another bank.

Senator Hitchcock. You referred to the Bank of France. As a
matter of fact your association of bankers proposes an entirely
different currency plan from that in use in the Bank of France.

Mr. Wexler. I have said that we can not adopt any particular
European or other system. We have to work out a system, taking
the experience of foreign countries which is adaptable to our own
particular conditions of affairs.

Senator Hitchcock. You are proposing a currency which is not a
legal tender. The currency of the Bank of France is a legal tender.

Mr. Wexler. Well, our currency would be legal tender——

Senator Hitchcock. I am speaking in the absolute sense. The
currency that you propose is not a legal tender.

Mr. Wexler. Well, I will simply reiterate that we have suggested
a great many changes from any foreign system I know of, all of which
we believe desirable.

Senator Hitchcock. Is not the real trouble at the present time a
lack of adequate legal tender—money—in the United States?

Mr. Wexler. I do not think so.
Senator Hitchcock. The figures show only $900,000,000 deposits of balances in the reserves of banks of the United States for $8,000,-
000,000 of deposits. In other words, only about 10 per cent.

Mr. Wexler. Yes; which is really more than we need. In this
country the average reserve for the banks of deposit is 13 per cent,
and in Europe the average is but 12 per cent.

Senator Hitchcock. In Europe there is no duplication. Here we
have duplications.

Mr. Wexler. This to which I refer is all cash reserve, metallic
reserves—legal money.

Senator Hitchcock. The reserves shown in the national banks of
this country are something like $900,000,000—that is, the cash re­
serve—against $8,000,000,000 of deposits.

Mr. Wexler. But it is metallic cash, gold reserve.

Senator Hitchcock. And the real trouble when it occurs is that
the bankers are compelled to dip into this reserve if there is a run,
and the banker has to make an excessive payment for loans. You
propose no addition to this volume of reserve at all; what you pro­
pose to do is to increase the supply of credit money.

Mr. Wexler. I am certain that the reason we have to dip into that
metallic reserve is because we have not any paper money we can give
the people. The people do not need the gold. If you had money
in the bank you would not need to draw gold; you would have no
use for it. You would only do that if you were frightened. A bank
note would answer your purpose just the same.

Senator Hitchcock. Has not every bank panic occurred where the
reserves of the bank were at a very low ebb? Was not that the
case in 1907?

Mr. Wexler. Yes.

Senator Hitchcock. And is it not true that at the present time
bank reserves—I mean the cash reserve money in the banks of the
United States—is almost at the same low ebb as in 1907?

Mr. Wexler. No; I think the average reserve now is fully up to
legal requirements.

Senator Hitchcock. I am not speaking of the book reserves; I
have no doubt that the books of the bank will show 25 per cent of
their balance on hand, but, on account of this duplication of deposits,
there is not actually in the banks of the United States more than
$900,000,000 for the $8,000,000,000, and that is almost as low as it
was in 1907. It is a little more than it was in 1907, but not much,
and it is down to the point where bankers are actually restricting
their credits at this time because they are so low. Is not that a fact?

Mr. Wexler. Yes.

Senator Hitchcock. And your proposition does not go to that
evil, but is only to inflate the credits.

Mr. Wexler. Not at all. My proposition will bring into the
banks the $300,000,000 or $400,000,000 of gold circulating in the
pockets of the people to-day and add to the present reserve and give
them in lieu of it a circulating note which will answer their purpose
just as well and which they would rather have. We are paying out
this reserve money whenever there is a demand for a circulating
medium, when that money ought to be in our vaults.

Senator Hitchcock. You propose using these bank notes which
you want to issue for the purpose of withdrawing the gold from the
people and getting that gold into the banks?
Mr. Wexler. Exactly. I think that with this system in vogue you would not see any more gold certificates and very few greenbacks. They would be the basis upon which the credit would rest.

Senator Hitchcock. That gold when drawn into your banks would be the basis for conditional credit on which you would issue loans. Does not that mean inflation?

Mr. Wexler. Not at all; not if you have the proper proportions of reserve. Probably, if you look in your pockets you will find $40 or $50 of gold certificates there.

Senator O'Gorman. No Senator from the West has that much money.

Senator Hitchcock. I do not want to expose my financial condition.

Your idea, then, is that this power to issue conditional bank notes is desirable for the purpose of trading them to the people for the gold which you state is in circulation, thereby drawing the gold into the bank and increasing your reserve money, and for that reason increasing the loans you can make? You think there is no danger of inflation as a result of that process?

Mr. Wexler. No, sir; because the amount of money you can issue in exchange for this gold must always be protected by gold reserves and liquid paper constantly maturing and constantly coming in for redemption.

Senator Hitchcock. Now, Mr. Wexler, you approve of the European system. Will it not require practically a revolution of American banking to adopt rediscounting of bills by banks?

Mr. Wexler. The rediscounting of bills by the central banks or the Federal reserve banks?

Senator Hitchcock. Would not that require a revolution in their methods of doing business?

Mr. Wexler. Not in the least.

Senator Hitchcock. They carefully avoid rediscounting bills now, do they not?

Mr. Wexler. Yes.

Senator Hitchcock. It is regarded as bad banking?

Mr. Wexler. In some sections it is; in other sections it is regarded as good banking.

Senator Hitchcock. But it would practically be a revolution of banking methods, would it not?

Mr. Wexler. When the banker in the city gets hard up he does not want to borrow because he does not like to have it appear in his statements; it is simply a sentimental idea which prevails in his mind. As a matter of fact he would be a great deal better off if he did borrow and take care of the business of his section and of his customers. In the section in which I live we do borrow. In 1907 the bank of which I am vice president borrowed twice as much as its capital to take care of the business. Many banks did not do it. We believe that the business should be carried on, that the crops should be shipped to Europe, and the gold brought back, and we did not hesitate to borrow and use the money in our business. It will cause no change whatsoever; instead of borrowing from New York as we do, we will have the central reserve bank of credit to go to.

Senator Hitchcock. Mr. Wexler, you admired the banking system of France. Is it not a fact that the Bank of France discounts notes
for not more than 50 banks; that is, the total number of banks for which the Bank of France discounts notes?

Mr. Wexler. I can not answer that question. It also discounts for the public.

Senator Hitchcock. My judgment is that it is much less because there are only a few banks in France with several hundred banks connected with each. Do you think that method can be made to apply to a country with 25,000 banks, if all want to discount notes?

Mr. Wexler. Not at all. I think the central bank here should have the right to discount for the 25,000 banks.

Senator Hitchcock. Would you think the rediscounting of the banks is entirely different and a more serious proposition with so many individual banks than if there were a smaller number of great banks with which the business could be done?

Mr. Wexler. I do not think so; not at all. It is a question of principle. I venture to say that there are banks which discount for 3,000 or 4,000 now. There is no difficulty about it.

Senator Hitchcock. A few moments ago, in answer to a question put by Senator Reed, you said that you thought that it would be entirely feasible for you to go to the representative of a central bank in New Orleans and present your paper and secure whatever cash currency you desired on that rediscount. Can you see any good reason why you would go to that bank if, instead of representing the central bank, he represented the Treasury of the United States—the same expert represented the Treasury of the United States—to pass upon the paper which you offered and hand you out in place of it bank notes—notes of the Treasury of the United States?

Mr. Wexler. I can not see any reason for that. The Government has no money with which to do it.

Senator Hitchcock. Suppose the Government provided the money?

Mr. Wexler. How would it provide it?

Senator Hitchcock. By issuing these notes and providing gold reserves for their payment.

Mr. Wexler. Where are they going to get the gold?

Senator Hitchcock. By selling more bonds; by providing an issue and requiring the bankers to pay enough interest for the loan of the currency to more than pay the interest on the bonds.

Mr. Wexler. We have a fixed bond-secured circulation——

Senator Hitchcock. No; you misunderstand me. The bonds not to be secured; the bonds merely to be issued for the purpose of providing a gold reserve in the Treasury. You are to borrow those notes and pay interest on them during the time you have them. The Government is liable for their payment and has reserved their payment, but in the money you pay the Government for the loan of the currency you more than pay the interest on the bonds. By that method we add to the country a considerable amount of reserve money—legal-tender money, money that would be good for all purposes, public and private, and currency that could be used for banking reserve.

Mr. Wexler. Do you want to make those notes legal tender? If so, you would have to do it by act of Congress.

Senator Hitchcock. All Government notes are legal tender now.

Senator Reed. We are dealing with an act of Congress.

Mr. Wexler. I am sure, if you wanted to do so, you could work out a scheme by which the United States Government could go
into the banking business; but I do not believe that the Government of the United States ought to be in the banking business.

Senator HITCHCOCK. The Government of the United States would simply be authorizing currency for the purpose of enabling banking interests to do business.

Senator NELSON. Would not the banks have to deposit commercial paper with the United States?

Senator HITCHCOCK. Certainly; they would deposit it with the agents here.

Senator NELSON. And the United States would be holding a lot of commercial paper?

Senator HITCHCOCK. Certainly.

Mr. WEXLER. You practically have that in this plan. We have the Secretary of the Treasury as the ex officio head of this bank; we have everything you gain by having a Government bank without having the Government mixed up in it.

Senator HITCHCOCK. The plan I am proposing does not involve the complicated machinery; it does not involve the deposits of the country; it does not involve detracting and taking away from the inadequate capital of the national banks; it does not take away the independence of the country banks or the individuality of the bankers.

Mr. WEXLER. But here is what it does, which is infinitely worse. It is in the first place pledging the credit of the Government to secure the bonds. What advantage is there in selling a bond at 4 per cent which the Government would have to do now, and then requiring the people of the country to in turn pay that interest back to the Government, when you have the reserves now scattered all over in the 3,000 or 4,000 different piles, which simply needs to be concentrated into one pile to create the gold reserve necessary?

Senator HITCHCOCK. I am asking for enlightenment on a different line. You propose to inject perhaps $1,000,000,000 of credit currency into the money of the country. Is there any danger that the injection of that debased currency would tend to drive gold abroad?

Mr. WEXLER. Just the contrary.

Senator HITCHCOCK. That, it seems to me, would be the invariable result. You have a note which is not legal tender; you propose a note which is not legal tender.

Mr. WEXLER. But gold will not be near as available to be shipped out of the country as it is at the present time, because the gold will find its way into the vaults—into this central reservoir of credit—and the circulating note will be out among the people. Of course, these notes could be presented by a foreign Government if it had a balance against us at the central bank and the equivalent in gold taken away, and you will recall that I raised the point that the central reserve board ought to have enough power to levy an export tax upon gold. That has been discussed in our committee. We have to-day the only free gold market in the world, and the balance of trade in our favor, and our enormous crops have been so great that we have been able to get our gold back on several occasions when it has been diverted abroad. But a condition might arise which would make an export tax on gold desirable.

Mr. FORGAN. I would like to suggest to the committee, if I may, that we are not at all surprised that the members of your committee when they get hold of a witness like Mr. Wexler should hold onto him.
but Mr. Hill has been asked to prepare himself specially on behalf of
this committee to answer all your questions in connection with the
subject you have just been discussing. He is specially posted on the
topics about which you have asked Mr. Wexler during the past 10
or 15 minutes; Mr. Wexler has only the general knowledge of the
matter that he has acquired in his business. He is not as ready to
answer as the gentleman who has prepared himself.

Senator Hitchcock. Well, we will give Mr. Hill all the questions
that are necessary to shed light upon the subject.

Mr. Forgan. All I desired to do was to make the suggestion on
behalf of ourselves that you ask the men who have prepared them­selves to answer on these special topics, because we do not wish to
give our own individual opinions. I want you to understand that
we are here, appointed by the conference held in Chicago and under
the resolutions adopted by that conference.

Senator Reed. But we may want your opinions.

Mr. Forgan. You are entitled to them, but if you will confine
yourselves to the subject upon which we have prepared ourselves I
am sure you will be much better posted.

Mr. Shafroth. Mr. Chairman, I move that the committee do now
adjourn.

The Chairman. It is moved that the committee adjourn, and we
will therefore take a recess until 2.30 o'clock p. m.

(Thereupon, at 1.10 p. m., the committee took a recess until 2.30
o'clock p. m.)

AFTER RECESS.

The Chairman. The committee will come to order. Gentlemen of
the committee, Dr. Johnston was invited from Kansas City to address
the committee. He is the president of the National Reserve Bank
of Kansas City, Mo. He wishes to be heard, and I have requested
him to appear before the committee, and I will ask the committee
to hear him, and then we will proceed with and conclude the cross­
examination of Mr. Wexler, if there be no objection.

STATEMENT OF DR. JOHN T. M. JOHNSTON, PRESIDENT OF
THE NATIONAL RESERVE BANK, KANSAS CITY, MO.

Dr. Johnston. I am president of the National Reserve Bank of
Kansas City, Mo. Mr. Chairman and gentlemen of the committee, I
feel like apologizing for differing from these men who are here giving
their views and opinions and arguments on the currency bill, and I
should not be here to­day had it not been at the special request of
Senator Owen, with whom I have been associated in a confidential
and business way for many years.

Let me say that I believe in these men who are here making their
arguments before this committee. I believe in them collectively, and
I believe in them personally. I believe each of these gentlemen
possesses character, capacity, and conscientiousness. I believe that
every move they have made up to this time and at this meeting of
this committee has been done unselfishly and patriotically.
Therefore it is the more embarrassing for me to differ with them, and especially two of this committee; it is especially embarrassing as a St. Louisan, for I have known Festus J. Wade for many years. I have seen him come up from a newsboy on the street and a driver of a mule car, and on up until he is to-day the financial head and leading spirit of what we count one of the greatest, if not the greatest, financial institutions in the central reserve city of St. Louis. I believe in him. This is evidenced by the fact that when he had a vision of a financial institution in St. Louis, and asked me to become a stockholder, I did so at once. And so I found myself having a quarter of a million of dollars invested in his plant. My faith has not been disturbed, but has grown, as is evidenced by the fact that I am still a stockholder. Yet I have sold enough of the stock of his institution to clear me $50,000. So you know that I believe in Wade. Mr. Reynolds, over there, is another man in whom every banker has the utmost confidence. Only the other day I called him up by phone from Kansas City and asked him if I should need half a million dollars in a certain deal, temporarily, could I get it? He said:

Johnston, you can get whatever you need. Go on.

So you can see how embarrassing it has been for me to differ with these men, and I wish to say, gentlemen, that the only reason we could differ is because of the viewpoint at which we stand and from which we look. We are looking at this proposition from different viewpoints. You know, the bigger the proposition, whether it be a big subject or a big object, the comprehending of that object or subject, the grasping of it in toto, its greatness, depends upon the viewpoint from which you look at it. These gentlemen are looking at this question from the viewpoint of all our monarchical and oligarchical governments.

Every monarchical or oligarchical government, whether it be presided over by a king, an emperor, a czar, or a mikado, believes in centralization of power. They stand for it. The reason that we can say truthfully "London is England" is because all power is centralized in London. Political power is centralized there because of the House of Lords and the lower House. Religious power is centralized there because in London is the centralized power of the Church of England. Monetary power is centralized there because of the Bank of England. And the reason that London is England in a large sense is because of centralized power in London—religious, political, and financial.

It is the same with Germany. I need not go into that in detail. It is the same with Italy. Religious, political, and financial power are all centered there. It is the same with France. It is the same with all monarchical or oligarchical governments.

These old Governments are founded on the basal, fundamental idea of centralization of power. But when the Pilgrim Fathers came across they had this idea: They came as Pilgrims seeking a new land with new ideas and new ideals, and one of the ideas and ideals was to decentralize power. That is what they had in their minds. And when they came to this country the fundamental basis of the decentralization of power was controlling every movement. Consequently when this Government was established by our Pilgrim Fathers New York was naturally the financial center, the center of
monetary power. They knew it. They well knew it. But instead of following the old monarchical lines of centralization of power they placed the governmental power, the political power, as far from the financial power as it is possible for the two to be placed. When they came up here and established this place, Washington, as the place of political power, the place of governmental power, they went as far as they could from the center of finance. It was more then, gentlemen, than going from New York to San Francisco to-day. It took longer to come to New York by stagecoach than it would to-day to go to San Francisco.

This Government, whether democracy or republicanism, has as its basal, its fundamental, idea decentralization of power, and that is the basis on which republics are founded. At least, that was the motive behind the foundation of this Government by our forefathers.

Let us not for a moment consider, gentlemen of the committee, that decentralization of power stands for the same as "scatteration." Our forefathers never scattered. They shot straight. The men at Lexington and Bunker Hill shot straight to the point. Do not get mixed up. There is a vast differentiation between the word "concentration" and the word "centralization." They believed in concentration versus scatteration, but they disbelieved in centralization of power—political, religious, financial, or monetary; and as all power had been centered by monarchical governments in one place, that is natural. You know why.

Now, in order to make it short—because I must go this afternoon, if possible to get out of here; I have told Senator Owen I was sorry that I had to leave, but I have to do it—I think the best way for me to present the views as I see them is to take the ideas and recommendations of this committee here, and I take them from what I take to be one of the great newspapers of America. I clipped this from the New York Times, which is distinctly a great paper. I think it is the best general financial paper; but, anyhow, it seems to be the representative of the men who are arguing this question before you, and I simply clipped this from that paper.

I was bluefishing, by the way, boys, day before yesterday, at 6 o'clock in the evening, and I got this message to come up here. I was away on the Sound with my family in a little cottage over at East Hampton, and I landed 27 bluefish day before yesterday afternoon. They were cooked by the deft hands of the little woman I love, and I tell you they were fine. I came here under protest, and feel sorry for this committee, which has not had time to bluefish this summer. You have my sympathy.

But, gentlemen, you are at the greatest task; you are facing the greatest problem that ever faced an American statesman. The tariff bill is important, and some of us are rejoicing that it is being worked out wisely and, we believe, satisfactorily to the country as a whole. But this problem is infinitely more important than the tariff question. Why? Because it is basal. It has not only to do with the achievements and the advancement of progress in this country as it affects the men who are interested in the tariff question and are connected with it, but every industry in the United States is dependent upon the wise settlement of this problem. Not only that, but worldwide conditions will be affected and influenced by the wise settlement of this question; and to-day, as this is the last word, the last say of
any of the great Governments on a financial measure, upon a mon­
tetary platform, of course it should be the most perfect bill and the
wisest bill that has ever been wrought out by man, because it should
be so wise and workable that all Governments of earth will be sending
their experts here to see our method and how we have worked out
this great problem.

Let us get at it; and I will try to give you this in a very few min­
utes. From the Times I clipped the following suggestions, as I came
up here yesterday afternoon. I did not land here until last night.
I clipped this from the New York Times. If it is not a correct inter­
pretation of the ideas for which the committee stands, I should be
pleased if they would speak and correct it.

The more important changes in the currency bill proposed by the Chicago confer­
cence of bankers, in brief, were: First, 1 Federal reserve bank, or at most 5 instead of 12.

Here again is that question of viewpoint. This is centralization
of power. Democracy and republicanism stand for decentralization
of power. The bigger the object or the subject that you look at,
the more necessary it is for you to get the right viewpoint.

I remember going to Alaska a few years ago to study the biggest
things there—her glaciers and her gold fields. As I stood before
one of the great glaciers there, 1,000 feet high and 3 or 4 miles wide,
coming down between two great mountains like a frozen Niagara,
there a great wall of ice, with all the colors of the rainbow in it, I
could not get within a mile or two of it because every few moments
great icebergs were breaking off of it, and it stood there 1,000 feet
high, like a mighty frozen wall of power. There were icebergs bigger
than the Washington Monument, bigger than this Capitol, bigger
than the District of Columbia. They were coming off all the time—
so big that they could float for 10 years and then strike a
Titanic
and sink it, with all the melting of a decade. It was a very great sight,
but it was a very different one when I climbed with my alpenstock
and got up on her peaks and pinnacles and there tried to see back to
the pole that has just been discovered. It was a different point of
view. It was a different comprehension of the whole thing, this
viewpoint from the ocean and the one from the glacier’s peaks and
pinnacles.

These men look at this subject from the viewpoint of the centrali­
zation of power, as I see it. I think, of course, that their judgment
is better than mine, and I ask you to give careful weight and con­
sideration to all they have said and all that they say, because I
believe in them, gentlemen. They are men of honesty and probity
and great capacity. But here it seems to me that 5 should be the
minimum, 12 the maximum, and 7 the ideal number. Why? First,
it is the decentralization of power. Let me say that. And, second,
it is putting the Government close to the people, this Bank of
America—we may call it that; I do not care what you call it—and
it will be greater and more solid than the Bank of England or the
Reichsbank of Germany or the Bank of France. Put one of these
Federal reserve banks in five or seven regional districts. It is
democracy. It takes the power close to the people and gets the
people close to the Government. That is one reason; but aside from
that, our banking system has been a system of decentralization.
Why? Because we have had three central reserve cities—one in
New York, one in Chicago, and one in St. Louis.
Money, it is true, flows east like water flows down hill, and our money naturally flows east; but in the outworkings of our monetary system under which we have been working for fifty and one years, it is marvelously attributable to such men as Mr. Forgan and Mr. Reynolds, especially, those old bankers who have weathered all the storms, under the handicap of this war exigency bill enacted 51 years ago to meet the war debt. It is marvelously attributable to the achievement of men like Mr. Forgan, for they have weathered it through to this day and have made it workable.

Money has been in the habit of flowing in these three central reserve cities, and not to take in these three central reserve cities as Federal reserve cities, it seems to me, would be in a sense a revolution that is not necessary and that is unwise.

In addition to these three central reserve cities, which good gumption would immediately be impressed with the fact that they should be each a Federal reserve city, there should be at least two more, one in San Francisco and one in New Orleans; and it seems to me that would make the bill wise and workable.

But it seems to me it would be more perfect and more desirable to have seven Federal reserve cities. Why? Because each of these Federal reserve cities might want to heavily dominate in capital or power the other Federal reserve cities. You should segregate them, like New York, for instance, which is a colossal institution by itself, and make that a reserve city, and the district which is near it, putting in the whole of New York State, for instance, and having another eastern reserve city, which it seems to me should be Boston, because it is the natural thing. Boston has a trade and commerce—you know that—and a clientele, a financial clientele, not only in the moneyed interests, but in population. All that New England district is thickly populated. In these Federal districts you must look a little at population as well as territory. Therefore it seems to me that it would be wise to make Boston another, which would be six. Then one of three cities to make it seven—that is, either Kansas City, Denver, or Omaha.

Senator Nelson. What about Minneapolis?

Dr. Johnston. All right, if you want to make it eight. I simply put down the cities on the map as I came up here yesterday. I picked them out as I saw where the trade channels run and where it would be the wisest to place them, and it seemed to me that seven were absolutely necessary and would be the perfect number.

Let me go on, because I must get away. I want my friend Wade to have all the time he needs and I want you to listen to what he says. He has proven to me to be personified wisdom, up to this date. If you wish at any time after this to ask me further questions as to why five or seven instead of one, I should be pleased to answer them. I have only brought out the basal fundamental reason, that democracy and republicanism stand for decentralization of power, and not centralization.

Second. Membership in reserve banks should be voluntary instead of compulsory, for national banks, as now provided in case of State banks.

I do not think that is wise, gentlemen. Why? Because this law is not to be an experiment; it is to be a fundamental, actualized, abso-
lutely successful working law, and if you make the national banks voluntary, of these 7,400 perhaps 3,000, or 4,000, or 5,000 have a banker who is conservative—and the best banker is always a conservative one—and he will kind of wait and feel his way and see, and you have got an institution started with you know not what capital; you know not where you are. I think that is a mistake from the standpoint of the assuring of the bill an unqualified success. You have got to know at least approximately what you are doing, and to namby-pamby this matter and go at it in this gingerly way, so that the national banks can come in if they want to, and if they do not they can stay out, I think that is a mistake from the standpoint of the dependableness of your capital; and that capital must be larger than any capital of any bank in America—and we have got one. I mean by that, the number all together, because we will make the concentration. We have got a bank of $25,000,000 capital.

Third. Subscription to capital of reserve banks should be 10 per cent of member bank's capitalization, instead of 20 per cent.

I have thought about that a great deal. There is something to that. I have discussed it with some of the men since I came up here. I asked if they wanted the full 10 per cent paid, and they said, “Yes; that would be all right.” That is not good banking. A great banker, one who stands for aggressiveness as well as conservatism, must feel that confidence that comes from the reserve that he can pull on. It is a mistake, whatever you make it, not to have reserve power. The individual bank as well as the individual man who has not more reserve power left, holding back for emergency, is not as big a man as the man who keeps something back for a great emergency. I believe that 12 per cent would be wise and workable. Eight per cent to be paid in and 4 per cent left as a reserve. We must have a reserve.

Suppose we utilize this in the case of some great stringency, some crop-moving period or other financial stringency. We want a reserve; we must have a reserve. That would make each bank contribute only one-eighth of its capital instead of one-fifth. It is quite a difference. I believe that in making it one-eighth, with 12 per cent, with 8 per cent to be paid in, with the 7,400 national banks, together with the other State banks that would come in, it would make the paid-up capital of these reserve banks at least $100,000,000 on the start. It should be. In other words, if there are seven reserve banks—I will take it for granted that you believe in perfection, and if you will study the Bible you will find that seven is the perfect number and the most oft-repeated—that would be practically an average of $15,000,000 a piece. Some would be more and some less, according to the district.

If you want to ask me any questions, I must hasten. I would be glad to discuss this further were it not for the fact that I must leave shortly.

I believe, gentlemen of the committee, that 12 per cent is sufficient. I do not believe 10 per cent is sufficient. I believe 8 per cent is sufficient to pay in on the initiative. It will not be quite so revolutionary as 10 per cent; and yet, remember this 4 per cent reserve, this 5 per cent reserve, which every weighty, poiseful banker must feel that he requires.
To remove control of Federal reserve banks, Federal reserve board should be made up of the Secretary of the Treasury, three members named by the President, and three elected by the member banks, in place of the board being made up entirely of presidential nominees.

I know that is a very delicate subject. I hardly know how to express myself on it; but, gentlemen, control must be somewhere. If there is anybody we can trust, why not our own President—the man who has felt the throbbing of a soul expressed by the confidence of 100,000,000 people? If there is any dark streak in him, if there is any selfishness about the man, do you not think that the weight of his position, the honor of it, the confidence expressed, will steady the man and make him come up to the mark, if he has the graces and virtues of an American gentleman?

I will tell you, gentlemen, I believe that all our Presidents have been providentially nominated and elected—Washington, Jefferson, Lincoln, Cleveland, Wilson. It is hard for me to say that, because I was voting over at Baltimore for another man, a typical Missourian. But after a man does the best he can to achieve a thing, and then fails, I take it for granted that it is providential. That is my theology. I believe it is providential that Woodrow Wilson is the President of the United States. We can trust him.

Senator Nelson. I just want to say to you that my friend to the left here [Senator Peed] rather thinks Mr. Bryan, more than Providence, had something to do with that.

Dr. Johnston. I thought about that when I was talking.

While I believe in the wisdom of the original bill, I do not believe that it is an absolutely perfect bill, by long odds; in fact, I do not think it is any more perfect than the bill that you recommend here. Yes, I do. I think there are some absolute elements in it that you did not touch at all. It has solved with a center shot the most important thing in our monetary law for this great, vast country, with regard to this elastic feature. It solved that right on the start, so that our money automatically expands in crop-moving periods and stringency times, and automatically contracts when they do not need it. They solve that in that bill; and that feature, considering the world-wide conditions, is one of the most, if not the most, important feature in it. Do you gentlemen realize that for the past six months there has been—but this is not for publication.

The Chairman. Yes, it is, sir.

Dr. Johnston. I will say it. We all know it; every banker knows it. There has been almost a quiet panic going on throughout the world; and that is the basal causal reason that the bankers of America are working for immediate action on this bill.

Do you understand that this bill, which was established in 1863, this bill under which we are working, was established to meet a war exigency, and it was for the purpose of putting those 700,000,000 bonds out—those 2 per cent bonds—to raise this money for this war bill? That was the main feature of the bill then; but, gentlemen, look at the elastic feature. And why has it worked all these 51 years? Mr. Forgan could answer this better than I could; but I will tell you one reason. It is because we have had a place for our expansion. We have had the wealth of 1,000 years accumulating in England and Germany and France and continental Europe; and when we have got hard up here, until seven or eight years ago, we got all we needed right
over in London, until the war came up—that is, the African war—and they began to build great battleships to protect themselves against possible war with Germany, and various other things came up, and, finally, four years ago, they quit taking our money. Four and a quarter was a big rate, and we could always get it there. Then they kind of stopped. Then, until two years ago, we got all we wanted in Germany at 3½, or 3¼, or 4½. Germany, with her industrial development, largely, and with her commercial enterprise, has spent a vast amount in building the second greatest navy, next to England, to compete with England. Then she shut up, and now Germany is wanting money from us and offering us 6½ and 7 per cent; and money in Hamburg and Berlin is to-day selling for 7 and 8 per cent.

Then we had France, and even until a year ago she was the natural outlet. We could get it; we could always find it there; but a year ago they took over $100,000,000 Frisco bonds at a rate of about 4.60 per cent; but now, since the war scare arose, these French citizens, women as well as men, are taking their money out of the bank; taking the gold, too, and to-day France is not only wanting securities, but she is really getting to the point where she wants money from us.

Six hundred million of stocks and bonds have been cashed from Europe in the past nine months, and because of our commerce here in this country, our great development of this vast territory, so many things have gone on that we have, in the last decade, gone up. We have increased four billions in our debt outlet and have increased two hundred millions in real money, gold or its equivalent.

So, now, every country on this earth—Japan, China, Russia, the Balkans, England, France, all the countries, are not only cashing on the stocks they have been taking from us, of which they have taken $5,000,000,000 worth in the last 20 years, four billions of that being railroad stocks and the other billion in various industries, but they are knocking at our doors for money.

Therefore we need immediate action on this bill, because as perfect a bill as possible is needed on account of the world-wide conditions demanding it, and to put it off shows a lack of courage or brains to face the issue and work it out as wisely as possible.

Now, listen:

This board to be appointed by the Government.

There must be control lodged somewhere. I am willing to trust the Government. I am willing to trust Woodrow Wilson and his associates. As for the number, seven seems to be the perfect number, and that is all right as I see it; but I believe, gentlemen of this committee—and I suppose you want me to be frank. I know nothing else. A westerner, you know, is nothing else but frank and honest. That is the only way a banker knows how to be, if he is trained in the West—I believe it is a mistake to put the Secretary of Agriculture on this committee. Do you want to know why? Never in the history of America has there been such an initiative movement to develop the resources of American soil. American possibilities are right in the soil, and the movement was initiated by Secretary Wilson, a man whom I personally know and love. I remember once taking a long trip across the continent with him, and he told me about taking the initiative in training soil physicists. He called them physicists. I had never heard the word before he told me about it. He was send-
ing soil specialists all over the arid country of the West and down into the Southland to study every local condition of soil; and properly meeting that condition of climate and soil would prove the most resultful thing in dollars. And he told me how for 16 years he had been working on an awakening agricultural movement in America that we have been following up, but the surface of whose possibilities and resources have been but scratched.

I thought when I talked to him:

No wonder you were kept through both administrations of both Republicans and Democrats for 16 years.

He impressed upon me the thought that the Secretary of Agriculture is the most important place in the Cabinet. The other day I attended, at the Baltimore Hotel in Kansas City, Mo., a convention of agricultural bankers, they are called, representing nearly every State in the Union. A gentleman of the tribe of Israel, reminding me of my friend here, was there from Texas, and he was a steam engine in breeches. He is awakening the whole of the Lone Star State to the possibilities of that kingdom.

And by the way, Senator Reed, your questions this morning in regard to area were wisely asked. Why? Because Texas alone is important. She is as large as Continental Europe, and one of our Territories, Alaska, for which we paid less than a postage stamp an acre, is larger by far than all Continental Europe and has more resources—when you study her coal, her timber, her fisheries, her gold—than any of the great Governments of Continental Europe.

Mr. Wade. You do not give a reserve bank to Texas, though.

Dr. Johnston. My friend, we are giving two southern cities banks, New Orleans and St. Louis. Your city is a southern city, my friend, and I think that the South, if she gets two, will do well. This is a southern city. She will do well, if she gets New Orleans and St. Louis.

Senator Nelson. What about Atlanta?

Dr. Johnston. Atlanta is a great city, but you know the Panama Canal makes New Orleans an essential place, absolutely, and the Panama Canal makes San Francisco a necessary place, and the central reserve cities. These three are necessary places, because we want to disturb the usual flow of money as little as is necessary, and it has been going into those channels for fifty odd years and successfully so.

And I would state that I believe in the men who are running the banks of Chicago and Kansas City. As far as that is concerned, I believe in New York also. Let me say, by the way, here, gentlemen, that I have no prejudice whatever against New York State or Wall Street in New York City. I have been banking for 28 years. I started a bank with the first $50 that I had, and I had a hard time getting it together, too, I tell you. I am still president of that bank down in central Missouri. I have never asked Wall Street for a dollar, under any conditions, but what I have received it right off the bat. And to-day, if I wanted $1,000,000, I would go right to Wall Street. So you see I have no prejudice. In fact, I think that her bankers there are distinctly great men. One reason I believe in New York so much is that they are mostly western fellows.

Senator Shafroth. If they would give me $1,000,000 I would think they were great, too. [Laughter.]
Dr. Johnston, Listen. I have no prejudice against New York, but let me tell you, gentlemen, that New York should take her place. The centralization of power has made London, England; Paris, France; Rome, Italy; Berlin, Germany; but New York is not America. It is not the United States, because the political power has been decentralized, and there is none, and you all know that New York State possesses one-tenth of our population and about one-fifth of our wealth, and I honor her and reverence her for her greatness. But there are others.

Do not think, gentlemen, that you would act wisely to take one tithe of time or divert one moment of the projectile personality of a great man away from his duties at this psychological moment in the development of the agriculture of our country. Why, in Missouri alone we have 36 per cent of our soil untouched yet. Think of it. And that is the Secretary of Agriculture’s business. What a vast possibility is placed in his hands. These seven men that you appoint have got their souls as well as their hands and their brains full of work; and to take the agriculturist and scatter his potentiality, when we need another man to help him, or two or three, if we are to develop the vast possibilities of this country and make it one of the greatest on earth, is, I think, a mistake.

I think it is a mistake about the comptroller. I think it is a mistake because he is right here working with these 7,400 national banks. He has got his hands full. There never was a man in America so full of work as our present comptroller or the one just retired. I do not believe there has been a greater comptroller since I have been a national banker.

Gentlemen, I do not think that he should be in the bill. But that is a small matter. Those things are all small matters. It seems to me if you would appoint the Secretary of the Treasury, he, of course, should be on it. Then, it seems to me, the wisest thing is for the President to select these other men and leave the comptroller and the Secretary of Agriculture for the great work which they have in hand. But whether they are on it or not is not necessary to the achievement of the success of the bill.

Authority of the Federal reserve board to compel one reserve bank to rediscount paper of another reserve bank should be made optional instead of mandatory.

Here are six banks. Suppose there is a crop-moving period in the South, and a cattle-moving period in our country, and mules moving in another section, and corn in another, and wheat in another. You know how that is. I realize that these Federal reserve boards are owned by the banks of that district. They are controlled by them. Let me say to you that they are controlled locally by the men who furnish the capital much more than the Bank of Germany or England or France control theirs.

I will answer any question on that subject that you want me to, but it will take time.

And so it seems to me, gentlemen, that we must trust somebody; and this board of control is just as much interested in keeping these banks on their feet and on absolutely secure grounds as this bank over there. The whole banking system is a matter of intrenched trust, and the question is whether you will intrench the trust in this Federal board here. Are they bigger spirits and greater men than
the men who look over the whole horizon, the whole field, absolutely unprejudiced? I ask that question.

Member banks should be allowed cumulative dividends of 6 per cent instead of 5 per cent on their shares in the reserve banks.

Gentlemen, I think that is only right and fair, and it is undemocratic and discriminating against these stockholders in the 7,400 national banks to stop at 5 per cent. Six per cent should be the very limit. The Government report, as given in the last census, says that the National Bank of America made and declared dividends on an average of 9½ cents for the decade which it was reporting. These 7,400 national banks, which you are compelling by this law to enter this Federal reserve are owned not by the officers and directors who are running them, but by 500,000 stockholders in America. These stockholders are composed of farmers and merchants and lawyers and doctors and widows and orphans.

Mr. Wade, when he started his bank, came to me and I believed in him, because he had been an achieving man in other pursuits and not as a banker, and I took some of his stock, because I believed in him. I invested it with that point in view, and he beat 9½ by long odds. He has paid 18 per cent and pays it to-day. One and a half per cent I get every month from your bank, and I always think of you with love. [Laughter.]

Listen, gentlemen, because you are unwittingly doing an undemocratic and a discriminating thing. These people invest their money in good faith. There are 500,000 of them. The officers and directors own only one-fortieth of these banks on an average. Thirty-nine fortieths are owned by all these widows and orphans and preachers and everybody else. They have got an average of 9½ per cent, according to the Government reports. You see, you will force them to take 20 per cent on that investment and pay it over here. If it makes up to 5 per cent they can get it, but if it makes any more it goes to pay the Government debt. That is discrimination against these 500,000 men and women, forcing them into an investment which you limit at an unreasonable rate proportionate to what they have had. That is not right; it is not Democratic; it is not Republican; it is not anything but wrong, and 6 per cent ought to be the limit.

Senator Crawford. Was such a thing ever undertaken, even in a monarchy or in oligarchical governments, to compel people to put money into an enterprise and then limit the return rate by law?

Dr. Johnston. That is a question of casuistry, which I have thought about very seriously. It would be very unreasonable to stop at less than 6 per cent, as they can loan their money out for that in the South and West. It should go to that. I think they could see that. There are very many blessings that accrue to the four-fifths of the investments here, making it a more dependable investment, more secure, and, I believe, finally more profitable, and I can see a reason why you could as a committee, in good conscience, limit it to 6, but certainly not less, because of the blessings that will accrue to the remainder by their investments, of course. That comes from your interpretation of whether it would be a blessing, which I believe we bankers think is the case.

I must hasten, because I do not want to detain you here.

You know the reason. I will say this while on this subject, that there is a dignity and a poisefulness and strength that the national
banker has that the State banker has not. You can say what you please, I was very proud of the day when I became a national banker, instead of a State banker, which I have been for 28 years; and you feel that you have got the Government behind you, and to kill these national bankers with a State charter would be a most grievous error.

Mr. FORGAN. There is no intention of that.

Dr. JOHNSTON. I am very glad to hear that, because I did not know that at all. I had taken that all back.

Ninth. That reserve banks be barred from rediscounting paper drawn to carry securities other than stocks and bonds.

The CHAIRMAN. That is a mistake, Doctor. We need not discuss that.

Dr. JOHNSTON. I am very glad that it is, because if it is not a mistake it is certainly a big blunder. [Laughter.]

Tenth. That the required reserve of country banks be reduced from 15 to 12 per cent, of reserve city banks from 20 per cent to 18 per cent, and central reserve city banks be fixed at 20 per cent—10 per cent in vault and 10 per cent in reserve bank.

Let me say that I think that is absolutely wise.

Mr. FORGAN. It has been reduced.

The CHAIRMAN. The House has made that reduction.

Dr. JOHNSTON. That is absolutely wise. I will tell you why. Now, listen; Mr. Forgan and Mr. Wade and Mr. Reynolds well know that the time may come, and I hope it will. [Turning to Mr. Reynolds:] I want to see your face. I did not know you were here. If I say anything about Mr. Reynolds, I should like him to hear it. I hope the day will come when these reserves and these banks will not only be reduced, but the time may come when they can be practically wiped out. Let me tell you why. They can not be now, because of the many difficulties. So, I shall perhaps recognize bankers of the Southwest who are new men and not trained bankers, and we have held them in hand. But I do hope the time will come, and I believe it should come, when reserves would be gradually lessened, and the day may come when we get to be perfect bankers, when we won't have to limit that even to this much reserve.

The CHAIRMAN. I would explain to you that the retirement of some of the members of the committee was because of a roll call.

Dr. JOHNSTON (reading):

That limit on farm loans be raised from 9 to 12 months.

That is all right.

I do not think that is essential either way. It is not essential to put it in or leave it out. I do not think it is basic or fundamental. I know that we have one side of our bank where we have taken that on—savings deposits. It is only about half a million dollars, but oftentimes it has been taken out and built up on the other side. I think it has been some advantage; but there are disadvantages, where a great mob of people come into your bank—all sorts—and so I do not know but what, on the whole, that is a wise recommendation. I believe it is, really.

Mr. REYNOLDS. We are glad you approve of it.

Dr. JOHNSTON. I do not believe it is a wise thing, and my idea is that our officers would prefer that we did not have it; if it was not a builder up to the other institution we would rather not have it.
believe it ought to be left out. I will say that, although it is not absolutely fundamental.

That the section providing for savings department in national banks be stricken out.

I agree with the committee that it should go out.

That the proposed bank notes be issued by the banks under the control of the Comptroller of the Currency instead of having Treasury notes issued by the Government.

Well, that is the biggest thing that we have struck yet. It would take me longer than I have, in order to allow Mr. Wade three hours for his speech this evening, for me to go over that. I think that either one of them will answer the purpose of this law. I believe with the issuing of the Treasury notes it would give a stability and prestige and dependability world-wide, national and international, that this bank would not have without it. There are fundamental causes for arguing on both sides of this question. I believe these men are wiser than I am that are arguing this question and have put this in, and I think there must be some great reason which they have wrought out or they should not have put it here. However, I should not be afraid of the Treasury notes, as I see it, but it may be because of my lack of perspicuity and grasp of some of the whole of it—summum bonum.

I better not go into those arguments. I think there are some good arguments for it as well as against it, but I do not think that is fundamentally necessary to the success of the bill either one way or the other. They recommend that the 4 per cent be kept in the central city bank or reserve city bank. I believe that is a good thing. I will tell you why, because this bill in a sense is revolutionary and it must be in order to be a success. There are conditions that wait and wait on, like the conditions in Mexico, and we have been waiting and waiting and waiting, until something absolutely must be done which is courageous, and our President is doing it, and I hope he will continue to do it along the lines he is pursuing. If it brings intervention, let it bring it.

There are some things that require revolutions. We have been working along with this law, having this Aldrich-Vreeland makeshift as an expensive outlet, and that is out now in a few months. Something must be done. It is revolutionary in this sense: For instance, I figure it will take sixty millions out of one bank in New York, the City National, and if we continue to keep the 20 per cent it would cause them to have to put up $5,000,000 to their capital, or 20 per cent of $25,000,000—$62,500,000 at one time. That is only proportionately to the other national banks. Of course it is more acute in central reserve cities, touching more heavily my friend Reynolds and my friend Wade in St. Louis and those banks than the reserve cities of which I am a member; but I have figured it would take out of St. Louis at one time from our national banks and what would it take out of Kansas City? It would take $22,500,000 out of Kansas City and put it in the Federal reserve bank.

That is in a sense revolutionary, but they have got to prepare for it in order to do it, and in this preparation they have to collect money and all of that. I figure that in one bank in Kansas City, my own city, it takes out $9,000,000. You figure they can go and get it the same day over here at this Federal reserve bank. I say, "No; they could not." They could do it, but any banker would
lose his dignity and his prestige and sense of courage to not prepare for this, if he has to go and get the same amount that is taken out the same day. And besides, gentlemen, a banker—a good banker—conservative though he may be and aggressive, as he should be—builds his bank with this thought—to get money in rediscounting, whether it be from a Federal reserve bank or any other bank only in emergencies and only for a short time, and the banker who does business with our bank or Mr. Wade's bank or Mr. Reynolds's bank who does not settle up at least once or twice a year, at most—and it ought to be much more than that—we begin to send the examiner down to see what is the matter.

I want the dignity of the national bankers to be preserved, and I take it for granted that it would take about $2,000,000 out of our institution and put it over here in one day. What I will do, and I believe every other banker will—what Mr. Wade will do and Mr. Reynolds will do—is to go in and get ready so he will not be compelled to borrow money from the Federal reserve bank in order to do this.

The Chairman. We will have to suspend, as there is a roll call in the Senate.

Dr. Johnston. All right.

(At this point the committee took a short recess, after which the following proceedings were held:)

Dr. Johnston. I did not realize that I had talked an hour until I looked at my watch.

I will not go into this thing. Let me say this, that when you put this law into execution consider the timeliness in the matter, the time it should be done, and make it either the 1st of February or the 1st of March, because you want to make it as easy on the national banks, especially, as possible. It will not especially affect 7,350 of the national banks at all, but it will greatly affect the 47 or 48 reserve city banks or central reserve city banks, and to take this amount of capital that they have to supply and the amount of deposits which will come from these banks and put them in the Federal reserve banks you should select the most auspicious time, the time that would be most propitious for them, and that is the 1st of February or the 1st of March, not sooner than the 1st of February nor later than the 1st of March, because let me say that this committee will be intensely interested in making this law so wise and workable as to receive the enthusiastic support of all bankers of America, both National and State, and anything that you could work in to please these men that does not antagonize some great basic, fundamental law, I believe should be done. I believe the bankers should be thoughtfully considered and everything given to them that can be done to make them happy in the bill and supporters of the bill. This is necessary for a triumphant success.

One more word. The 4 per cent which they recommend to be optional with all the banks not in reserve or central reserve cities will help them greatly, and I do not believe it will hurt materially this bill. I have said, and I have figured on it from every standpoint, and I believe with that in the bill and limiting the number to five or seven, I believe that you will have the hearty support of this committee and every central reserve city. I believe that you ought to weigh that suggestion thoughtfully before you turn it down. I should like to see it placed in the bill.
A closing sentence. I feel I should congratulate this committee and this country because all of us are patriotic enough to want a perfect law, a wise and workable law. It is to every American's discredit if it is not so, and if it is so you will see this vast country go on by leaps and bounds in aggressive advance to prosperity and achievement. We are now 60 per cent richer than the richest country of Europe. France has more money per capita than we have, but she has only 43,000,000 population, but our 100,000,000 people have much more than France as a whole, and if we increase in wealth in the next decade as we have in the last, we will have passed in 10 years England, Germany, and France altogether. And, gentlemen, we have got to have a bill with vision and plan enough to meet this vast growth of our country. A centralized bank in the United States, it seems to me, would be similar to a European bank covering all the countries of Europe, because many of the 48 States have greater wealth and greater resources and greater territory than any of the continental European kingdoms, and we do not hear of European banks, which would be more sensible than a centralized bank here.

Let me say I congratulate the people of America in having the present chairman of the Senate Committee on Banking and Currency. You will excuse me if I say to you that for many years I have been an associate in business with Senator Robert L. Owen. We are to-day directors in the same bank, and have been for many years. He founded that bank twenty and two years ago. The first charter was given to Robert L. Owen for a bank in the old Indian Territory, which now is the State of Oklahoma. The charter was renewed two years ago.

I count this Nation peculiarly fortunate in having a man as chairman of this committee who is not a novice in things financial. We count him one of the three great financiers of the State of Oklahoma, and he is far superior to the other two. We count Senator Owen for concentrated, systematic, orderly thinking on things financial and things monetary and things banking as an expert. I say this without his knowledge and without his consent. I respect men like Mr. Wade and Mr. Reynolds on things financial, because I know them so intimately, but my respect for the building of a monetary law for this great Nation is greater for Robert L. Owen.

The CHAIRMAN. Mr. Forgan, you had a program to suggest, and I think you had better do that now.

Mr. FORGAN. Mr. Chairman, the program that we have laid out is for Mr. Wade to follow Mr. Wexler.

The CHAIRMAN. On what topic will he speak?

Mr. FORGAN. He will explain to you why there should be no compulsion of American banking associations within one year to comply with the provisions of the act, and also why the banks should have minority representation in the formation of the Federal reserve board, so that the board would be formed, as suggested in our report, of the Secretary of the Treasury, ex officio, three members chosen by the President of the United States with the approval of the Senate, and three members elected by the directors of the Federal reserve bank.

That will be followed by Joseph Chapman, of Minneapolis, who will explain why the Federal reserve board should not be given power
to require, but only to permit, Federal reserve banks to rediscount the rediscounted paper of Federal reserve banks.

Then Mr. Wexler comes on again to explain why the Federal reserve board should not have the power to add to the number of cities classified as reserve and central reserve cities under existing law, or to reclassify existing reserve and central reserve cities, and to designate the banks situated therein as country banks at its discretion.

That will be followed by Mr. E. J. Hill, who will take up two subjects, first, in regard to the 5 per cent redemption fund, which is now in the general fund, and why that fund should not be deposited in the Federal reserve banks as part of the Government funds in the bank. Also Mr. Hill will take up the entire question of note issue and give reasons why the circulating notes should be the obligations of the Federal reserve banks and not of the Government.

Then, Mr. Maddox has been assigned the subject of why the Federal reserve banks should not be required to receive on deposit checks through the country at par, but should only be required to receive at par checks on other Federal reserve banks.

And Mr. Reynolds will be assigned the subject of why the requirements of bank reserves in the measure should be reduced to the percentages recommended in our report. Mr. Reynolds will be followed by Mr. Maddox again, who will take up the question of bank reserves, and our reasons for recommending a reduction from the amounts that were in the bill when we had it under consideration.

I understand that has been since changed.

That will complete our program.

Senator Shafroth. Mr. Chairman, I move you that inasmuch as these gentlemen are here and no doubt want to get through as soon as possible that this program be observed as reasonably consecutive as we can make it, and that we hear the first persons whom Mr. Forgan has named.

Senator Nelson. In the order he has named them. I second the motion.

Senator Reed. Does that mean that we can not ask Mr. Wexler any further questions?

Mr. Forgan. Mr. Wexler will be on again, and I would just say that Mr. Wade is particularly anxious to be heard, as he has another important engagement with the department.

Senator Reed. I just wanted to ask Mr. Wexler two questions that I think of.

The Chairman. After you conclude with those two questions to Mr. Wexler, then it is understood that we will follow this program?

Senator Reed. Yes.

(The motion was carried.)
Mr. Forgan. I would say on behalf of Mr. Wexler that he had not had his lunch up to the time the committee reconvened. Mr. Wexler was busy while we were taking lunch correcting his proof sheets, and did not get the opportunity for lunch.

The Chairman. The committee will now hear Mr. Wade, president of the Mercantile Trust Co., of St. Louis, Mo.

STATEMENT OF FESTUS J. WADE, PRESIDENT OF THE MERCANTILE TRUST CO., ST. LOUIS, MO.

Mr. Wade. Gentlemen, the duty assigned to me is to try to explain to you why there should be no compulsion in requiring the national banks to join reserve associations in a year, and why we think we should have representation on the Federal board of control.

Let us look at the facts as they exist. The writer of this bill assumed that the burden of creating Federal reserve banks should rest upon the banks of the country and not upon any other class of commerce of the Nation. We are asked to contribute more than $100,000,000 in capital, which does not belong to us, as bankers; we are asked to contribute one-half of the reserves that we now hold in our vaults, in order that this new institution may be a success. We make no objection to that onerous condition. But we can not conceive that it can be right that we should be called upon to put up this vast sum of money without representation.

Banking is composed primarily of, first, integrity; second, experience and judgment of credit; and, third, wisdom that is called upon to pass upon the credit commerce of the Nation in order that our funds might be loaned. In the minds of the public we are loaners of money, but, as a matter of fact, we are the greatest borrowers of money of any class of business men in this or any other nation.

Every deposit we have is a loan, an obligation on the part of the institution that takes the deposit not only to pay that loan back as the ordinary borrower does, but be required at a moment’s notice to pay same to the clearing-house associations we are connected with to meet extraordinary demands at times when there is trouble, and also at times when everything is placid. The bankers have not asked to buy the stock of the reserve banks. I have yet to find one banker who seeks to increase his proportion of stock, and I have yet to find one who would willingly subscribe for stock of such a bank if others could be found to take it. Why should not the commerce of a nation, the merchant and manufacturer and capitalist, invest in this stock and create this great bank, if it is essential to the development of this Government? Still, we make no complaint. We are willing to accept the provisions of the bill if reduced 10 per cent; we are willing to hand over to you 10 per cent of the capital of each bank that many of us have labored for years to accumulate; we are perfectly willing to turn over to you one-half of our reserve money; we are willing now, as we have always been in the history of this country, to stand shoulder to shoulder in its development; but we believe, gentlemen, that your business as the administrators of this great Nation is no different than in the administration of an ordinary corporation, and we do not think any of you would have the temerity of going before the public with a prospectus to accumulate, by sub-
scription to the stock of a banking corporation, more than half a billion dollars and announce in the start to the people of this Nation who you expected to subscribe this vast sum should not have representation on the board of directors.

I have not the slightest fear that the President of the United States will not name men of integrity. I am absolutely confident of that fact, at least, in his judgment, and I believe when that board is named they will be men of such eminence and of such recognized integrity that every thinking banker will approve them; but the question, gentlemen, is whether each man so appointed will bring to that board the necessary banking experience, the necessary credit experience, the necessary wisdom for the inauguration of this great system at its inception. So I do not approach this proposition with any fear of political control or of its ever getting into the hands of men who are not entitled to the plaudits of the Nation. But I have great doubt about the administration of a board composed of three Cabinet officers, every hour of whose time is taken up from almost daylight to midnight with their respective duties as Cabinet officers, and four other men whom we do not know. We do not ask to name the men; we do not ask that they shall be bankers, but we do believe that on that board we should have men of experience in banking and in credits. The whole success of the proposition lies therein.

Again, to many of us, and I admit I am one, this bill is repulsive. It is a forced measure, a forced bill, the like of which was never put upon the statute books of any nation, where you say to men in the national banking system at this late day:

You must prescribe to this doctrine; take this stock; give up 10 per cent of your capital and 50 per cent of your reserve money or you must go out of business or out of the national banking system.

Gentlemen, that does not appear to me to be the spirit of the American people; it does not appear to me to be in accord with Democratic principles. It appears to me to be entirely unnecessary. There ought to be, and I am sure there is, enough wisdom and ability in this committee and the committee of the House to draft a bill that will not compel us to come in, but, by the advantages and privileges you offer us, that will force us to knock at the door to get in, and we believe if this bill should become a law it would be a reflection on the Congress of the United States to say to the national banking fraternity of the United States:

You must subscribe to this doctrine or give up the business that you have accumulated in a lifetime.

I am not speaking as a national banker, although I happen to be one in an infinitesimal way. I am on this commission representing the State bankers and the trust companies, originally the only man on the commission in that capacity. I have urged for six years that you never can have a homogeneous banking system in this Nation until you admit the State banks and trust companies into the general system.

You come along with the proposition to our brother, the national banker, and you say:

You must either do this or retire from business, liquidate your establishment, or go into the State system.

I plead with you, gentlemen, as a State banker, as one that is extremely desirous of going into the national system, no matter
what rules you put around it, provided it is not a forced bill; and I
want to call your attention to the fact that as this bill is framed at
present, in my judgment, if it were passed to-day it would be abso-
lutely inoperative to-morrow. You have discouraged those gentle-
men who have developed that national system up to its present state
of perfection; you have them feeling as though they are no longer
to be considered in the class of citizens who are worthy of represen-
tation.

One hundred and thirty-seven years ago, gentlemen, the founda-
tion of this Government was based upon the fact that the older
country would not give representation for taxation, or forced con-
tributions. This is distinctly a step backward. In no sense is it a
step in the line of progress of the Nation.

You have provided for not less than 12 reserve banks.

I want to call your attention to a few statistics here, in which I
believe I can point out to you a lurking danger in this whole move-
ment if you will allow the bill to stand as it is at present.

In the six New England States, under your law, there could only be
two regional reserve banks. In those six New England States there are
463 banks, and 10 per cent of those banks—just one-tenth of them—
if they declined to come into this system, New England would be re-
duced to one, because your bill requires that no reserve bank can be
established with less than $5,000,000 of capital. If you apply that
doctrine to the 20 per cent proposition, then you could only have one
bank in the six New England States, if they all came in. But I am
relying on you to adopt the suggestion that 10 per cent is adequate,
and 10 per cent is sufficient, and that in the last analysis 10 per cent
will be introduced.

In the Eastern States, New York, New Jersey, Pennsylvania, Dela-
ware, Maryland, and the District of Columbia, there are 1,650 banks.
I could name one-tenth of the national banks that would not go into
your system, and those great States would only have two reserve
banks.

In the Southern States you have 1,483 banks, and I could name
148 of the more important banks who if they did not go into the system
you would have throughout the entire South only one reserve bank.

In the Middle States there are 1,257 banks; and if 125 banks I
could name, or one-tenth of them, were to withdraw or decline to
come in and take out State charters, it would leave the Middle West
without a reserve bank.

Senator Crawford. Without any at all?

Mr. Wade. Without any at all.

Senator Crawford. One hundred and twenty-five banks?

Mr. Wade. There are 1,257 banks, and if 125 banks of the larger
banks I could name would not go into the system you would not have
sufficient capital left to create a reserve bank of $5,000,000. I have
the figures here, and I can demonstrate it.

Senator Pomerene. That is, you mean by that, so many of the
larger banks?

Mr. Wade. Yes, sir.

On the Pacific slope, in the Pacific States, there are 490 banks, and
if 49 of the larger banks should stay out it would leave that section
of the country without a reserve bank.
Senator Pomerene. Would it interrupt you if I asked you a question along there?

Mr. Wade. No, sir.

Senator Pomerene. What reason have you for believing that these banks might stay out of the organization?

Mr. Wade. The reason is that this is a forced bill, first; secondly, that it offers nothing to the banks in the way of an inducement to come in that they can not secure by becoming State banks, except the privilege of subscribing to your stock and contributing one-half of their reserve and reaping the benefits of the institution in the event that it should be successful.

The reason I have picked out the larger banks, gentlemen, is this: There are in the national banking system, as you all know, over 7,300 banks. There are 2,004 with a capital of $25,000. Mr. Wade. There are 2,704 with a capital of less than $100,000. There is no inducement that I can see now for smaller banks to come into this system.

Senator Reed. Why? That's what I would like to know.

Mr. Wade. The reason why, Senator, is this: That the banks in the smaller towns and hamlets of this Nation loan on a class of paper that this bill would not relieve them in times of distress. It is not what you call or what the bill calls "commercial paper." It is generally loaned to a man because the banker knows his whole personality; knows his family—his wife and his children; knows that the farm over there is only mortgaged for $500; knows the little corner grocer who borrows $100 or the little country storekeeper who borrows $500 is just as good for his credit as the millionaire who borrows on his bonds. But if you tried to run a regional reserve bank and endeavored to take over that class of security for your reserve banking association you would have to know almost every man, woman, and child in those communities to be a judge of the credit.

Senator Nelson. And then the time would enter into that.

Mr. Wade. And then again they do not loan money like we do. John Smith walks into his little country banker and he borrows $100 or $200 or $300, and they rarely charge him any interest. He wants to make a loan for 90 days of $100, and they do not charge him any interest. They just charge him about $5 for the loan, a mere incident and contract made between them, and it is perfectly satisfactory, and that class of paper, gentlemen, if you attempt to put it into a reserve bank would require a credit department that would almost take in the census.

Senator Crawford. Mr. Wade, will you permit me right there——

Mr. Wade. Yes, sir.

Senator Crawford. Is it not a fact that with these little banks in small towns and in agricultural communities the loans even to the retail merchants and the very small business men always run until after the crop is sold anyway, whether farmers or not?

Mr. Wade. Yes; and then if the crop is not good it runs until the next crop comes in.

Senator Crawford. And is renewed?

Mr. Wade. Yes; and it is renewed and renewed again. The loans of a country bank are never cleaned up like those of a city bank or like those of a reserve city bank. Of course there are exceptions, but I am speaking of the general rule. Therefore in
dealing with this subject you must perforce deal with the institutions that are in the larger centers relatively. I do not mean Chicago, New York, or St. Louis, but I mean with the general reserve cities, the cities of 25,000 or 50,000 or 100,000 people or more, not with the towns of 1,500 or 1,000 or 2,000 people or 500 people.

Do not let me be misunderstood as in any sense decrying the country banker. I want it thoroughly understood that he fills his place and he fills it most admirably, and I also want it thoroughly understood that he does not require a reserve bank.

Senator Crawford. That is right, too.

Mr. Wade. He has no use for a reserve bank such as those of us in the larger communities; his correspondent takes care of him. That is what he keeps his money for with us, and great institutions, such as the First National and the Continental Commercial, of Chicago, and the National City Bank, of New York, and great institutions of that kind frequently make loans to these country banks of $1,000 and $2,000 and $5,000 and $50,000, and they will continue to do it.

My appeal to you, gentlemen, is primarily for the purpose of aiding me in interesting the State banks and trust companies to come into this bill, because without their assistance you can not make it a success, in my judgment. Your note issue would be more or less a farce. It would be a rigid note issue unless you get the larger banks of the communities interested, State and National. Why? You issue this currency and the State bank can keep it as a reserve the same as they do for national bank currency, and that is one of the reasons why the national-bank note is not a liquid and rapidly redeemable currency.

A national banker may have his son or his brother-in-law or his friend located in another city take out $100,000 national-bank circulation and ship it over to him and it is just as good in the vaults of the State bank for reserve as gold, and it is accepted. Again, if a careful analysis is made of this bill in the States of this Nation which have good banking laws—and very nearly all of them have good State banking laws—it can be proven beyond a peradventure of doubt that the State bank and the National bank are doing business in competition, each on a corner across from the other, but each making about the same profit and each aiding in the development of the commerce and meeting the requirements of the Nation. Why is it, gentlemen, that with all the power of the United States Government behind the national-bank system it does not progress like the State system? The answer is simple. It is because the laws of the States, as a general proposition, meet the needs of the Nation, as a whole, more than the national-banking system does to-day.

The banking power of the United States, aggregating as it does $22,000,000,000, is only represented in the national system by a little over 36 per cent, and here you bring along a bill at this hour and say to men who in good faith have taken out a national-bank charter and who have gone through panics and carried the Government debt through two wars and developed your country, that you must subscribe to this stock and you must separate with one-half of your reserve money, and you will not have representation on this board, failing in which you drive them out of the national monetary system.
You hear a great deal of discussion about the banks of the older countries, and I was rather amused to find the impression prevailing here that the Bank of England would not permit a banker to be on its board. That is not true; that is not the fact. There is no rule against it, absolutely none. It is only an expression of different terms between that country and our country that has misled the gentlemen who make such statements and who are, I have no doubt, just as sincere as I am, and I have no doubt that they believed everything they said.

A banker over there is termed a banker if he is in a joint-stock bank, or what we would call ordinarily a corporation, and financial houses, which are the greatest bankers of the world, and are not only permitted to have members on the board, but have them, and not only that, but there is a representative of a foreign bank to-day on the Bank of England board.

Where is there a greater banking house in this country, with the possible exception of Morgan & Co. and Kuhn-Loeb & Co., than Baring Bros.? Lord Revelstoke is a member of the Bank of England.

Senator Nelson. And a member of this firm?

Mr. Wade. Yes, sir; and a member of this firm. Morgan & Grinnell, another great banking house there, has a member of the board. They are not banking houses; they are financial houses. This is just a confusion of names.

Senator Shafroth. Is not the distinction simply that no person connected with an institution that cashes a check or receives deposits can become a member of the board?

Mr. Wade. No, sir; that is a theory, Senator, and not a fact.

Senator Shafroth. What do you think about this statement of Mr. Bagehot—

Mr. Wade. Who is Mr. Bagehot?

Senator Shafroth. He is author of the work entitled "Lombard Street."

Mr. Wade. I can not vouch for Mr. Bagehot, but I can vouch for the membership of the Bank of England, and I give as my authority, and you will find it in the volume published by the monetary commission in the interviews with the government of the Bank of England. That is my authority.

Senator Hitchcock. It is also stated in these interviews, as I recall them, that there is no requirement at all as to the qualifications of the governor of the Bank of England, except that he must be a citizen of England.

Mr. Wade. Certainly not; there is no requirement of the President of the United States, except that he be a citizen and worthy of the office.

Senator Reed. Yes; he must have been born in the country.

Senator Shafroth. I was about to read the statement made by Mr. Bagehot, which is as follows:

In London no banker has a chance of being bank (of England) director, or would ever think of attempting to be one. I am here speaking of bankers in an English sense (if those who accept deposits subject to check). * * * Not only no private banker is a director of the Bank of England, but no director of any joint-stock bank would be allowed to become such. The two situations would be taken to be incompatible. * * * The mass of the bank directors are merchants of experience, employing a considerable capital in trade in which they have been brought up, and with which they are well acquainted. * * * The direction of the Bank of
England has for many generations been composed of such men. (Lombard Street, pp. 214, 216; ed. 1910. Same effect Senate Doc. 405, p. 10, by National Monetary Commission.)

Is not that true?

Mr. Wade. I can not, of course, take better authority for my statements than the Congressional Record, and I give you my authority in the volume of interviews between the Monetary Commission and the government of the Bank of England and the Bank of France and the Bank of Germany.

Senator Nelson. That is published in the reports of the Monetary Commission?

Mr. Wade. Yes, sir.

Again, if you are going to apply the English doctrine, we accept it with open arms, because they do not foist the bank stock of the Bank of England upon the banker.

The Chairman. Mr. Wade, may I ask you a question right there?

Mr. Wade. Certainly.

The Chairman. Do you then suggest that this stock be thrown open to the public at large?

Mr. Wade. Absolutely so. Why should it not be?

The Chairman. I wish to have your point of view.

Mr. Wade. Absolutely so; we do not want it.

Senator Nelson. What the chairman means is to the public outside?

Mr. Wade. Why, certainly; let them take the chance and we will subscribe to the doctrine. Senator, you never have yet heard a banker worthy of the name of such demand that he and the bankers of this country should have the stock of this bank. We don't want control; we don't want this stock; we don't want to put our money in it. We can get 5 per cent, anyway, or 6 per cent anywhere.

Senator Pomerene. Did not one of the witnesses yesterday say that they did object, because the moment the public was permitted to have stock in these regional banks that they would immediately want the privilege of doing their banking with the regional bank?

Mr. Wade. He might have said so, and I will go further and say that whenever this Government wants to start an independent bank and go into competition with its national banking system we will not put anything in their way. Destroy, if you will, the thousand millions of capital, the eight thousand million of assets in this institution by bringing in this plan; that we could not very seriously protest, because it might be regarded as a selfish protest. There is not a man in this commission, gentlemen, that has ever approached this proposition from any other than one standpoint, and that is of patriotism and American citizenship.

There is not a suggestion that we have made—I challenge any man to point out one recommendation that we have made that is selfish, and for the particular direct benefit of the banker as against any other class of citizens.

The Chairman. Do you suggest that opening these stocks to the general public would destroy a thousand millions of capital and eight hundred millions of investment?

Mr. Wade. I do not suggest any such thing; I suggest that we have not the slightest objection to your selling this stock to whomsoever may buy it, and if you are going to follow the management of the Bank
of England control theory, why not follow the bank note capitalization theory. Anyone can buy a share of stock in the Bank of England if they have the money. They can buy a share of stock in the Bank of France or the Bank of Germany if they have the money. These banks were not organized by a forced bill or by compulsion, or by telling a lot of business men that you must either subscribe to this doctrine or get out of business. They were built along the lines of the ordinary business proposition. There are so many ways, gentlemen, that you could open up this bill and make it so attractive in its features that we would be glad to come in. That is the kind of bill that I want to see, not this bill, discarding all the banking experience of nations that have lived 1,000 years; discarding all the power of the great Bank of England, whose whole assets amount to only about $350,000,000; discarding a system that absolutely controls the finances of that nation, but of every other nation upon the habitable globe. Every cup of coffee you drink is bought in pounds sterling; every rope you import from Manila is imported in sterling, franc, or mark. In our own possessions, the Philippines and Porto Rico, with all of our pretended power, our system is so weak that the pound sterling stands where our dollar is practically unknown.

That, gentlemen, is our mission; that is our purpose; we have traveled here to tell you that if you attempt to put a force bill through and then attempt to organize not less than 12 reserve banks with a capital of not less than $5,000,000 each, and confine the subscriptions to national banks alone, it is our judgment that you will not be successful.

The Chairman. You think the capital ought to be lower?

Mr. Wade. No.

The Chairman. You think the principal must be lower?

Mr. Wade. I do not think, Senator, but I am absolutely convinced that the number of banks must be less than 12 rather than more than 12. I am not going to advocate a central bank idea, and yet I do not care to be misunderstood. It is a sound, economic principle of banking. It is a system that should be inaugurated, but I realize that it is politically unwise not only under a Democratic administration but equally so under a Republican administration.

Senator Weeks. You do not mean unwise, but you mean impossible.

Mr. Wade. I mean politically unwise or politically inexpedient.

Senator Reed. Politically impossible could be taken as synonymous with political unwisdom.

Mr. Wade. I think you will all agree that if you were to go out into the hustings it would be accepted as such.

Now, gentlemen, our mission is to point out to you the weaknesses in this bill as we see them. Having discharged that duty, we leave the case in your hands, but we believe that the stockholders of this corporation should have exactly the same rights as the stockholders of the corporation known as the United States of America. We believe that the stockholders of the national bank should have the same right that you would convey to any other private corporation and that is representation.

Again, we meet a political situation, and we do not ask you to give us control. We do not want it; but we do recommend to you, and recommend in all sincerity, to provide in this bill that the several
reserve banks, as they may be later constituted, may recommend to the President of the United States a list of eligible men to be on that board and let him then appoint them. We do not want to name them, but if we have five reserve banks, or three, we suggest that we name men whom we know from our practical business experience of years are capable of presiding over the destiny of a great institution such as this is and let the President, from that list, whether it be 5 or 50 names, make his own selection.

I would like, gentlemen, to have you leave this bill as now framed, all of it, for a while. I would like to have you forget the national banking system for a while, and I would like to have you divert your attention to the great strength of the State banks and trust companies that handle part of the commerce of the country. The other institutions build your railways and your waterways and your buildings and till your soil and develop your agricultural and your manufacturing resources. The whole theory of this bill is built upon the national system. There is a provision that the State banks and trust companies may come in under the rules that will hereafter be prescribed. What these rules will be will depend entirely upon the character of the men of the Federal board of control.

I can state that to these national bankers around here, men who have grown gray in the service, and when I tell them that we loan on real estate over the United States, from Florida to Seattle, they hold their hands in horror, and when I tell them those notes are as liquid as their assets, well, they are busy, and they do not have time to investigate, but, nevertheless, it is a fact.

Mr. Nelson. They are more liquid than call loans on stock collateral in case of a panic?

Mr. Wade. We are loaning to-day in Seattle, in Portland, Oreg., all through Kansas, in Oklahoma, and in Texas. We have never had a default on one loan on real estate, and we are making loans to the extent of about $500,000 per month. We are just as important a factor as they are, and you must reckon with the State banks and trust companies in framing this bill if you want to get a homogeneous law, but if after inspection of your draft of the bill you are going to turn the crank and force national men in the system, or retire them from the system, we will have to go into it, and we will say:

Let them try it if they choose, and we will follow if it is a success.

Senator Shafroth. Mr. Wade, a few moments ago you made the statement that members of banking houses were in reality members of the governing board of the Bank of England. I had occasion to look at a book entitled "The Meaning of Money," by Mr. Hartley Withers. There he says:

When we come to consider the bank's organization, its most striking features are the constitution of its court of directors, and its system of government by rotation, and these are points on which the bank's critics have fastened with the keenest energy and determination.

The bank court is a committee recruited chiefly from the ranks of the accepting houses and merchant firms, and its members are nominated by itself, subject to the purely formal confirmation of the shareholders; and it is an unwritten law that no banker in the ordinary sense of the word—that is, no one connected with what we call the check-paying banks—can be a member of it.

At first sight this is one of those anomalous absurdities so common in England, and so puzzling to the intelligent foreigner, who can not understand why we suffer them. A court of directors ruling the Bank of England, and so performing most important
banking functions, and yet disqualifying for membership any one with an expert knowledge of banking, is a tempting subject for an epigrammatically minded satirist. But in fact this anomaly, like many of our others, not only works extremely well in practice, but is, when calmly considered, clearly based on sound common sense. For in the first place it would obviously be undesirable that a member of one of the outer ring of banks should have the insight into the position of his rivals which membership of the Bank of England court could give him, unless all the others were similarly privileged. But if all the outer banks were represented on the bank court, it would become a committee of unwieldy dimensions, perhaps reproducing or reflecting in the bank parlor the rivalries and jealousies that stimulate the outer banks to work against one another, but are not conducive to their working together.

And the question of proportionate representation would be difficult to settle. As it is, the bank court, being free from connection with the outer banks except by keeping their balances, is able to watch their proceedings with a wholly impartial eye, and, on occasion, to make suggestions with salutary effect.

Mr. Wade. Let me show you the fallacy of that and how utterly impracticable it is from a practical point of view. Take Baring Bros.—

Senator Hitchcock. Mr. Sterling Baring is a member of the Bank of England, but he is not a member of the Bank of England Court.

Mr. Wade. Lord Revelstoke is; he is a member of Baring Bros., and in the directory of the Bank of England.

Senator Crawford. Do they not have what they call discounting houses?

Mr. Wade. I will explain that in a minute. Let me show you how impracticable, improper, and unjust that statement is. I give you the authority of your own Congress as against a writer of a book. Let us deal with Baring Bros. They handle millions and millions, hundreds of millions a year. Do they go down in their vault every time they make a transaction and pick up a bag of gold and say, "Bill, here it is"? When they get that money do they carry the money in a bag? No. They must have a checking system. They are bound to have a checking system. There are three distinct banking houses in the city of London—distinctive classes in their nature. There is the joint-stock bank.

Senator Nelson. Incorporated?

Mr. Wade. Incorporated; then there is the discounting house; and then there are the financial houses; and then there is a fourth, the accepting houses. The joint-stock banks accept and so do the financial houses and so do the accepting houses, and the joint-stock banks will take the acceptance of another joint-stock bank, and the Bank of England will take the acceptance of any other joint-stock bank and discount the paper, and it is a totally different system from what we have here. But it is very near the ideal.

Again, let me show you the fallacy of the fear of having a banker upon a board that would regulate the discount rate for this Nation. Are you going to select seven men who will be so simon-pure in thought and mind and heart, and who will at all times be so discreet and by some operation of an unknown law not be able to tell his friend, the banker, that the rate is going to be raised to-morrow? Is the Bank of England rate ever raised without consulting the directors? Certainly. It is done time and time again by the action of the governor alone without consulting the directors.

Senator Shafroth. But it is often done with the consent of the directors?

Mr. Wade. Frequently it is done with the consent of the directors, but the governor initiates it. Again, the Bank of England will
not allow the governor of the Bank of England to succeed himself longer than two years. The deputy governor goes up, and it is a great position of honor. To be a member of the Bank of England board is a passport throughout the world.

Senator Pomerene. Did I understand you to say a moment ago that you feared that this board of control or reserve board, if appointed, would let some of the bankers know what the rate of interest was going to be?

Mr. Wade. No. I said this: That a member of that board was just as apt to do it as a banker member. Let me tell you, Senator. We have in our institutions here in the larger centers what are known as clearing-house examination committees, where we examine a competitor.

Senator Pomerene. I just wanted to call your attention to this fact: You have suggested here that if there was a board appointed under this bill that it might leak and let the bankers know what the rate of interest was going to to-morrow?

Mr. Wade. No; I suggested that they could leak just the same, whether members of a bank board or not.

Senator Pomerene. Would they not be less likely to leak than if they were bankers named by banks?

Mr. Wade. No; and if they did, it would not make the slightest difference. Let me tell you why. Those of us who are active in the banking business, and who do an international business, as many of us do, watch the report of the Bank of England with just as much care and avidity as we do the weekly statements of the Bank of New York, and we know whenever there is going to be a raise in the Bank of England rate or when there is likely to be one. We do not know specifically when the rate will be raised, but there is a danger point in that statement just the same as the danger signals are known in New York, St. Louis, or any other town, and we can tell when the rate must go up.

Senator Shafroth. I hold in my hand the answer of the governor of the Bank of England and the interrogations of the monetary commission. Let me show you what he says here:

Q. Is it customary to reelect directors at the expiration of their terms?—A. It is customary for directors to be reelected.

Q. Is there any custom restricting the class from which the directors may be selected?—A. There is no legal restriction as to the class from which directors may be selected, except that they must be "natural-born subjects of England, or naturalized," but in actual practice the selection is confined to those who are, or have been, members of mercantile or financial houses.

Mr. Wade. That is right.

Senator Shafroth (reading):

Excluding bankers, brokers, bill discounters, or directors of other banks operating in the United Kingdom.

Mr. Wade. That is the point I made. I said so, but notwithstanding the custom, they still have on the board a member of a bank recently elected. [Reads:] But in actual practice the selection is confined to those who are, or have been, members of mercantile or financial houses.

Do you know what a mercantile house is over there?

Senator Hitchcock. Read the next line.
Mr. Wade. Certainly. [Reading:]

Excluding bankers, brokers, bill discounters, or directors of other banks operating in the United Kingdom.

That has been the practice, but that is not the law. Now, then, financial houses are exactly the same as Morgan & Co., of New York, or Kuhn, Loeb & Co., of New York, the greatest banking houses in America, but we do not call them financial houses.

Senator Hitchcock. The law of 1844, under which the Bank of England is now operating, does provide a qualification; a member of the board must be a natural citizen.

Senator Shafroth. That is a general qualification, but we were talking of the actual practice of the Bank of England.

Senator Nelson. However that may be, that is not really material to our inquiry.

Mr. Wade. The same principle applies in France and in Germany. The stock is held by the people of the nation. The Bank of France has 40,000 stockholders.

The Chairman. Who appoints the directors there?

Mr. Wade. The directors are selected by the stockholders. In France the directors are named by the stockholders and the governor named by the President of the Republic. There are 3 men out of 18 named by the governor and 15 selected by the stockholders.

The Chairman. Who appoints the managers of the various branches of the Bank of France?

Mr. Wade. The governor.

The Chairman. What power have the regents?

Mr. Wade. Absolute power. We have it here in this report of the monetary commission.

The Chairman. You might read it into the record.

Mr. Wade. It is a long story and it would take some time for me to get it from the report.

Senator Hitchcock. I have a memorandum of the matter here: In the Bank of France there are 15 regents and 3 censors, who are elected by the 200 largest stockholders. They have control of the management of the bank, including the fixing of the interest rate. The President appoints the governor and the subgovernor.

Mr. Wade. The Bank of France is a private corporation with 40,000 shareholders. The governor and two deputy governors are named by the President of the Republic; 18 directors are elected by the shareholders; a majority vote controls the operation. That is on page 190 in this book.

Senator Crawford. In all these banks—England, France, and Germany—the stock represents voluntary subscriptions?

Mr. Wade. Absolutely so.

Senator Crawford. And in the first and second banks of the United States the subscription of stock was practically voluntary, was it not—in the old first and second banks here in our own country?

Mr. Wade. Well, I am not that old.

Senator Crawford. That is true as a matter of fact?

Mr. Wade. That is true.

Senator Crawford. Do you know of a case where they have ever made it a matter of coercion to furnish capital for a bank?
Mr. Wade. Gentlemen, I do not know where there is a law on the statute books of any enlightened nation—I do not know of any law in any State of this Nation where by the operation of law they say:
Separate from your money or we will destroy your business.

Senator Pomerene. They require you to keep a certain amount of reserves now.

Mr. Wade. That is right; but that is voluntary.

Senator Pomerene. That is prescribed by law.

Mr. Wade. That is true; but I knew the law when I entered into that system. That does not take my money away; it conserves it in my safe.

The Chairman. Mr. Forgan—pardon me, Senator Reed, have you finished?

Senator Reed. I am more interested in the conditions here than I am in Europe, and I was going to inquire about them; but I will defer my questions, Mr. Chairman.

The Chairman. I merely wanted to call attention to page 190, to which Mr. Wade referred, with regard to the powers of the shareholders of the Bank of France. The statement is made that these shareholders meet on a Thursday in January of each year, when they are told about the business of the bank during the year and are called upon to elect and reelect the regents and censors. The three censors must be chosen from the industrial and commercial classes and the three regents must be chosen from the general paying shareholders. The regents meet once a week, and they decide upon the changes in the rate of discount, which is their most important duty, and that practically ends their management. The actual management is done by the managers, who are appointed by the Government. And the same thing is true of the Bank of Germany.

Mr. Wade. But if you will read on further, Mr. Chairman, you will find that the majority of the directors control. I did not want to go into that; but if you will continue, you will find that the majority of the directorate of the Bank of France control its entire action except in the election of the two governors and the two deputy governors and the managers of the branches.

The Chairman. But every one of the 188 branches has its manager, and every one of them is appointed by the Government. I do not see how the Government could go much further.

Senator Reed. I was interested in your statement, Mr. Wade, that the State banks are, notwithstanding the prestige accompanying the name "National," able to rival the national banks; and the reason you gave was that the State laws were more advantageous—that is not your language, but I am trying to give merely its substance.

Mr. Wade. That is the essence of it.

Senator Reed. Now, in what respect are the State laws more advantageous? Could you give it to us in a short, terse statement?

Mr. Wade. Let me first give you the advantages of the National banks over the State banks. First, they can issue circulating bank notes, which formerly could be done at a profit, but latterly—particularly in the year 1913—has been done at a very heavy loss, because of the depreciation of the 2 per cent, the 3 per cent, and the 4 per cent Government bonds. So, therefore, that is a privilege supposed to be an advantage which has developed into a detriment.
Second, it may act as reserve agent for other national banks for the reserve funds of other national banks. In a reserve city they can act as reserve agents for country banks, and in central reserve cities the banks can act as reserve agents for country banks and for reserve banks.

Strange as it may appear, that is not regarded as a great advantage, because the reserves of the country bank and of the reserve city bank are always at the lowest ebb when money is close and at the highest when money is cheap.

And secondly, because if a reserve bank or a country bank keeps its reserve in a reserve city or a central reserve city, it is almost an unwritten law that the reserve bank or the central reserve bank must loan it money whenever it needs it.

Senator Nelson. You mean loan its money to the depositing bank?

Mr. Wade. Loan its money to the depositing bank. In other words, the bank that will keep a deposit of $10,000 will ordinarily be entitled to a credit of $35,000 or $40,000, and so on, in that ratio.

The third supposed advantage the national bank has over the State bank is that it is the depositary for Government money. But again, in the year 1913, that has proven to be unprofitable, because for 50 years it was the custom of the Government to deposit money in the national banks without interest, but secured by the Government bonds. Many banks bought bonds and secured Government deposits. Many of them paid as high as 105, 106, and 107 for a 2 per cent bond, because it was profitable to do it—because they paid no interest on the deposits. But when the interest of 2 per cent was required and demanded of the national bank for the Government deposits the profit was eliminated; and when the bonds fell down below par the banks have charged, or should charge, to profit and loss account the amount of the depreciation.

Senator Reed. Those are the advantages of the national banks?

Mr. Wade. Those are the advantages of the national banks. Aside from that, there is a certain imaginary glamour in being national banks. There is nothing in that except sentiment.

Senator Reed. As I understand you, all these advantages have become disadvantages, except the glamour. Is that what you mean?

Mr. Wade. Practically all; and the glamour has no value.

Now, the advantages that the State banks have over national banks: They can do all the business that a national bank can do, except those three items recited. In addition to that, they can loan on real estate. In many States they can buy stocks and bonds. In many States they can act in a fiduciary capacity.

Senator Reed. Yes; act in a fiduciary capacity.

Senator Nelson. And the reserve requirements are not as stringent?

Mr. Wade. And in many of the best States of the Union they have no requirement about reserve at all, except that which is relied upon in the intelligence of the manager of the bank.

The Chairman. And they do use national-bank notes as reserves, do they not, in some States?

Mr. Wade. They can use national-bank notes in reserve, which a national bank can not do. They can use any kind of money in
reserve, while a national bank is restricted to carrying its reserve in what is called "lawful money."


Senator Reed. Now, does that make up the advantages of the State banks?

Mr. Wade. No. In speaking about State banks, I never forget about the words "trust company."

Senator Reed. It is the same thing, only a different name?

Mr. Wade. They can act as trustees under a will, or as trustees under a mortgage.

Mr. Wexler. And as executors of estates.

Senator Hitchcock. Administer estates?

Mr. Wade. Administer estates.

Mr. Johnston. Mr. Wade, I would like to ask you is not the trust company in the banking world what the department store is in the mercantile world—they can do almost anything?

Mr. Wade. Well, you can not get married by them.

Senator Reed. Well, does what you have recited embrace all the advantages?

Mr. Wade. I can illustrate this better by describing the institution which I preside over, and giving you the various departments.

Senator Reed. Well, that is hardly necessary.

Senator Nelson. That would give us a better idea.

Senator Reed. Then I should like to have it.

Mr. Forgan. You can get an almost interminable franchise. I have one in the State of Illinois for 999 years.

Mr. Wade. We have a bond department, where we buy and sell all classes of bonds. We have a real estate department, wherein we buy and sell all kinds of real estate on commission—never speculated on it. We have a real estate loaning department, where we can loan on any piece of real estate anywhere in the habitable globe.

Senator Nelson. For any length of time?

Mr. Wade. For any length of time.

Senator Weeks. Mr. Wade, before you leave that subject let me ask this: You do not loan funds on real estate that are subject to check, do you? You only loan deposits that are time deposits, do you not?

Mr. Wade. Why, we loan our money. We do not make any distinction whatever; not the slightest. We have a trust department, where we handle all sorts of estates. We have a corporation department, where we keep the records of all kinds of corporations who desire records kept. We have a safe deposit department. And all of those departments are profitable. We have a foreign-exchange department.

In other words, we can do in the trust company—which I am so anxious to get under this system—anything that the discount house of London can do. We can do anything that the joint-stock bank of London can do; we can do anything that the national bank of the United States of America can do (except the three items I have mentioned), and anything that the accepting houses of London can do.
Senator McLean. You have a savings department, have you?

Mr. Wade. We have a savings department, with forty-odd thousand depositors. And, lastly, we have a charter that runs for 50 years.

Mr. Johnston. The charter of a trust company in Missouri permits also, if the officers desire to take it up, that they should have an insurance department, fire and life.

Senator Shafroth. Mr. Forgan made a startling statement just now, that he has a corporation that has a legal existence of 999 years—according to the laws of Illinois.

Mr. Forgan. And which is protected by a constitutional requirement; and there is not a word in the banking law under which it was organized that can be changed so as to terminate it.

Senator Reed. Mr. Chairman, I suggest that we will not get very far if we go on these side issues. If there is any other member of the committee who desires to question Mr. Wade now I will waive the privilege for the present.

The Chairman. The Senator from Missouri will proceed.

Senator Weeks. Mr. Chairman, it is half past 5; the committee has been in session all day, and I think it would be well to adjourn at this time, although there are some matters I wanted to get Mr. Wade's views upon.

The Chairman. When would you be able to appear before the committee again, Mr. Wade?

Mr. Wade. I can be back here on Saturday.

The Chairman. Then the committee will be glad to have you explain further at that time about State banks and trust companies.

(Thereupon, at 5.30 o'clock p.m., the committee adjourned until to-morrow (Thursday) morning, at 10 o'clock.)

THURSDAY, SEPTEMBER 4, 1913.

COMMITTEE ON BANKING AND CURRENCY,
United States Senate,
Washington, D. C.

The committee assembled at 10 o'clock a.m.

Present: Senators Owen (chairman), Hitchcock, Reed, Pomerene, Shafroth, Hollis, Nelson, Bristow, Crawford, McLean and Weeks.

Senator Weeks. Mr. Chairman, I think I ought to say to the committee that I am going, at 11 o'clock, when the Senate convenes, to introduce a resolution instructing this committee to report on the bill which we have under consideration, the 2d of December next, at the convening of the regular session of Congress, and to make banking and currency legislation the unfinished business at that time. I assume that the committee will want to take a recess, as I am going to introduce the resolution at 11 o'clock.

Senator Reed. I would like to ask the Senator if he could not let that go until to-morrow. I have made a positive engagement which compels me to leave here at 12 o'clock, and if this resolution comes up at 11 o'clock, I could not be there until the debate was over; because it will undoubtedly, if it is debated to-day, involve some delay.
Senator Hitchcock. It could hardly be debated to-day.
Senator Weeks. Of course, if an objection is made, it can not be debated to-day.
Senator Hitchcock. I think that will naturally be the result.
Senator Reed. I know it would; hence I ask the Senator for an extension of time.
Senator Weeks. I would like to accommodate Senator Reed.
Senator Reed. Well, the Senator can then just have it put in, and to-morrow we can take it up.
The Chairman. Will you give notice, then, to-day that you will introduce the resolution to-morrow?
Senator Weeks. I will introduce it to-day and give notice that, under the rules, I assume it would come up for debate to-morrow.
Senator Nelson. It can not come up to-day unless you secure unanimous consent.
Senator Weeks. I am perfectly willing to ask unanimous consent that it come up to-morrow.
Senator Hitchcock. You do not need to ask for unanimous consent. You can ask that it lie on the table and come up to-morrow.
The Chairman. Mr. Forgan, who is your next witness?
Mr. Forgan. Mr. Wade is still here.
Mr. Wade. Yes; Mr. Chairman, I have concluded that I had better stay here than to come back on Saturday.
Senator Reed. We are waiting for Mr. Wade to answer our questions, and Senator Hitchcock, I believe, has some questions he desires to ask now.

FURTHER STATEMENT OF FESTUS J. WADE, OF ST. LOUIS, MO.

Senator Hitchcock. Mr. Wade, you differ from your associate, Mr. Wexler, in that you favor the idea of having outside stockholders rather than having stockholders confined to the banks?
Mr. Wade. Yes and no. I think it would be all right to confine it to the banks if you did not make it a compulsory measure. As I said in my remarks yesterday, banks have not the slightest objection to taking the stock, provided they are not forced to do so. But if you are going to make it compulsory, then I would rather see it thrown open to the public.
Senator Hitchcock. Is that not a mere sentiment, the difference between being compulsory and voluntary?
Mr. Wade. No; it is anything but a sentiment. It is my deliberate judgment, Senator, and I have given this matter a great deal of consideration, that unless you change the provisions of that bill in that respect you will not get enough stock subscribed by the banks of this country to make the reserve banks a success.
Senator Hitchcock. Now you are not referring to the involuntary clause.
Mr. Wade. What is that, sir?
Senator Hitchcock. You are not confining yourself, now, to the question whether——
Mr. Wade (interposing). I am confining myself to the involuntary clause, because it is so inequitable, so undemocratic, so unjust, to demand that a bank shall subscribe to a doctrine or be forced out of business if it does not take stock, and if it subscribe to it that
it shall have nothing to say as to the control of the institution which it founds with its money.

Senator Hitchcock. Does it really make any difference whether they are required to do so or whether they do so voluntarily?

Mr. Wade. Why, I think it makes all the difference in the world. It is the difference of being forced to do anything in a country that is supposed to be free. It is repugnant to the manhood of the Nation.

Senator Hitchcock. Mr. Wade, under this bill as it stands now there is not a dollar of capital added to the banking capital of the United States.

Mr. Wade. No; admitted. There is $100,000,000 to the credit capital of the banks of the United States. You require us to take 10 per cent of the capital of our institution and separate our institution from that and take in lieu thereof certificates of stock in this reserve bank. You will increase the capitalization of the banks of the United States $100,000,000 or more by the operation of this bill.

Senator Hitchcock. But it is a duplication of capital?

Mr. Wade. True, it is a duplication—admitted.

Senator Hitchcock. Do you recognize that there has been a growing disparity between the capital of the banks of the United States and their liabilities represented by the deposits; that is, that the capital has been growing smaller and smaller, while the deposits and obligations to their depositors have been growing larger and larger?

Mr. Wade. I think, Senator, that probably you make the commonly accepted mistake, and that is that you look entirely at the national system, and you fail to look at the general system.

Senator Hitchcock. I think the disparity is still greater if you take in the State system.

Mr. Wade. I think not.

Senator Hitchcock. But confining ourselves to the national system, as the banks under that system are the only ones that would be under compulsion——

Mr. Wade. Yes, sir.

Senator Hitchcock (continuing). It is the fact that the margin of safety to the depositors has been growing smaller and smaller?

Mr. Wade. That depends upon what you mean by “safety.”

Senator Hitchcock. Because the deposits have been increasing relatively to capital.

Mr. Wade. Well, it all depends on what you would call the “margin of safety.” What would you term the “margin of safety”? Capital, money, assets, or what?

Senator Hitchcock. I should call the margin of safety the capital invested and the liability of the stockholders.

Mr. Wade. I can not clearly understand what you call the margin of safety. The margin of safety, in my judgment, in any bank, is in the wisdom and the judgment on which its money is loaned, so as to keep it liquid, and so that it can always be cashed.

Senator Hitchcock. Well, that is a matter that can not be provided by law. It is a sentiment too vague. But the specific and material thing that I am considering is the amount of money that the stockholders put into the business as compared to the volume of business that they do.

Mr. Wade. Oh, that is what you call the margin of safety, is it?

Senator Hitchcock. That is the margin of safety, in my opinion.
Mr. Wade. Well, that might have very little to do with it. You might have a bank—and I know of one, and administered on its obsequies—having a capital of $3,000,000 and a surplus of $1,000,000, and a deposit account of $6,500,000—and it was rotten.

Senator Hitchcock. Yes, I know, of course, that is quite possible with any concern.

Mr. Wade. And then, on the other hand, I know of hundreds of banks with a capital of $100,000 and deposits of $1,000,000, that are just as clean as one with a capital of $1,000,000 and deposits of $2,000,000.

Senator Nelson. Senator Hitchcock, I do not want to interrupt you, but I want to suggest that, in connection with this question, you ought to take into account, not only the capital, but the surplus of the bank, which is a part of the fund just as much as the original capital.

Senator Hitchcock. No, I do not. The purpose for which they are raising their surplus and keeping down their capital is to avoid the personal obligation of the stockholders. There is no personal obligation of the stockholders on account of the surplus.

Senator Nelson. Senator Hitchcock (interposing). But there is no individual liability attached to it.

Senator Reed. When you get the 20 per cent, there is no liability on the stock, is there?

The Chairman. There is a double liability.

Senator Hitchcock. For every share of stock there is a double liability behind the stock; but there is no individual liability behind the surplus; it is only a pile of money.

Mr. Wade. Senator, I think you have the wrong idea as to that; I am quite sure you have. Take the institution I preside over, which is a trust company. We have no double liability, but we have a capital of $3,000,000, and a surplus of $6,700,000. Certainly we do not have that surplus in order to avoid liability. The surplus of a bank is created primarily to give it strength, and to enable it to stand any tide that may come along.

Senator Hitchcock. Will you please explain why a surplus of $1,000,000 is any stronger for a bank than $1,000,000 of capital?

Mr. Wade. Of course, it is very simple. If I have a bank with $2,000,000 of capital, and no surplus, whether it be State or national, or a trust company—$2,000,000 capital, and no surplus, and I happen to lose $100,000, I am prohibited by law from continuing to do business until I make my capital good.

Senator Hitchcock. And your stockholders are required to do that?

Mr. Wade. Yes, sir. But if I have a bank, or a trust company, with a capital of $1,000,000 and a surplus of $2,000,000, and lose the whole $2,000,000 surplus, I could still continue to do business.

Senator Hitchcock. And your stockholders are not required to put up one cent?

Mr. Wade. No; my stockholders are not required to put up one cent.

Senator Hitchcock. That is exactly my idea.

Mr. Wade. But the stockholder has already put up that surplus.
Senator Hitchcock. Well, you have exactly set forth the point I raised, that there is no personal responsibility behind the surplus, but there is behind the capital.

Mr. Wade. No. The stockholders have no double liability in our State, whether it be a trust company or a bank.

Senator Hitchcock. I am talking about national banks.

Mr. Wade. I know; but there is where you gentlemen have lost sight of the most important factor of this whole proposition. You have seen the hole and not the doughnut. You have taken 36 per cent of the banking power of this Nation; the banking power that moves what is commonly known as the merchandise of the country, and the crops of the country; but you have failed to deal with those institutions that have built up this Nation through the operation of its real estate department, real estate loans, bond departments, with its ability to handle agricultural industry of all kinds, and to develop the whole manufacturing industry by the erection of manufactories and office buildings, and eleemosynary institutions—which national banks do not do.

Senator Hitchcock. Well, that is hardly in the line of my questions. I was proceeding to develop a certain line of thought. I wanted to ask whether you recognized the fact, in the first place, that, compared to the volume of liabilities, the capital of the national banks has been diminishing?

Mr. Wade. First let me say that I have not looked at the statistics in a way to carry that in my mind. But you must, if you take that into consideration, include the surplus.

Senator Hitchcock. Well, I am leaving the surplus aside for the present.

Mr. Wade. Well, but you must not do that, for that is capital, and you have to include the undivided profits.

Senator Hitchcock. Well, for the purposes of my question, I am leaving it aside, and I have to ask you whether you think, as a banker, there should be any relation between the capital and the amount of liabilities?

Mr. Wade. Yes; there should be; but I would not be prepared to lay down the rules for it. As a general proposition—

Senator Hitchcock (interposing). Now, I want to ask you—

Mr. Wade (interposing). Well, wait a minute. As a general proposition, I think when a bank’s liabilities exceed its capital and surplus and undivided profits 10 to 1, it has about reached the limit.

Senator Hitchcock. Ten to one, you say?

Mr. Wade. Yes. That is a purely personal opinion, however, without very much consideration.

Senator Hitchcock. Now, the capital of the national banks is something like $800,000,000, is it not?

Mr. Wade. No; it is over $1,000,000,000 capital and about $800,000,000 surplus and undivided profits.

Senator Hitchcock. Over $1,000,000,000?

Mr. Wade. And you must add the surplus and undivided profits.

Senator Hitchcock. Well, I am confining myself to the capital. Do you consider that the withdrawal of over $100,000,000 from that $1,000,000,000 would tend to weaken the national banks of the United States?
Mr. Wade. No, sir; you would only in effect loan or invest about 5½ per cent of your capital, surplus, and undivided profits.

Senator Hitchcock. You think it would not?

Mr. Wade. No, sir.

Senator Hitchcock. Could you withdraw $200,000,000 without doing that?

Mr. Wade. Yes, sir; but I do not see the necessity of it.

Senator Hitchcock. You think it would not weaken them to withdraw that amount?

Mr. Wade. No.

Senator Hitchcock. Can you withdraw $300,000,000 without weakening the national banks?

Mr. Wade. If you withdrew it and kept it where it could be borrowed again, it would not.

Senator Hitchcock. Then, do you think that the national banks could reduce their capital without weakening themselves, as would appear from your statement?

Mr. Wade. No.

Senator Hitchcock. Well, where would you draw the line?

Mr. Wade. I do not know just where I would draw the line on that. I do not understand the theory of your questions. Probably if I did I could answer them.

Senator Hitchcock. My theory is that in so far as this bill provides for the withdrawal of a large per cent of the independent banks of the United States it weakens them and injures the system?

Mr. Wade. No, sir; it does not.

Senator Hitchcock. Well, that is my line of reasoning.

Mr. Wade. So I understand; but your line of reasoning is erroneous.

Senator Hitchcock. Well, now I want to ask you this: Is it not a fact that the banking institutions of Europe proceed upon the theory that the liability of the stockholders is an important consideration for a depositor?

Mr. Wade. No; I do not think that is a fact.

Senator Hitchcock. Is it not a fact that all the large banks of Europe have a capital on which the stockholders have only paid in a per cent of cash, and that they have a large liability, much more than twice as much as they have paid in?

Mr. Wade. In some instances that is the case, and sometimes it is not.

Senator Hitchcock. Is it not the general rule as to a great many of the incorporated banks of Great Britain and France?

Mr. Wade. Sometimes that is the case; but I think you are in error.

Senator Hitchcock. That a large majority of the capital paid in, with a large majority of the stockholders' dues to the bank are held for that purpose?

Mr. Wade. Oh, yes; that is the theory. It is like your present national banking system. If I were a stockholder in a British bank, or a national bank in this country, and I had any reason to think that it would fail, I would sell the stock to-morrow, and my liability would cease.

Senator Hitchcock. No, it would not.

Mr. Wade. Why?
Senator Hitchcock. Because there is a period of time—
Mr. Wade. Well, what is the period of time?
Senator Hitchcock. It varies in different countries.
Mr. Wade. I mean in this country now.
Senator Hitchcock. Well, in this bill, I believe it is to be made six months.
Mr. Wade. Yes; but I am talking of the law, as it is to-day. It is one of those fictitious—
Senator Pomerene (interposing). Let me understand you, please; do you mean that in this country, by transferring your stock to another person you can avoid liability during the time you were a stockholder?
Mr. Wade. Absolutely, if I sell it in good faith.
Senator Hollis. Oh, no.
Senator Weeks. Then, the man who bought the stock takes the liability?
Senator Reed. The provision of the statute is that the man who purchases the stock—I am not giving the exact language, but the same substance—takes it with all of its liabilities.
Senator Pomerene. Primarily that is true.
Senator Reed. And there is no provision in the statutes that I have seen—I may have overlooked it—that provides any holder of bank stock shall be liable for the debts which were accrued at the time he held it; and which continues that liability after he has purchased the stock. If there is such a provision in the statutes, I have not seen it.
Senator Pomerene. Primarily, he is liable for those debts if the purchaser should be exhausted without the creditors being able to enforce the full stock liability. You can then go back on the original purchaser.
Mr. Wade. I think you are in error there, Senator.
Senator Pomerene. I am not in error. I have gone over that proposition in Ohio, and I know whereof I speak on that subject.
Senator Reed. Do you mean, Senator Pomerene, that if I own bank stock to-day and the bank has debts, and I transfer that stock in good faith—I am not talking about a fraudulent transfer; but I transfer it in good faith—but after I transfer it, I can still be held to a double liability? I do not think that is the law. Now, I grant you—
Senator Pomerene (interposing). You can be held, Senator Reed, for those liabilities which were incurred during the time you were a stockholder, provided the amount of the stock can not be realized out of the man to whom you sell it.
Senator Reed. You say that the decisions of the courts are to that effect? I have not seen those decisions.
Mr. Wexler. Senator, that is a mistake.
Senator Pomerene. Well, I have gone through that in Ohio, and I know what I am talking about.
Mr. Wexler. It is purely a question of good faith. If you can show, upon examination, that the transfer of the stock was made by the party with knowledge of the failing condition of the bank, and it was a subterfuge to avoid liability, you are entirely correct; but if the transfer was made in good faith, for valuable consideration, in the
ordinary course of business, you can not recover from the seller of the stock.

Senator Pomerene. If your position is correct, the double liability means nothing, and the man who has knowledge of the bank's failing condition can get rid of his stock by selling it to a mere dummy, and thereby escape liability.

Mr. Wade. That is not what I contend. I say if he sells the stock in good faith, the buyer and not the seller assumes the liability.

Senator Reed. I have not examined the statutes, but I think the rule is this, that if a man owns stock in a bank and transfers it in good faith, his liability ends when the transfer is made, and the liability of the purchaser for all the debts of the bank, to the extent of the amount of his stock, immediately attaches.

But, of course, if a man, in order to avoid that liability, is guilty of fraud—that is to say, if his transfer is a mere subterfuge—he would not them escape, because fraud vitiates every kind of transaction.

Now, that is the line, I think, that obtains, although I have never examined it. If the Senator from Ohio has examined it, I should take his exposition until I found something to the contrary.

Senator Pomerene. I will say that that has been the holding of the Ohio courts right along. I do not now have in mind any Federal decisions on the subject. I do not have in mind now that there is any distinction between the two. The national banking law was framed after the free banking act of Ohio. It was originally drafted by Secretary of the Treasury Salmon P. Chase.

Senator Hitchcock. Mr. Wade, can you conceive of a division of the functions provided for in this bill—possibly a division of the functions provided for in this bill? This bill provides, in a way, for the mobilization of the reserves of the country, and for discounting paper. It also provides for the issuance of additional currency. Do you think that those are necessarily, or should be necessarily, united?

Mr. Wade. Would you kindly repeat that question, Senator?

Senator Hitchcock. The bill provides substantially for two proceedings, the issuance of additional currency, either by the banks or by the Treasury, and it also provides for the mobilization of the reserves of the banks and for transacting business. What would be your opinion of the advisability of dividing these functions, by having the Treasury issue the additional currency and allowing the banking business of the country to continue very much as it is at the present time?

Mr. Wade. They could be divided, and it could be operated; but it——

Senator Hitchcock (interposing). But what is the country most in need of at the present time, additional currency or mobilization of the reserves?

Mr. Wade. Just a minute, sir; let me answer, please. It could be divided, but it would be a fatal economic mistake to let the Government issue the currency as governmental currency. We can not get away from that and be truthful and honest men in appearing before this committee. We must tell you that that is our unalterable judgment on the proposition.

Senator Hitchcock. Will you please state why it would be a fatal mistake for the Government to issue the currency?
Mr. Wade. Simply because it puts the Government in debt just that much more than is necessary. If these banks that you are going to organize, called reserve banks—whether there be 1 or 10 or 50—are going to be solid institutions, are going to be properly managed by the Government board of control; are going to be properly supervised by the Comptroller of the Currency; and if you are going to carry a proper gold reserve against them, you need no Government guaranty of its notes; and therefore we come to you, not as bankers but as citizens in that respect, and state:

Do not assume an obligation for the Government, when there is absolutely no necessity of doing so.

Senator Hitchcock. Well, is it concern for the welfare of the Government that influences you?

Mr. Wade. Absolutely so. Why, Senator, if you would stop to consider for a moment, you must realize that every banker wants on every note all the collateral and all the indorsements and all the security he can get as a strictly selfish, narrow, proposition. And we come to you absolutely in a patriotic way, and say to you:

Do not put the credit of the Government behind these notes, because, first, it is entirely unnecessary, and, secondly, it may hurt and injure the future of the Republic.

Senator Hitchcock. Well, the larger part of the currency of the United States is already Government paper.

Mr. Wade. Oh, no; a good substantial sum of it is; yes.

Senator Hitchcock. Let me interrogate you here: We have $346,000,000 of notes?

Mr. Wade. Yes; but you have $150,000,000 gold as a reserve to protect them.

Senator Hitchcock. And nearly $1,000,000,000 of gold certificates?

Mr. Wade. Those are only warehouse receipts.

Senator Hitchcock. Well, it is Government paper?

Mr. Wade. No.

Senator Hitchcock. It is not banking paper?

Mr. Wade. It is not bank notes; no.

Senator Hitchcock. No; it is Government paper; it has the certificate of the United States that gold is on deposit in the Treasury?

Mr. Wade. Well, my dear sir, if you will put gold behind these notes, you do not need any Government behind them.

Senator Hitchcock. Well, there is no question that a gold certificate is a statement of the United States that gold is deposited in the Treasury.

Mr. Wade. It is purely a warehouse receipt; but we will admit it for the sake of argument.

Senator Hitchcock. We have already arrived at the point where the larger part of the currency of the United States is Government paper and not banking paper. We only have $700,000,000 of banking currency outstanding. So that we have already passed the point you have described of having the Government issue currency. We differ from all the countries of the world in that respect.

Mr. Wade. Yes. But if we have made a mistake—not a mistake—one of the most brilliant achievements of statesmanship, the creation of the national banking system and issuing of national banking notes
to bolster up the credit of this Nation in its hour of distress. But when we have issued a fictitious currency, putting one note based on the credit of a Government bond bearing a fictitious rate of interest; and when the reason of its existence is no longer necessary and when the Nation has power to get along without it, why, when we tell you, with just as much patriotism as any man can have, that it is a mistake to do it, do you want to insist, and to persist in continuing to do it?

Senator Hitchcock. Let me ask you another question. Suppose the banks were given the power to issue these notes, what volume of them would be issued?

Mr. Wade. The volume that would be absolutely controlled by the needs of commerce.

Senator Hitchcock. Will you please make an estimate of the amount?

Mr. Wade. It is impossible to make an estimate. First, Senator, let me tell you that there is every dollar of currency in existence in this Nation to-day that is necessary for the conduct of its business.

Senator Hitchcock. You would not be in favor of having any limit at all?

Mr. Wade. Absolutely no limit.

Senator Hitchcock. Well, suppose for the sake of argument, we place the limit at $750,000,000, that would be actually issued, temporarily issued, at different times. Suppose, instead of having the banks issue that currency, the Government undertook to provide United States notes, similar in all respects to the notes now outstanding?

Mr. Wade. Greenbacks?

Senator Hitchcock. Greenbacks; legal tender for all debts, public and private, good for bank reserves, primary money of the country.

Mr. Wade. Yes, sir.

Senator Hitchcock. Suppose, against that, it issued bonds that might be necessary to provide the reserve of 33, 40, or 50 per cent—the bonds only to be issued when necessary to provide the reserve. Suppose, then, those notes of the Government, from time to time, were loaned out to the banks upon the deposit of adequate security in, say, 50 subtreasuries of the United States all over the country. The banks paying interest on those notes would provide a fund far more than would be necessary to pay the interest on the bonds already outstanding. We would then add to the actual money of the country—legal tender money, bank reserve money—whatever was taken out by the banks from time to time. Instead of adding a volume of credit to the currency of the country, we would add primary money, equal to gold money.

Mr. Wade. Your question is too long. I could not answer it that way. I suggest you separate it, as you have several separate propositions in your question.

Senator Hitchcock. I will take it up separately, if you prefer.

Mr. Wade. I think you confuse six or seven different propositions.

Senator Hitchcock. Would it be as difficult for the Government of the United States to provide a certain reserve against note issues as it would for the banks to do it?

Mr. Wade. As safe for the holders of the notes?

Senator Hitchcock. Would the notes be just as good with the United States behind them, with a 40 per cent reserve behind them,
as they would be with the banks behind them with a 40 per cent reserve?

Mr. Wade. Unquestionably.

Senator Hitchcock. So that if we had a possible issue of $700,000,-
000 of notes we would have a possible issue of $280,000,000 in bonds?

Mr. Wade. Yes; but if you call bonds adequate security for those
notes——

Senator Hitchcock (interposing). No; I am not talking about
them as security at all.

Mr. Wade. Why are you talking about the bonds, then?

Senator Hitchcock. We sell the bonds to secure the gold, and
the gold is in the Treasury as the reserve of the notes.

Mr. Wade. Well, of course, if you are going to put the Nation in
debt and fictitiously create a reserve, then you and I on that proposi­
tion must part company, because there is no necessity of selling the
bonds.

Senator Hitchcock. The Government would be paying interest
on $280,000,000 of bonds and receiving interest on possibly
$750,000,000.

Mr. Wade. I do not care if they were receiving an interest on
$750,000,000 or $11,000,000. Why put the Nation in debt? Why
create an obligation which is totally unnecessary upon the Govern­
ment?

Senator Hitchcock. Let me ask you another question: Would it
be desirable to do this—is there any more to be gained by having
money for redemption, legal-tender money, over merely credit
money?

Mr. Wade. I do not know how you differentiate?

Senator Hitchcock. Let me ask you this: You propose, and this
bill proposes, for credit money?

Mr. Wade. Yes, sir.

Senator Hitchcock. It is not legal tender?

Mr. Wade. No.

Senator Hitchcock. It is not reserve?

Mr. Wade. No.

Senator Hitchcock. It is a debased money?

Mr. Wade. No.

Senator Hitchcock. It is not equal to gold certificates?

Mr. Wade. No.

Senator Hitchcock. It is not equal to the present notes of the
United States?

Mr. Wade. It is not debased.

Senator Hitchcock. Anything is debased which is inferior.

Mr. Wade. No.

Senator Hitchcock. Banks can not take it in their reserves?

Mr. Wade. No.

Senator Hitchcock. You could not tender it in payment for a
debt——

Mr. Wade (interposing). Just a minute, please. National banks
can not take it in reserve. State banks can; but the national bank
that gets those notes can go to the reserve banks and get real money
for it, in the form of gold.

Senator Hitchcock. Why have this distinction between money in
circulation and money in value?
Mr. Wade. What is that, sir?

Senator Hitchcock. Let me put it this way: Do you conceive that there is no limit to the amount of credit money which you can inject into the currency of the country without injury?

Mr. Wade. No; I do not conceive any such thing.

Senator Hitchcock. Well, you have said that you desired to have no limit made at all upon the volume of these notes which the banks shall be allowed to issue?

Mr. Wade. Yes. But will you stop there and let me qualify that, or let me explain what I mean when I say that?

Senator Hitchcock. Yes.

Mr. Wade. In the first place, we recommend that against every note issued there shall be at least 40 per cent of a gold reserve for every $100 issued.

Secondly, as additional security, there will be 100 per cent of commercial paper, indorsed by a solvent bank supervised by the Government, behind each note issued, which commercial paper shall not run longer than 90 days.

Thirdly, we recommend that there be provision made for the constant redemption of those notes, so that the minute there is no longer any necessity for their existence, automatically they will retire.

I think, Senator, that where you make a mistake is this, that you probably may be theorizing that the banker, after this bill would go into effect, could step across the street and say: "Give me $100,000, or $1,000,000," according to the size of his bank, and could get it and make money out of it.

Let us see what the operation would be. He would first have to go over there and take his bills receivable out of his portfolio that would be bearing the substantial rate of interest, with 4 per cent as a minimum. If the manager of the reserve bank thought the paper was good, he would let him have it, and the reserve bank would get the interest instead of the individual bank, and the banker would get currency for it or bank notes for it in exchange. Therefore, until he used those bank notes he would constantly lose money on them, and, consequently, he would not go and take his bills receivable and give them to the man across the street in the reserve bank unless there was a necessity for it.

Now, the check against what you have in mind and what you fear is that the moment the manager of the reserve bank found his reserve was getting too low for the number of notes that were going out he would raise his rate of discount until he got it so high that it would make it impossible for the bank to borrow money, and in that way he would automatically shut it off. That is what is done in England. The bank rate that you all hear about and you fear so much going up is only a standard. The banks of the British Empire, or the British nation, do not follow the Bank of England. Frequently you can borrow money at less than the Bank of England rates, and frequently you have to pay more for it.

Senator Hitchcock. Let me stop you there. It is a pretty well known fact, however, that either in France, in Germany, or in England, when the note-issuing bank fixes a rate the other banks, although they may be fully as large and having larger deposits, are very quick to take a hint from the note-issuing bank when they are lending money at a lower rate. I think that is generally con-
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Mr. WADE. The issuing bank always has that power over the other banks, that they will come up to the rate of the note-issuing bank, because at times they have to go to the note-issuing bank to rediscount. And that is one of the powers that Senator Reed and I think a little dangerous in this country. It tends to centralization and tends to destroy; but I think possibly I am encroaching upon the subjects of the other gentlemen of your committee.

Mr. WADE. I am glad to explain whatever I can, although I want to confine myself to the one subject.

Senator HITCHCOCK. I will ask you one other question: You are not only a State banker, but a national banker?

Mr. WADE. Yes, sir.

Senator HITCHCOCK. Suppose you come down to your national banks and find that you have $500,000 to pay out on a certain date, and you have available for that purpose $500,000 of bank notes, and you also have available for the purpose $500,000 of gold certificates, which would you pay out?

Mr. WADE. Bank notes.

Senator HITCHCOCK. So that you do make a distinction between the value of the different kinds of paper?

Mr. WADE. Surely.

Senator HITCHCOCK. You know that your gold certificates and your Treasury notes and United States notes are more valuable than the bank notes?

Mr. WADE. No; wait a minute. Not now, because they pass current. But there is only one kind of money that is good under all conditions and of every kind, and that is gold.

Senator HITCHCOCK. Well, you know very well that the banks in this country—national banks—which carry $900,000,000 in their vaults now as reserve, only count gold and gold certificates and United States notes, and therefore there is a high value placed on that class of paper?

Mr. WADE. By law.

Senator HITCHCOCK. And yet you want to inject into the currency $500,000,000 or $1,000,000,000 of inferior currency, that can not be used for the purposes required by the national banks as a basis of credit, and can only be put out upon the people of the country?

Mr. WADE. That, Senator, is your theory and not mine. Already there is a law in existence that would permit the issuance of $500,000,000 of the currency which you describe. It has been in existence for four or five years, and not a dollar touched.

Senator HITCHCOCK. Yes; but this bill provides for the use of currency which has no higher value. These notes to be issued are of the same character as this $500,000,000 which you have stored up?

Mr. WADE. Neither are the—

Senator HITCHCOCK (interposing). And the notes you propose are of the same character as this $500,000,000 which you have stored up?

Mr. WADE. No; that is not so.

Senator HITCHCOCK. And, in conclusion, you think, then, that no care should be taken to protect the banking capital of the United States? You think it would be proper to encroach upon it by withdrawing from the independent banks a large portion of—

Mr. WADE (interposing). That is your theory, Senator. I do not think that way at all.
Senator Hitchcock. My theory is that it is one of the dangerous features of this bill. One of the dangerous features of your proposition is that you propose to take away from the independent banks a large proportion of the capital they use in business, to take it away from their control, when already their capital is inadequate, and they should be required to enlarge it.

Mr. Wade. Well, it is just because I think that your mind has been devoted to the upbuilding of the country more than it has specifically to the upbuilding of banking. If your mind had been devoted, as mine has, along that channel, we might think alike. You will not admit surplus; you will not admit undivided profits. I must, from my experience. I may be wrong, but I do not think so. You take into consideration only the national system. I point out to you the other systems, and they, as a whole, take care of the situation pretty well.

I have not the slightest fear of any inflation from this note issue. If I had, I would be violently opposed to it. I have not the slightest fear that it will hurt the banks or the Nation one iota. To put up 10 per cent of their capital to create a great bank or system of banks—not the slightest. I have a fear that they will not make as much money out of the investment of stock as they would if they handled it in the ordinary avenues of business, by the limitation you put upon it. Otherwise I have no fear; and I am quite certain it will pay 5 or 6 per cent.

Senator Reed. Mr. Chairman——

The Chairman. Just one moment, Senator Reed. Mr. Wade, obviously the suggestion is made that the amounts invested or proposed to be invested by the member banks in capital stock of the Federal reserve banks would diminish their present outstanding capital. Would you understand it so?

Mr. Wade. Well, it would not diminish the capital in the sense of the paper capital. It would diminish the loanable funds of each banking institution to that extent only. It would not diminish the capital.

The Chairman. Would it not in reality transfer a certain amount of bills receivable into Federal bank stock?

Mr. Wade. A certain proportion only.

The Chairman. Substantially it would be a transfer of credits from one form to the other, would it not?

Mr. Wade. Yes, sir; absolutely.

Mr. Hitchcock. Let me ask a question, before you pass that. Where would the bank secure this money? Would it secure it by calling the notes?

Mr. Wade. It could secure it in two ways: By taking money out of its vaults or drawing upon its extra reserve with other banks or by selling its paper to these reserve banks. The banks must deal with the reserve bank and sell to it a part of their portfolio.

Mr. Forgan. Mr. Chairman, could I put a word in at this point?

The Chairman. Certainly, Mr. Forgan.

Mr. Forgan. I think I can clear this up in a word. The investment of the national banks in the stock of the Federal reserve banks would be small, an ordinary daily transaction of loaning 10 per cent of their money—of their resources, rather—not loaning, but invest-
ing 10 per cent of their available resources; 10 per cent of their capital which they are now permitted by law to do to any individual who comes in—and which they are doing all the time.

Take, for instance, my own bank—

Senator Reed (interposing). You mean an amount equal to 10 per cent?

Mr. Forgan. Yes; an amount equal to 10 per cent of the capital.

Take my own bank; we have $10,000,000 of capital; our subscription to the Federal reserve bank would be $1,000,000. Well, it is not an unprecedented thing for a man to appear at my counter or at my desk and tell me he wants to borrow $1,000,000, and it is not an unusual thing for me to say “All right, make your note,” and I lend him the $1,000,000. It is an ordinary transaction. It does not encroach on my capital. It does not interfere with my capital. It simply is an investment of $1,000,000 in a specific line of investment, and in this case it would be in the stock of the Federal reserve bank.

Senator Hollis. Mr. Forgan, may I ask you a question? What assets have you available from which you can loan that $1,000,000 or buy $1,000,000 of bonds or other securities? You must have a great many millions. You are not confined to your capital or surplus. Tell us what your resources are.

Mr. Forgan. Do you mean what they consist of?

Senator Hollis. Not what they consist of, but how much they are.

Mr. Forgan. Of our resources; yes, sir.

Senator Reed. Mr. Chairman, I have to leave in a moment. Mr. Wade is from my own State, and I desire to ask him some questions.

The Chairman. You may proceed, Senator Reed.

Senator Reed. I want to lay aside this bill entirely, Mr. Wade. I want to lay aside the national banking act entirely, except that we have got a condition here of banks now, State and National. I wish you would tell the committee what, in your judgment, would be a proper scheme of banking for the Government to install.

Mr. Wade. Is that all you want me to tell you? [Laughter.]

Senator Reed. Well, I think that is not a very long or hard question to put to a banker. If you would ask me as a lawyer what kind of a scheme of law, omitting the details, we ought to adopt, I could answer.

Mr. Wade. Well, I could do the same thing, Senator, if I had your ability. But for me I would not presume to do so.

Senator Reed. Well, I do not think we need to pay each other any compliments.

Mr. Wade. But I would not presume to attempt to tell this committee, or the people of the United States, what kind of a bill should be drafted to meet the needs of the country, because that would be very presumptuous for me to do so.

Senator Reed. Mr. Wade, that is just what we are trying to do at this time; and so far as I am concerned I do not care anything about this bill any more than if it never had been written. When I get through listening to what I can listen to I will do the best I can
to make up my mind as to whether it is a good bill or a bad bill or whether it needs to be changed or not; and I think that is very much the attitude of this committee. That is, we have got a bill here, and it comes from the House of Representatives, and there is some presumption that it is a wise bill because it does so come. But I do not believe that the committee are limiting themselves to just what is in this bill, or even to this scheme. Now, you gentlemen who have studied banking all your lives must have an idea as to what you would regard as an ideal banking system for the country, and if I could get your ideas on this whole question I should like to do so.

Mr. Wade. Let me express these views as my personal views, and in no sense as a member of this commission.

Senator Reed. Well, I would rather have your personal views than as a member of the commission, anyhow.

Mr. Wade. Then, the first thing I would do under those conditions would be to continue your work of creating this reserve bank. Personally, I would have a central reserve bank with branches. But, recognizing that is politically impossible——

Senator Reed (interposing). No; let us just leave the political questions out of it.

Mr. Wade. I can not, because it is a fact.

Senator Reed. I want to get Mr. Wade's viewpoint. I want to state to the committee, as to what would be the proper thing to do; and then I think I can form some opinion as to his other views.

Senator Hitchcock. Yes; just as if he were preparing a banking scheme himself.

Senator Nelson. Without regard to politics.

Senator Hitchcock. That is, from the standpoint of the public.

Mr. Wade. From the standpoint of a citizen of the country and not the banker.

First. A central bank with branches in the principal centers of the country.

Second. A note issue entirely issued by that bank and under the absolute control of the Government by your Federal board of control, with representation of the bank upon that board of control. These notes to be issued not to be the obligation of the Government, but the obligation of the bank.

Senator Nelson. To be redeemable in gold?

Mr. Wade. To be redeemable in gold and under a requirement that for every note issued a gold reserve of 50 per cent be maintained against it, with the power vested in the central reserve board to increase or diminish temporarily that reserve in times of great financial distress, and that no note ever be issued except upon prime commercial paper of the commercial establishments of the Nation for 100 cents for every dollar issued, in addition to the 50 per cent gold reserve of the bank.

I would then provide that the national banks, the State banks, and the trust companies all be permitted to do business with such bank, provided they became members of the central organization and provided they went under stringent governmental examination, supervision, and control. I would require the State bank, and the trust company, and the national bank, when they secured a note from the central bank to put up the same general class of paper.
Senator Reed. Will the stenographer read that last statement of Mr. Wade's?

(Here the stenographer read the last preceding statement of Mr. Wade, as follows:)

I would then provide that the national banks, the State banks, and the trust companies all be permitted to do business in this bank, provided they became members of the central organization and provided they went under stringent governmental examination, supervision, and control. I would require the State bank, and the trust company, and the national bank when they secured a note from the central bank to put up the same general class of paper.

Mr. Wade. I would immediately proceed to refund the bond-secured currency of this Nation, by the retirement of all the bonds securing currency.

Then, to relieve the commerce of the Nation of the great fixed charge upon it, I would require the central bank and its branches to collect what we call in the banking business “transit” items or checks.

Senator Reed. Not checks?

Mr. Wade. Transit items are checks or drafts drawn on different banks throughout the United States, at cost to the central bank, without any cost to the member banks. I would not expect the country banks or the collecting banks that collected these items to do it for nothing. I would expect to compensate them the same as they are to-day.

I would deposit all the money of the Nation—of the Government, except till money—in the central reserve bank, and I would require the central reserve bank to act as fiscal and financial agent of the Government under supervision and control of the Government, to finance it in times of distress and necessity.

Senator Reed. Had you concluded, Mr. Wade?

Mr. Wade. If these suggestions were adopted into law, I believe (and it is my personal opinion that I am always expressing) that you would create a homogeneous banking system that would bring in, in my judgment, 15,000 or more banks into the general system, under general supervision, and controlled under the examination of a general department, and then have the greatest banking system on the inhabitable globe.

I would permit that bank to buy and sell foreign bills of exchange in order that its gold reserve might be at all times protected.

I would authorize it to make a rate of interest—a general rate of interest, a standard rate of interest, for the whole country each time the rate was made, and to be published weekly and changed at the will of the Federal board of control. Confine absolutely the business of such bank in its dealings with the Government and the National and State banks and trust companies.

Inasmuch as the central-bank idea can not, in my judgment, become a law under existing political conditions, then I would build a structure on the order of your reserve banks, but instead of attempting to try not less than 12, I would confine it as a maximum to 5, and it is so much easier to accomplish the desired results by attempting to create 5 reserve banks than it would be more than that.

Then, after practical experience, if it was demonstrated that more than 5 was beneficial to the Nation, then I would recommend that the laws be changed and the system be extended.
Senator Hollis. Would it interrupt you if I asked you a question?
Mr. Wade. No, indeed.
Senator Hollis. Why do you select arbitrarily the number five?
Mr. Wade. Because that is the greatest number that I hope you gentlemen will be induced to go to.
Senator Reed. You mean that you hope we will not establish more than five banks?
Mr. Wade. That you will not establish more than five banks.
Senator Reed. And you would like to see us only establish one?
Mr. Wade. Yes, sir.
Senator Reed. Now we have got it.
Mr. Wade. Then, the reason for that is this: If you had all of the surplus reserve money of this Nation under one general control, as it was aptly put yesterday, when a draft was made upon it, the reserve would be attacked only in one place, but as you divide your strength into parts, the greater the division the weaker the institution, because men are the same the world over, and the reserve bank of California is going to try to outdo the reserve bank of New York or of St. Louis or Chicago or New Orleans or wherever they may be located.

Then I would not, under any circumstances, put in a clause giving a Federal reserve board the mandatory right to force the bank of California to discount for the bank of New York, or vice versa. I would leave that to the judgment and the experience and the ability of the men on the board of control of each of those different banks. There would be no object on the part of the bank of California in keeping money idle if it could loan it to New York, or vice versa.

There never has been a time, gentlemen, when the legitimate borrower could not get all the money he needed for his legitimate business in this Nation, if his borrowing were in accordance with the credit that he had to offer.

Senator Reed. Mr. Wade, you have answered my question and are now going beyond it. Your statements are very interesting. Having asked that question, I wanted to ask you about one or two other things. You stated yesterday that the committee had overlooked or, at least, that the fact was being overlooked, that the notes and securities taken by your trust company and other similar institutions were, in fact, more liquid than the notes or securities taken by national banks, and, since you are here as the special representative of State banks and trust companies, I wish you would make that statement a little more detailed.

Mr. Wade. You, I think, Senator, misunderstood the purport of my remarks. They were about as follows: I will try to repeat them.

Senator Reed. I do not care if you said it; if it did not express your opinion, I want to get your statement now. I am not trying to tangle the witness. I am trying to elucidate a fact.

Mr. Wade. I simply think you misunderstood me, and I believe I can explain why it would be natural that you would misunderstand. I said that in our institution, as we loaned money on real estate from Maine to California, and under our system, that our real estate notes were as liquid to us as the average commercial paper in the average national bank.

Senator Reed. Now, why?
Mr. Wade. Because we have a little different system from any other institution in the United States.

Senator Reed. How do you make them liquid? is what I want to get at.

Mr. Wade. I am going to explain that to you. When we make a loan on real estate, we make notes in units of $500 regardless of what the loan may be—$5,000 or $500,000. It is divided up into units of $500. Those notes, through a system that we have built up, can be disposed of as readily as we can make the loans, not only in times of redundancy but even times of a panic.

Senator Reed. Will you tell me how?

Mr. Wade. I am going to. We take them, and we advertise those notes throughout the United States, and we deal with the masses of the people. The average sale of notes that we make would not exceed $1,000, and the great bulk of them are $500 notes, and the masses of the people buy those notes. We never sell anything to an insurance company; we never sell anything to Wall Street in New York or to Chicago banks or trust companies. We retail them directly to the people, and when money becomes tight we then offer our higher interest rate of notes for sale, and when money is redundant we offer the lower rate.

Senator Hitchcock. Do you indorse them?

Mr. Wade. No, sir; we never indorse a guaranty note.

Let me give you a practical illustration. Money was quite close all of the last six months. We found that our usual sales were not continuing. We had been advertising 5 per cent paper. We then advertised our 6 per cent paper, and we doubled and trebled our sales on a tight money market. During the panicky condition, a condition when fear runs throughout the land, the small depositor draws his money, and then his mind, if it is properly prepared by the usual advertisement, is directed into the purchase of these notes, and he buys them.

Senator Reed. In a word, Mr. Wade, the way you operate is this: I have $1,000 and I would like to invest in a note. You have established the reputation and credit as a safe investment that the loans that you make on real estate are safe. I have got the faith credit of your institution, although you do not actually indorse, and the benefit of your examinations of titles and of values, and I simply go down to you and buy two of these $500 notes and put them in my pocket. I feel secure, because I have got real estate back of me. That is the situation?

Mr. Wade. Yes.

Senator Reed. And you make these notes liquid by putting them upon the market and selling them to people, and you say that even in panicky times people will invest in that kind of security in preference to taking their money home and putting it in stockings or in bedtickings?

Mr. Wade. Yes.

Senator Reed. That leads me to a question, because of this thought: Why is it that real estate securities, which are generally regarded as the most staple in the world, when properly made, can not be used by national banks, and what reason is there for any restriction upon the rights of the national bank to loan its money upon real estate security if it wants to?
Mr. Wade. The national bank was primarily organized and is still recognized as being purely a commercial bank.

Senator Reed. I will now have to leave the room for just a moment.

Senator Nelson. During your absence I would like to ask a question.

Senator Reed. If you ask a question I would like to hear it.

Senator Nelson. I will just state the question and Mr. Wade can be deliberating upon it until you return, and then he may answer it. Mr. Wade, you say national banks were primarily organized for commercial purposes. Do you not think they have deviated from that course in investing a lot of their money on call loans or stock collaterals, and that is not commercial business, or stock exchange loans, I might call it?

(Senator Reed here left the room.)

Senator Hollis. Would your banking laws permit you to indorse these notes that you sell to the mass of the people?

Mr. Wade. Yes, sir.

Senator Hollis. Your laws permit you to do most anything you want. Is it left to your discretion?

Mr. Wade. The national banks are permitted to indorse notes they sell.

Senator Hollis. The notes that you sell?

Mr. Wade. Yes—no; not real estate notes.

Mr. Wexler. I think that Mr. Wade’s institution stands in rather a peculiar position in regard to real estate loans and differs materially from the great number of trust companies throughout the country, in this fact, that a large portion of the loans of Mr. Wade’s bank—and I do not say this in disparagement of his bank nor of the character of its loans—his institution loans largely to eleemosynary institutions, largely Catholic institutions, throughout the United States, a particular branch of business to which he has given his personal attention, and which he has worked up very successfully. He, in turn, divides these loans into small amounts and sells them to members of the Catholic church, of which he has a very large clientele, and to Catholic institutions which have reserve funds to invest in securities of that kind.

I do not know of any other trust company throughout the United States—there may be one or two—which engage in a similar line of business on an extensive scale, but trust companies throughout the country otherwise accommodate a certain amount of real estate borrowers by loans upon real estate, proportionate to the amount of fixed deposits not subject to check and deposits on time, which they feel it is safe for them to lend out on unliquid security such as a real estate loan.

If that idea is thoroughly established in your minds as the general practice of trust companies without taking a particular case as an indication of a general practice, or what might be done by trust companies, I think you will more clearly have in your mind the duties and functions that a trust company can perform with perfect safety in proportion to its deposits. I merely make that explanation, because I feel that Mr. Wade’s institution is loaning to a great extent in a particular branch of this business peculiar to itself.

Mr. Wade. I am very much obliged to you for explaining my line of business.
Senator Reed. I think we ought to proceed with Mr. Wade. I want to get the views of each of these men. When Mr. Wade gets through, if somebody else wants to take the other side of the question, I would be glad to hear them then.

Mr. Wade. Senator, I would like to have the privilege of answering Mr. Wexler.

Senator Reed. I did not hear what he said.

Mr. Wade. I am very much obliged to Mr. Wexler for making an explanation of my business and advertising it so well, but if he would confine himself to facts, which I am sure he would if he understood, then it would be more interesting.

The facts are that we have loans on a few Jewish synagogues. [Laughter.]

Mr. Wexler. That would not be a contradiction of what I said. You might sell them to your Jewish clientelle.

Mr. Wade. We have loans on the edifices of practically every denomination extant. We have loans on Baptist churches and Methodist churches and hospitals.

Senator Nelson. Any on Lutheran churches?

Mr. Wade. On Lutheran churches; yes, sir. We even take the Presbyterian in purely as a philanthropic idea.

Mr. Forgan. It is the surest you have got. [Laughter.]

Mr. Wade. Then we have the business buildings scattered all over the United States, and our clientelle are the people of the United States and is not confined to any class or creed, color or nationality.

Senator Pomerene. But the class that have the money?

Mr. Wade. Yes, sir; Mr. Cash.

I distinctly said, however, that it was the institution over which I presided that I was describing and not trust companies in general.

Senator Nelson. That is general.

Mr. Wade. I do not think there is any deviation there.

Senator Nelson. You think that is commercially different?

Mr. Wade. I rather think so. I think if you loan on the collateral of stocks or bonds of a manufacturing industry, or an irrigation plant, or a railroad, or the stock of a commercial establishment itself, that is certainly aiding commerce in the country to be making such loans. I can not see the differentiation between the loaning to Marshall Field & Co. on its notes—if they borrowed, which they do not, I understand—and loaning to the Chicago & Northwestern Railway, which developed Marshall Field's business. It is all the commerce of the country.

Senator Reed. Mr. Wade, you are getting away a little from what I had in mind. At the present time the law prohibits the national bank from loaning money upon real estate; that is to say, it can loan me individually $1,000 upon my note, back of which it has nothing but my general credit and whatever honor or ability I might possess; but if I was to give it a mortgage on a piece of property worth $100,000, it can not take the loan. Now, I want to know, whether in your opinion, such a restriction as that is necessary?

Mr. Wade. I think it is, Senator. If you are going to continue the operation of your national banking system, as it has been operated in the past 50 years.

Senator Reed. I am speaking about a proper national banking system.
Mr. Wade. Yes. If you are going to have different classes of banks—that is, the commercial bank and the trust company and the State banks and the savings—

Senator Reed. Do you want them all brought in together, Mr. Wade?

Mr. Wade. Yes, but I will explain that. The national bank is what is primarily known as a commercial bank. The national bank is primarily known as a commercial bank, as a general proposition. They loan on what is known as "commercial" paper generally and on collateral security, which moves the commerce of the country in one form or another, whether it be on railroad stock, or whether it be used in shipping cotton, wheat, or corn from the centers of growth to the centers of consumption; and to throw the door open to them to loan on real estate generally, without limitation, I think would be a mistake.

Senator Reed. Because of the class of security, Mr. Wade?

Mr. Wade. No.

Senator Reed. But of because of the length of the loan?

Mr. Wade. Because of the class of security, unless they had an avenue for the rapid disposition of it they would not have sufficient money to move the commerce of the country, and therefore the well-regulated national bank endeavors in all accommodations to confine its loans to the length of time, as a maximum, to six months.

Senator Reed. That is a little different question. That goes to the question of the length of time of the loan. I attempted to go to the question of the amount of loans under certain conditions. I am talking about the principle, whether banks should be absolutely barred from taking real estate security. I understand you do this right along in national banks. I go down and I want to borrow some money. They say, "Well, we need some collateral." I say, "I have a mortgage on John Smith's home. I will put that up as collateral." And then I get my money. Of course, that is a mere matter of circumlocution. The result is exactly the same?

Mr. Wade. Yes.

Senator Reed. And yet it is done every day in national banks, is it not?

Mr. Wade. Yes. In the first place, there is nothing prohibitory in the national banking law that I could find against loaning on real estate. It is a practice and it is a ruling of the department against it; not a specific law.

Senator Reed. Ruling of the department?

Mr. Wade. A ruling of the department against it.

Mr. Forgan. There are decisions of the courts against it.

Mr. Wade. There may be decisions; I am talking about the statute.

Senator Pomerene. Regulations of the Comptroller of the Currency?

Mr. Forgan. Confirmed by decisions of the court.

Senator Pomerene. I knew that was the rule.

Senator Reed. The act itself excludes it, in this way, under the rule or expression of one power or the expressions of the number of powers to exclude powers, and here is the language: "To exercise by its board of directors," etc. "By loaning money on personal security."
Mr. Forgan. The courts have decided in accordance with your ideas.

Senator Reed. I think so. I am very much in earnest about this matter, as a broad proposition, because the principle, if it is sound, might go into this bill, or it ought to go into some bill; if it is unsound it ought not; and, in view of your statement that you had so readily handled and made flexible these real-estate loans, and in view of the further statement that you thought this bill ought to be so drawn as to invite in and induce to come in the State banks and trust companies which do this kind of business we are talking about, namely, loans, largely upon real estate, I want to know now just what your views would be about how that class of business should be handled by national banks, when under this bill or any other bill.

Mr. Wade. First, Senator, I do not believe that the bill as it is now framed, with a few amendments—by adding the words "trust companies" or "member banks," would interfere with my business one iota. I would still conduct my general business on the same lines that I am conducting it to-day, but if I wanted to discount and if I wanted to acquire any of the notes of these reserve banks, then I ought to be required to put up the same class of security as the national banks, to wit, commercial paper.

And again, I want you to thoroughly understand the statement made by me in your absence that our institution in handling loans in the way we do is an exception. It is not the rule of trust companies. I was stating a personal experience rather than a general proposition; in fact, ours is the great exception.

Senator Reed. But you find it is successful?

Mr. Wade. Yes; but I would not advocate that the door be thrown open to national banks for the loamng on real estate without limitation, but I would put this limitation on it, that a national bank might loan a certain percentage of its capital or its deposits—

Senator Nelson. Time deposits?

Mr. Wade. No; deposits to a certain percentage of its capital, or its deposits might be invested in real estate owned or upon real estate loans. The reason for that is this, that under the national banking act, while it is against the ruling of the department, and Mr. Forgan says the decisions of the courts are against the loaning on real estate, they may own their own building and their own office. That has been carried to such an extent, I think the records of the comptroller's office will show, that about 20 per cent of the capital of national banks is invested in real estate, and I maintain there should be a limitation there, and I further maintain that if I am permitted to invest 20 per cent of my capital in a building—call it what you may—that my neighbor across the street in the national banking business should be permitted to invest the same percentage in good, clean, real estate loans.

Mr. Wexler. Suppose you invest your surplus?

Mr. Wade. I do not care what the percentage may be, whether it be surplus or capital, whatever you would call it, I maintain that $1,000,000 invested in 100 loans of $10,000 each are infinitely more liquid as an asset than $1,000,000 invested in a palatial office building. Therefore, I would permit the national banks to loan a percentage of their capital or their deposits or own real estate, but I
would not let it be both; in other words, when they get up to that percentage I would cut it out.

Senator Reed. Whenever they get to a certain percentage in real estate loans or in buildings, then they would have used up that privilege.

Mr. Wade. That privilege, yes.

Senator Pomerene. Did Mr. Wade indicate the per cent?

Mr. Wade. No, Senator, I did not, because I have not given the matter consideration. I am answering these questions without any deliberation.

Senator Weeks. I want to ask Mr. Wade one or two questions upon this particular subject, but I think perhaps as long as you are questioning him I had better defer.

Senator Reed. I have to leave here in about 10 minutes, and would like to take up just one other matter. Otherwise, I would yield in a moment.

Mr. Wade, your proposition is that we should still have the national banks go on—I am taking up another subject now, and we will make this bill so that State banks and trust companies can come in by simply saying they may come in. Then, that would let the State bank go on and do business as it is now, and the trust company go on and do business as it is now, and the national bank would go on and do business substantially as it does now. Then we would have under one system three classes of banks, would we not?

Mr. Wade. Yes.

Senator Reed. And then we would have two of those banks, to wit, the State banks and trust companies—concerns with as many different powers as there are variations in State laws. So that you would have this sort of a system: First, the national banks, with certain prescribed and limited powers; second, a trust company in the State of Missouri with very broad powers; third, a trust company in the State of Illinois with larger and different powers, and now I want to extend that—you can extend it to every State, as you might have 48 classes of trust companies, because they would be companies with 48 different sets of power, and they have 48 systems of State banks, with 48 different sets of power, and all these elements are to be consolidated into a bill, and all of them become a part of a system. I want to ask you if that is not liable to introduce a great deal of confusion.

Mr. Wade. Not the slightest, Senator. If you will follow the doctrine that I laid down, first, that the trust company and the State bank must put up the same amount of percentage on its capital that national banks do, as a contribution to the organization of the general bank or the reserve bank or five reserve banks that I have spoken of. They invest their money just the same as national banks, though they have no privilege of getting any of the benefits of the reserve banks over that the national bank would have, namely, that if they require bank notes to meet the requirements of their business, they then have to be doing a commercial business, which would be a branch of the trust company’s business and a branch of the business of the State bank, and they would have to bring up the same general class of commercial notes that the national banks would have to bring up. Therefore, the national bank would be at no disadvantage under those conditions, because the national bank could not bring up
its office building and say, "Loan me $1,000,000 on this," no more than the trust company could come up and say, "Loan me a million dollars on my real estate notes."

Senator Reed. I understand your point.

I want to follow that central bank stock further. When the First National Bank of Kansas City comes to the central bank with its commercial note and wants to borrow $5,000,000, of course primarily the question is, Are these securities good?

Mr. Wade. Yes.

Senator Reed. And to a large extent you depend, as the manager now, of the central reserve bank or the regional reserve bank, upon that, but you require the First National Bank to indorse, do you not?

Mr. Wade. Yes.

Senator Reed. And also to a large extent, knowing that bank to be a good, sound bank, you take that indorsement as of considerable value, would you not?

Mr. Wade. Yes, sir.

Senator Reed. And that is because you know Mr. Sweeny; you know the kind of a banker he is; you know generally about his institution and because, too, it is examined and run under a certain system. I think we agree that far. Up comes the president of the trust company. He is loaning his money in an entirely different way. He is not subject to the same examination?

Mr. Wade. He would be under my recommendation.

Senator Reed. He might be subject to the same examination under your recommendation, but under the law of that State where he operates—it may be a very loose law—he may be perfectly within his legal rights and yet be doing a business not anything like as safe as the First National Bank of Kansas City.

Mr. Wade. Then the Comptroller of the Currency and the manager of the bank would decline to loan him the money.

Senator Reed. Even though his securities were good?

Mr. Wade. Absolutely so.

Senator Reed. In other words, he would require that the State bank and the trust company, no matter what the laws were of their State, should conform to such regulations and be subjected to such examinations as to insure the stability of the institution as an indorser?

Mr. Wade. Absolutely.

Senator Reed. Otherwise you would decline?

Mr. Wade. To admit them to membership.

Senator Reed. That, put into effect, would mean this in its practical operation, would it not: That the State bank and the trust company would be practically wiped out as they now exist and would have to transform themselves all into a system that would conform to the ruling of the Federal authorities and the managers of the regional banks?

Mr. Wade. Not at all, Senator. You have got the wrong construction of the whole proposition.

Senator Reed. Unfortunately, I probably have. You put me right.

Mr. Wade. It is not surprising, because you are not coming in contact with this business as I am each day.
Senator Reed. I am trying to get at this: This is a matter of whether it would not compel them to come to one class?

Mr. Wade. No. Let me give you a concrete illustration of how that can be operated in the most practical way. Chicago some years ago inaugurated what was known as a "clearing-house examination," and they joined together at the expense of each other and yielded to private examinations of the members of the clearing house. In the clearing house of Chicago, as in St. Louis and New York, there are State banks and there are trust companies and there are national banks as active members. They also go under exactly the same examination. They are all subjected to exactly the same rules, and their assets must be clean or they are put out of the clearing house, because we do not want to be in partnership with the loose banker that we are afraid of.

Senator O'Gorman. What happens to them when they are put out of the clearing house?

Mr. Wade. Well, I have never known, Senator, when one was put out of the clearing house since this system was inaugurated, because when a National bank and a State bank or a trust company can not stand the test of a rigid examination there is something radically wrong with it, and it is because of its inherent financial weakness that they will object to it; but I have never known of a case of where any of them were put out. It operates in this way: There are a committee of five usually that go over these examinations. If a bank is checked out by the clearing-house examiners as being clean O. K., that examination is filed away and the committee never sees it, and it has nothing to do with it; but if the examination finds bad banking practices, loose methods, or bad loans in the bank it is then reported to the committee, and that report is then taken up, analyzed, gone into, and detailed examinations of the criticisms made, and if they concur in the view of the examiner, he files his report as he originally wrote it. If they find he is in error, they correct the error and file the report, with such suggestions to the management as they, in their judgment, deem wise to clear up the defects in that institution.

The result is that each of us is examining the other and is a check upon the integrity of the whole system. I know if they would pass my institutions with bad loans that the examination would be futile, and there would be no use of my paying the expense of it; but it has been found to be most beneficial in all of these centers where it has been tried, and the very best kind of an examination. We get the very best kind of results for the purification of the different financial institutions, whether State or National.

Now, then, carrying that a little further, the same system could be incorporated that is contemplated in this bill. The Comptroller of the Currency would have the right—not only the right but the obligation—to come into our institution and every other State institution just as often as he went to the national banks, and we would have to agree to subscribe to all of the rules and regulations and examinations that are made of a national bank to ascertain whether our assets were clean and good, and if they were we would pass, and if not we would be turned out, which we ought to be.

Senator Reed. Nevertheless, we have in the system three different classes of banks. Two of those classes of banks are doing a business which you say the national banks should not do, unless it was
restricted. They are loaning money upon real estate. They are, in
addition to that, doing various kinds of business that the national
banks do not do. The effect of this is to bring you into one system,
and you have the same right to go and get money that the national
bank does.

Mr. Wade. On the same kind of paper?

Senator Reed. On the same kind of paper, but if carrying these
other classes of securities would be dangerous to the national bank,
why is not the fact that you could carry the same class of securities
in your trust company and State banks—why does not that impair
your ability to meet your obligations to the reserve bank just the
same as it impairs the national bank's ability to stand upon its feet
and transact business generally with the country and meet its obliga-
tions?

Mr. Wade. I do not lay down the doctrine, Senator, that I would
restrict the national banks to any particular class of business. I did
not say that. I said that if you were going to continue the national
system as it has been continued, and most successfully for 50 years,
that I would lift the embargo against their loaning on real estate
and allow them to own real estate or loan a certain percentage on
real estate.

Senator Reed. Would you now extend their line of activity as
rather indicated in your last answer?

Mr. Wade. I think it would be ill advised. I think the national
banks of the country themselves advise against it, but I personally
would not have the slightest objection to it, nor do I believe the
State banks would.

Senator O'Gorman. Why do you think the national banks would
advise against it?

Mr. Wade. Because, through their operation and experience they
are trained to handle the commercial business of the country on
short-time paper, and they are not, as a general proposition, I take it,
equipped to handle long-loan business.

Senator O'Gorman. Have not you heard national-bank men say
from time to time there is no good reason why a State bank or trust
company should enjoy banking privileges that are denied to national
banks?

Mr. Wade. Yes; and I would not deny it to them. I have not
advocated that.

Senator O'Gorman. Yet I gather from you that it is the judgment
of the national-bank people that the present restricting limitations
should be continued.

Mr. Wade. I make that statement, because I have heard the sub-
ject, Senator, discussed before some of the best national banking men
in the country, and I do not pretend to talk for the national banks,
but I get from that discussion that as a whole—particularly the na-
tional banks that are doing a commercial business—would not care
to do this; but if they did care for and desired those privileges, I
would not make the slightest objection to them.

Senator Reed. Mr. Wade, when you organized your trust com-
pany, with these manifold branches—I mean by that, branches you
speak of—you took in those various branches of business because
you thought they were lucrative, safe, and the proper thing for you
to do?
Mr. Wade. Yes.

Senator Reed. And they are greatly in excess of those privileges the national bank ordinarily assumes, or, indeed, has; that is true, is it not?

Mr. Wade. Yes, sir.

Senator Reed. If your trust company came in under this system, had the same right to belong to the reserve bank, to put up securities and had money issued or paid to you on those securities, had the same kind of examination and the credit of the same kind of an examination that the national banks would have, why is it that your trust company would not then possess so many advantages that every national bank would at once want to incorporate under the State law as a trust company and come in and take the field of business?

Mr. Wade. There would be no reason why they would not, if they desired to; and there is no prohibition against them doing it to-day.

Senator Reed. Why would not they all necessarily do that same thing? You have branched out beyond their sphere of the activity touched by the national banks, because it is an inviting field for profit. Now, give to you every advantage that the national bank has in addition, it seems to me you then, as a matter of mathematics, have every advantage they have, and you have the additional advantages, and it would seem to me that inevitably, assuming your class of business to be safe and sound—and I know you think it is and most everybody else thinks it is who do business with you—we all feel safe with you in Missouri—why would not they all want to be trust companies instead of national banks, and why should not they be? Why should not every member of this system have the same rights as every other member?

Mr. Wade. There is no reason in the world why they should not.

Senator Reed. Then you have answered my question as you might half an hour ago, where I asked you if national banks should not be allowed to loan upon real estate, because that is now the lesser embraced in the greater.

Mr. Wade. No; to answer your question more specifically, it would be this: That if it were now or even with the new law, or with the law as it is to-day, of any particular advantage to any national bank, there is nothing in the world to prohibit a national bank from changing into a State bank and having all the privileges we possess now.

Senator Reed. But, Mr. Wade——

Mr. Wade. Pardon me just a moment.

Senator Reed. You would now have it to forfeit its rights as a national bank and the advantages of it.

Mr. Wade. But they have no advantages. You have taken all advantages away from them.

Senator Reed. You keep saying, "You have done this and that." And I have not done anything, except occasionally to borrow some money from a bank, and when my banker cuts me off I am going to begin to draw.

Mr. Wexler. Is that a threat or a promise?

Senator Reed. Well, both. [Laughter.] Without joking about it, and I am very serious about it, the national bank has in the past had an advantage. You think that during the last year those advantages have been largely dissipated. Suppose we take whatever advantages they do have now and confer them upon the State
bank and upon the trust company. Why, then, would not every national bank want to become a trust company, coming into this system with the additional and enlarged powers? I can not see why.

Mr. WADE. That can only be explained by the gentlemen who are primarily running national banks and in no way connected with trust companies. If they saw those privileges to be of such advantage as you picture they would now go into the business, if they desired to.

Senator NELSON. Let me interrupt both of you, if you will allow me. Is it not a matter of fact that a great many of these national banks have a loan and trust attachment, run by their officers?

Mr. WADE. Many of them see those advantages and have organized a trust company, either directly under or indirectly owned by the banks.

Senator NELSON. I think our big Chicago banks have that.

Mr. WEXLER. We have it.

Senator NELSON. I think our friend at the head of the table has a loan and trust company as an appendix to his regular bank.

Mr. FORGAN. I am the originator of the idea.

Mr. WADE. What I wanted to get into your mind was this: That to have the banking power of the United States developed to its greatest strength——

Senator REED. I see the advantage of that.

Mr. WADE. Permission should be given these State organizations to come under Federal control, supervision, and examination, and have an inducement to get them to do that; in order to conserve and bring up the strength of the whole system you should offer them some privileges.

Senator REED. And your idea is—and I take it you intend to urge that upon the committee—that they should come in and be entitled to become members with full rights and privileges as members?

Mr. WADE. Our committee practically recommends that.

Senator REED. I wish I might pursue this with you longer, Mr. Wade, because I am getting some light, but I shall have to go.

Senator MCLEAN. On what percentage of the present value of your real estate do you issue your notes?

Mr. WADE. Usually on a 50 per cent valuation.

Senator SHAFROTH. The papers in Washington gave an account of the proceedings of the convention at Chicago of the bankers, and I note that that paper stated that Mr. Forgan made the assertion that this bill would produce a great contraction of the currency. It was also stated by Mr. Dawes, formerly Comptroller of the Currency, that if this bill became operative, it would produce a great expansion of the currency. Can you explain how, under the operations of the bill, it is going to affect the currency question, and which statement, in your judgment, is correct?

Mr. WADE. Mr. Forgan is here to answer for himself, and I hardly think it would be proper for me to interpret his remarks for him. Mr. Dawes is not here, and I would also hesitate to go into the matter of his interview.

Senator SHAFROTH. We would like to have your view of it.

Mr. WADE. I would prefer, Senator, not to go into a discussion of the subject.
Senator Shafroth. Well, I wish to call to your attention this situation.

Mr. Wade. I think you will agree with me that it would be improper for me to try to express Mr. Dawes's contention in his absence.

Senator Shafroth. You decline, therefore, to make any statement in the first place because the man who is quoted in the newspapers is here to-day and in the other case because the man is away?

Mr. Wade. I will say this, speaking personally, as a member of this committee, that I believe they are both mistaken.

Senator Shafroth. I wish you would give us your view, because we want to get your view of this bill and what it is going to do when its provisions are placed in operation.

Mr. Wade. I think the effect of this bill will be——

Senator Nelson. As it is, without any changes.

Senator Shafroth. Yes; as it is now, without any changes.

Mr. Wade. I think the effect of this bill, as it is now, will be absolutely impossible to create the 12 or more reserve banks provided for.

Senator Shafroth. Suppose there are only five. What would you think would be the effect of the passage of the bill on the contraction or expansion of the currency with only five reserve banks?

Mr. Wade. I do not think it would have the slightest effect.

Mr. Wexler. Senator, the other gentlemen here have made accurate calculations on that.

Mr. Reynolds. May I inject just a word here? I think it will answer the Senator's question in so far at least as it was prompted by Mr. Dawes's statement. In his absence he is of course unable to make any explanation for himself, but Mr. Dawes talked with me regarding this matter and he based the theory upon the fact that this bill, if enacted, would provide for an expansion of the currency upon the theory that in the open market for commercial paper it would be impossible to get credit from the Federal reserve banks through the use of this commercial paper and in that way would provide for expansion of the credit. That was the thought he had in mind, I am sure. Of course, I can not quote his exact words.

Senator Shafroth. Please explain that over again. I did not quite catch it.

Mr. Reynolds. His theory is that the establishment of an open market for commercial paper in the bill would provide for the over-expansion. That is what he had in mind. It is a matter which can be calculated definitely. We have figures as to what the reserves are, and what the deposits are, on the ratio of loans and cash reserve, etc., and I will submit them later on, when I appear before the committee.

Senator Hitchcock. Senator Weeks wished to ask some questions, and as Senator Reed has concluded the Senator may now proceed.

Senator Weeks. This question of commercial banks loaning on real estate is one of a great deal of importance. It has been before Congress in one way or another many times, and I presume it will be some time definitely determined by legislation which is pending or will be pending providing a class of banks for that purpose. I think the country and perhaps Congress has reached the point where farm-loan banks will be established, as is done in Europe, but Mr.
Wade seems to have had a different experience from most commercial institutions, and I want to ask him two or three questions about his experience.

Twenty or twenty-five years ago there were organized a great many farm loan companies in this country. Their purpose was to loan money on farms in the West, pool the mortgages, making $100,000 of different denominations, we will say, and issuing debentures against those mortgages. For a time they operated very successfully; the debentures were sold in $500 to $1,000 pieces to any purchaser who had the money for that kind of investment. The competition which developed as a result of this business led the companies to loan more than they should on farms in many cases, so that they developed a large number of poor loans—bad loans—and the final result was that most of those farm-mortgage companies failed. They did, however, generally speaking, I think in all cases, generally guarantee the loans. Those loans were bought to a great extent by institutions in New England. I am not sure about the State, but I think Senator Hollis will recall that the State Bank of New Hampshire had many of those loans and made very large losses as a result.

Senator Nelson. I want to call your attention, Mr. Reynolds, to the fact that that was not done by any regular bank, either National or State bank. They were sui generis and were established by speculators and promoters.

Senator Weeks. I am simply stating what actually occurred. Mr. Wade testifies that he makes those loans and sells them in the same general way, and, much to my surprise, he seems to base his loans largely on the property of these institutions. One question I want to ask him is this: Are your entire loans based upon the properties of these institutions?

Mr. Wade. Oh, no; only a small proportion.

Senator Weeks. Do you loan on farms?

Mr. Wade. No; we do not make loans on farms.

Senator Weeks. Do you loan on city blocks?

Mr. Wade. Yes, sir.

Senator Weeks. Improved and unimproved?

Mr. Wade. Only on unimproved property in St. Louis.

Senator Weeks. On unimproved property only in St. Louis?

Mr. Wade. That is all.

Senator Weeks. And on improved property in other cities?

Mr. Wade. Yes, sir.

Senator Weeks. Do you make these loans in every State?

Mr. Wade. Yes, sir; where we get an application for them without qualifications.

Senator Weeks. What kind of machinery do you have to determine the values which shall be placed on them?

Mr. Wade. We never make a loan, Senator, without a personal examination by an officer of our company; and frequently, if the loan is large, by two or three officers; and frequently by two or three visits to check up one another; and then we never make a loan without a percentage of the loan paid off annually. For instance, if we make a 10-year loan we exact a 10 per cent annual payment, and then we make the notes mature annually. As a tenth of the loan is paid off the security remains the same, and as 30 per cent is paid off
the security still remains the same and the loan is getting better. The purpose of that is to avoid changing of values in any locality. We never make on outside loans—we did in St. Louis—but we never make, on what we call our serial plan, a loan without annual maturities and sometimes semiannual maturities.

Senator Weeks. Mr. Wade, would you recommend banks generally engaging in that kind of business?

Mr. Wade. I would have no objection to it, Senator; not the slightest, provided they have the necessary experience in handling that class of loans and the machinery to conduct it.

Senator Weeks. Of course, that is true. It must be operated with great caution and with great judgment or it would be a pretty bad piece of business, would it not?

Mr. Wade. So it would be with any other line of banking.

Senator Weeks. But there are a great number of men who have good judgment as to commercial credit who have not the machinery and probably would not have the capacity to pass upon real estate values in all sections of the country.

Mr. Wade. And that is why I have heard the national banker object to that plan. As I have stated, however, I have had some business experience along that line.

Senator Nelson. Senator Weeks, as I understand this system it is something similar to a railroad mortgage. They have one blanket mortgage and issue a lot of bonds. They have one bond of one denomination, another of another, and those bonds are scattered all around, but the security is one instrument.

Mr. Wade. Except that we have annual payments and the railroad mortgage matures all at one time.

Senator Nelson. You have one mortgage, but the notes will be in different hands. It is in principle the same as a railroad bond and mortgage.

Senator Weeks. You would not advocate banks doing this unless they were going to resell the mortgages in some form, except in a limited way, would you?

Mr. Wade. I would not have any objection to that, Senator, if they do not put all their money into that line of loans.

Senator Weeks. Where would you draw the line?

Mr. Wade. By judgment and experience—let me qualify that statement?

Mr. Forgan. Would you not draw the line on the difference between time deposits and check deposits?

Mr. Wade. Not necessarily so.

We have about 25 per cent of our loans in what we call our bond account, a real estate loan account—25 per cent of our deposits I should say. I have never yet heard of a national bank or a State bank or a trust company failing if their mortgages were sound. If their mortgages were absolutely good, clean paper, and were made with care, I never heard of a failure of any kind of a bank from that cause.

Mr. Wexler. Mr. Chairman, will you allow me to make a statement? I do not want to interfere with Mr. Wade’s statement at this time, but I want to make this statement: Upon the fundamental principles of this bill and the suggestions which this committee have made there is no difference among the members of the committee,
but with regard to certain details of the bill there is some little difference of opinion, which is created to some extent by the training of one banker which may be different in a State bank or trust company and another banker who might have been trained in a national bank. There is a great difference with regard to what is a trust company. The original idea of a trust company was that it should perform trusts, should act as trustee for mortgages and bond issues, administrator of estates, administer property of absentees, and various quasi-financial duties of that character. Out of the inception of that business has grown a general banking business on the part of the trust companies which they should never have been permitted to do, but which the trust company of the type of Mr. Wade's company is now doing. These companies do all of the business that a national bank does; they handle commercial accounts, buy and sell exchange, foreign and domestic, and they are engaged in every branch of the business that a national bank does, and in addition to that they do all the business of a trust company. The business of a State bank of deposit is no different from the business of a national bank except that they loan a certain reasonable proportion of their deposits upon real estate.

Senator Reed asked some very pertinent questions with regard to the organization of these banks and with regard to lending of money on real estate, and my ideas are so different from what Mr. Wade has stated that I feel that in justice to myself I should set them forth at this time. I think that the State banks, accepting the deposits of the public, and subject to check, should be permitted to come into this organization provided they comply with all the rules governing the management of the national banks, because the business which they do is identical.

Senator Nelson. Would you have them do that in every locality?

Mr. Wexler. No; I will come to that. I think that the banks located out of central reserve cities and reserve cities should be permitted to make a proportion of their total loans upon real estate, but not more than 50 or 60 per cent of the value; but the banks located in reserve cities, central reserve cities, do not need it, because that business can be taken care of by savings banks and by banks carrying deposits not subject to check. Further than that the central reserve cities and the reserve cities are the great avenues of credit for the commercial life of the country and their funds should be left there for that purpose.

Senator Weeks. What percentage of their loans would you say should be devoted to that purpose?

Mr. Wexler. I should say a percentage of 25 or a maximum of 30 per cent of their total loans. I think it has no relation to the capital and no relation to the surplus of the banks. That question of course must be determined by the character of the loans and the business policy of the banking house.

Senator Shafroth. What limit of time would you suggest; or would you limit the time?

Mr. Wexler. Yes, sir; I would limit the time to the seasonal period for borrowing for making crops.

Senator Nelson. That hits your country but not ours.

Mr. Wexler. I am going to come to that in a moment. We are going to have in this country—we are bound to have in this country—
a farm-lending credit bank which will loan on farms for 5, 10, 15, or 20 years just as they have in foreign countries, and such loans should be taken care of in a bank of that character, and not out of the liquid funds of the country with which we carry on the commerce of the country. Such loans should not be made out of any money left on deposit and subject to check. If such loans are made upon money subject to check sooner or later you are bound to involve yourself in trouble and for two reasons: First, You can not always find a market for those notes. There is a very limited market for mortgage notes in certain sections of the country. In Minnesota and Wisconsin I understand there is a good market for them, but in our section there is not any market. Again, if you foreclose on your mortgage and want to sell the property there is not always a buyer for it. My conception of the organization of this bank is that the State banks should be permitted to come into the organization, provided they do exactly the same character of business as the national banks. They should be permitted to loan a certain percentage, say not more than 30 per cent on real estate, and I think on loans maturing in not more than one year; but I would be willing to concede that. I think the trust company, performing the functions of a trust company, should be left entirely out of this system, because trusts are administered under the particular law of the particular State in which the trust company is located. If our trust company is appointed executor of a will or administrator of an estate we are governed entirely by the laws of the State of Louisiana, and whatever law should be made by the Federal bank act for the government of the trust company would not apply.

Mr. Forgan. What would you do in the case of Illinois, where all the trust companies and all the State banks are organized and the same law governs them all?

Mr. Wexler. I think that ought to be corrected, Mr. Forgan. I think the State banks and trust companies are as separate in their functions as one class of commercial dealers is separate from another.

Senator Nelson. You overlook this fact, however: It is all very good to say that that should be done in a large city and that you should have a separate bank doing one kind of business and a loan and trust company doing another kind of business and a commercial bank doing another kind of business. But you can not have those three kinds of institutions in a little country town of 2,000 or 3,000 people. You can not organize three separate institutions. One bank must do all kinds of business.

Mr. Wade. As you know, I stayed over to be here to-day and to be interrogated, and I would like to get through.

Senator Hitchcock. Senator Bristow is here and would like to ask a few questions.

Mr. Wade. Certainly.

Senator Bristow. I was interested in one remark which Mr. Wade made, and that was in connection with issuing one note on credit of another note. I think Senator Hitchcock was asking questions and you objected to the present national-bank note because it was a currency based on credit.

Mr. Wade. Based on a fixed obligation.

Senator Bristow. I understood that you objected to that kind of currency and I could not see why the currency recommended in
this bill and why the plan which you suggest is not a currency based on credit. It is, is it not?

Mr. Wade. Yes; but there is quite a difference there, Senator. We recommend as a committee that notes be based on what is known as commercial paper; that is to say, paper that is issued for the purchase of the products of the earth, of the farm, of the factory, of the mine, of the commercial establishment. That represents the commerce that is gradually consumed within a year or within a six-month period, as against the fixed obligation such as your Government bond. Under the present law the 2 per cent bond never becomes due and is based on a fictitious credit.

The market value of those bonds is fictitious. This country is not and never has been on a 2 per cent basis, but by the operation of law and the assistance of the national banks we have sold six hundred or more million dollars of 2 per cent bonds, and they are apt at any time to depreciate in value to an extent that might affect the value of the notes, or at least greatly injure the national banks.

Senator Bristow. I realize that; but I understood your objection to be against a currency based on credit.

Mr. Wade. No, Senator; just the reverse. It must be based, first, on a 40 or 50 per cent gold reserve, at least 100 per cent of commercial short-time paper that matures within 90 days at the very outside, also secured by all the assets of the reserve banks.

Senator Bristow. I understand you now; you object to the national-bank note being based upon Government bonds which has a secured circulation, as I understand it—of course you understand that I am not an expert at all on these matters. The distinction you make is that one is a fixed obligation and the other is a rapidly maturing obligation?

Mr. Wade. Yes, sir. Every bale of cotton that is ginned is consumed within a short period of time. Every bushel of wheat is consumed within a short period of time, every bolt of calico on an active merchant's shelf gradually goes into consumption, and they issue, in order to move that commerce, what is known as commercial paper, which matures within a short time, and it consumes itself, and therefore brings back from the Nation all over the money to meet the obligation of these short-time notes.

Senator Bristow. That is theoretically true, but as a matter of fact does not a very large part of the notes of a bank practically constitute a continuous loan? They are renewed every 90 days over and over again?

Mr. Wade. Not the commercial paper. The well-regulated commercial house never renews its paper.

Senator Bristow. But are you not speaking of the practice in a very limited part of the country?

Mr. Wade. No; it is universal.

Mr. Forgan. It constitutes the great majority of the paper handled by the banks in the cities of the country.

Senator Bristow. I know; but that is one of the things I think this bill is being framed for—for the banks in the cities.

Mr. Wade. We went over that very thoroughly yesterday. Unfortunately you were not here.

Senator Bristow. I was engaged in the Senate Chamber. I know that the bank in the small communities—the national bank—necessarily carries a great deal of paper that is renewed—
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Mr. Wade. We admit that.

Senator Bristow (continuing). From time to time. It is not merely a temporary loan, but it is in fact part of the capital of the business.

Mr. Wade. We admit that. On yesterday it was explained to your committee that that class of banking is always taken care of by the reserve bank, the individual bank in the individual locality where they carry their reserve account, and they carry their reserve account for that purpose.

Senator Bristow. It strikes me that that is the theory; that that class of banking—meaning the country banks—is taken care of.

Senator Nelson. It is not taken care of.

Senator Bristow. It may or it may not be, depending upon the will of the fellow that has to take care of that bank, and Senator Hitchcock has brought out that feature in his questioning far better than I can in the questions I am asking—as to the independence of the small banks of the larger bank—and I will not pursue that.

Mr. Wade. The answer to that, Senator, is this: That no country bank that I ever heard of has ever failed, if it was sound, for want of accommodations from the reserve cities of the United States. They never fail for that reason. They fail usually from shiftless management or from dishonest management, and one is just as bad as the other.

Senator Bristow. I am sure that is true.

Mr. Wade. The country bank, so called, gets all of the accommodation that it is entitled to by reason of its stability, and its requirements are necessarily small. Many banks, Mr. Forgan will tell you, he loaned from $1,000 to $100,000 and $500,000 to meet the requirements of the commerce of the country in that locality.

Senator Hitchcock. At the present time the country bank has the privilege of selecting any bank in a reserve city near by to do business with.

Mr. Wade. Yes, sir.

Senator Hitchcock. And if it is not accommodated at one bank it will transfer its loan to another?

Mr. Wade. Absolutely.

Senator Hitchcock. Under this system proposed it would be dependent on one single bank and one single management?

Mr. Wade. No.

Senator Hitchcock. It would very largely.

Mr. Wade. No.

Senator Hitchcock. You think the banks in the reserve cities would continue to take care of the country banks?

Mr. Wade. Absolutely.

Senator Hitchcock. When they are compelled themselves to discount paper in the central bank?

Mr. Wade. Absolutely so.

Senator Hitchcock. I doubt it.

Mr. Wade. Senator, the answer to it is that they are doing it now and why should they not do it when they have the greater facilities? The trouble experienced by the country banks in times of stress is the inability of reserve banks to provide the sinews of war to take care of the country banks, and we are trying to get you to provide those sinews of war so that we can take care of them. If I were to
tell you that the national banks in reserve cities—central and reserve cities—spend thousands and hundreds of thousands of dollars a year to develop customers from country banks you might not doubt my statement. But almost all of these large institutions have three, five, and some of them seven or eight men traveling 365 days in the year. For what? To solicit country bank accounts.

Senator Hitchcock. Is it your opinion that country bank accounts will fall off under this bill?

Mr. Wade. No; only those classes of country banks that will go into a reserve bank in its particular locality. There may be some diminution of deposits in the large centers, but it will not be to any appreciable extent and it will not be to any serious injury, if you put the reserve in a proper way where you do not require them to carry too much cash in their vaults.

Senator Bristow. When Senator Hitchcock was interrogating you, you spoke about the inflation of the currency and you said it would not be inflated, and that only so much currency would be had as the needs of the commerce would require. How would you ascertain what commerce required?

Mr. Wade. By the demand for loans. If I had a deposit account, the only way I can find out what the commerce of that community requires is the demand made from my customers for loans.

Senator Bristow. There is no limit to the demand for loans, is there?

Mr. Wade. Oh, yes. One of the greatest hardships that the banker has to go through at times is to find safe loans. After the panic of 1907 money went begging; 12 or 14 months ago money was selling very low, so low that it required a great deal of effort by many of the banks to make loans, and there was a decided contraction of loans, and this is particularly true when there is a redundancy of credit and money in the United States.

Senator Bristow. Then when there is no demand for loans or a slight demand for loans you would retire the money—the circulating currency?

Mr. Wade. Absolutely.

Senator Bristow. What would be the effect of that?

Mr. Wade. The effect would be to bring things down to a normal condition.

Senator Bristow. What do you mean by a normal condition?

Mr. Wade. A condition by which a bank could loan its money and live.

Senator Bristow. Not an increased rate?

Mr. Wade. Not to any unreasonable extent—only to an appreciable extent. You understand, Senator, under any bill you inaugurate here you can not get money like you would take coal out of a coal cellar. When you get bank bills you have to give something for it, and that something has to pay interest, and therefore you are not going to part with the bills receivable bearing a rate of interest unless you can use the money and use the currency. Currency is of no more value than a bale of hay if you can not make it earn something. Therefore you are not going to pick out things just for the privilege of doing it and separate with your profitable business and pile it up in your vaults. There would be no object in that.
Senator Bristow. Of course you understand that I am not a financial expert, and do not pretend to be.

Mr. Wade. Neither do I.

Senator Bristow. What harm is there in having plenty of money and low interest?

Mr. Wade. By creating an inflation if you had too much of it.

Senator Bristow. Now, we have quite a stable amount in circulation now. We will say that some times it is hard to find loans and other times very hard to find money to make the loans. When money is plentiful and interest rates are low, is that any detriment to the country in any way?

Mr. Wade. Usually when money is in action or loaned it is because of the inactivity of the commerce of the country, and stringencies are not brought about in the United States by conditions usually arising in the United States but chiefly by conditions abroad, and through our unfortunate financial system as it now exists when such times arise as the panic of 1907 and 1893 Europe contracts its credit to protect its gold reserves, and it is in the contraction of that credit from the United States either through the sale abroad of securities which come back to us or checking off the export goods that we send to them, that we as bankers must contract our loans, and what we want is more currency to conduct the business of to-day, but we want a currency that when fear and panic goes over the land we can go and put up our securities in the form of commercial paper and get the necessary currency to do business on it.

Senator Bristow. Have you not got it now?

Mr. Wade. No; we have not, and if fear and panic should strike this country to-day you would go through the same disgraceful experience as you did in 1907.

Senator Bristow. Why?

Mr. Wade. Because of the contraction of currency and credits. In the first place, Senator, 95 per cent fully of the money loaned in this country and in all other countries is loaned on credit and not on money. Credit is the great thing; not the currency or money.

Senator Bristow. You spoke of the panic of 1907, and said we would have the same thing over again. Why not use the $500,000,000 provided in the Aldrich-Vreeland bill?

Mr. Wade. The answer to that would be, Why have not we used it during the past year when money was close and the interest rate high?

Senator Bristow. I supposed the interest rate had not been high.

Mr. Wade. Yes; they were high. That law is so impracticable, so cumbersome in its operation that if a bank in St. Louis were to make application to exercise the privileges of that law it would be subjected to severe criticism. First it must go to its competitors and tell them “my condition is so-and-so, and I want you to join with me as a member of the reserve association to make an application to Washington to get money.”

Senator Bristow. Well, I have heard that criticism. It gives too much publicity. But could not that be changed?

Mr. Wade. All laws can be changed, yes. But you have not changed that law in five years and we opposed the enaction of such law.
Senator Bristow. If agreeable to the chairman I would like for you, if you will, to submit a statement to be incorporated in your hearing before the committee which you are now making, as to what changes should be made in that law to make it useful in the event of a panic or tight money market such as you say we have had in the past six months.

Mr. Wade. I would not presume to do that, Senator. I would not want to arrogate to myself the wisdom of the banking fraternity. I am here as a member of a committee and if the chairman of the commission should direct us to work along those lines I have no doubt we would be glad to do so.

Senator Bristow. That is too much like the Democratic policy. I think we are entitled to your judgment as well as the collective judgment of all the gentlemen who are associated with you.

Senator Hitchcock. The committee will take a recess until 2.30 p.m.

(Thereupon, at 12.55 p.m., the committee took a recess until 2.30 p.m.)

AFTER RECESS.

The Chairman. The committee will come to order. I think that the Senator from Kansas desires to ask some further questions of Mr. Wade.

Mr. Wade. May our chairman make a statement first?

The Chairman. Certainly.

Mr. Forgan. Mr. Chairman and gentlemen, I wish to assure the committee that we gentlemen who have come from different parts of the country are putting our time entirely at your service, and we wish to meet you just as you wish to have us meet you. We are going to presume, however, to make a suggestion. There are seven of us, and we each have one or more branches of this subject to place before you. We feel that if we had been allowed to do so, 50 per cent of the questions that have been asked would have been answered by us in the regular course, as we came to them. We are charged with the responsibility of representing to you here the reasons why the conference held in Chicago made these suggested changes in the bill. We are perfectly willing that each of us should be cross-examined as to his individual views on the whole subject, and we will be very glad to be called for that purpose; but we feel that if we are allowed to get our views before you gentlemen you will get answers to your questions. So that it will save your time and save ours by obviating the necessity of asking questions which we will answer in the course of our taking up the subjects as we come to them.

For instance, the next question that comes up, after we are through with Mr. Wade—and of course we do not want to interfere with Mr. Wade's cross-examination at all—is to be taken up by Mr. Chapman, and he is prepared to address you in regard to the next important change which occurs in section 12, paragraph B, on page 16, and he will explain to you why, in the opinion of our conference, the Federal reserve board should not be given power to require but only to permit Federal reserve banks to rediscount the paper of other Federal reserve banks. Every one of us has already answered that question...
individually, and he, having come prepared, we want to have him heard, and he would answer it, just as we have all answered it, and the time of the committee would be saved.

There is this further reason why I ask your consideration in this matter: Some of us who are here are employees of institutions, and our time is not our own. Some of us have duties to perform at home, and some of us left home having made arrangements to return by about this time. Mr. Chapman, for instance, would like very much to leave this afternoon. He has made his arrangements, he has got his reservations made, and he would probably not take more than 10 or 15 minutes to place the subject before you.

Mr. Maddox comes from Atlanta. He is going to take up two questions that have been materially changed in the proposed measure since he prepared his address. He will have to adapt his address to the changed conditions; but they are all subjects that you are questioning every one of us on. If you will let us finish and then call us before you individually to get our individual views on the subjects that we have not addressed you on we will be very glad.

The Chairman. The substance of your suggestion is that you wish to suggest to the committee that the cross-examination should be confined to the topic upon which the witness is speaking?

Mr. Forgan. Either that, or else finish that subject before you cross-examine us generally. Get our opinion on each specific subject before you cross-examine us. Then we will stay here and be examined individually on the general questions. If the reason given by our specially delegated member is not a satisfactory explanation of our reason, then you can hear the rest of us afterwards.

The Chairman. If there is no objection by any member of the committee to that policy, I think it would be very valuable to us.

Senator Bristow. Of course, I realize the desire of a methodical business man to proceed with a thing like this as he would with a business matter; but when a party appears before the committee and makes a statement it naturally is fruitful of suggestions, and when questions are asked it leads from one thing to another, and the result is that you have a diversity of views which, to me, is very much more useful than a carefully prepared paper may be; and while, as far as I am concerned, I would be very glad indeed to accommodate myself to the convenience of these gentlemen, I think they could be of much more use to us members of the committee if they would allow us to pursue the usual method in eliciting opinions on hearings of this kind.

Senator Pomerene. I agree with Senator Bristow. We are here to get at the truth, and that is what we need—cross-examination. While I do not mean to criticize any of these gentlemen—I think they are going to tell us the truth as they see it and as they understand it—when it comes down to these details it is very apparent that they differ, as honest men do differ, on these subjects, and that is the most illuminating part of this cross-examination, to me. I want to know the truth about this, and I do not care how long it takes. It is a pretty serious problem, both for bankers and the public; I understand that very thoroughly; but you can not elicit information by having each man come in and testify in chief and then recall each one for cross-examination.
The Chairman. The committee must exercise its discretion with regard to the matter of cross-examination.

Mr. Reynolds. I feel, Mr. Chairman, that we are here by the courtesy of this committee, and while Mr. Forgan has expressed what would be most convenient to us, yet we are entirely subject to your call, and we hope you will proceed in whatever manner as will best satisfy your purpose, to solve this problem, as you believe, correctly.

Mr. Wade. Provided you will let me go, sir.

Mr. Forgan. I only made the suggestion thinking it would save the time of the committee.

Senator Reed. There is this to be said about it, Mr. Forgan: You make some remarks, and at the time you are making them the very thing a man wants to know occurs to his mind, and if he puts it aside and lets it get cold, a chain of ideas is broken and may not come back again, partly because of the limitations of the members of the committee. I know it is, as far as I am concerned. But I think we can well take into consideration the statement of Mr. Forgan, that others are to follow, and therefore perhaps we may abbreviate somewhat the examination.

Senator Pomerene. If some of the other witnesses here present want specially to get away we will try to accommodate them.

Mr. Forgan. There are at least two that have only one subject each.

The Chairman. The committee will try to accommodate those gentlemen. Mr. Wade, the Senator from Kansas desires to ask you a question or two.

Mr. Wade. Very well, sir.

Senator Bristow. Just before the lunch hour I asked you if you would submit, as a part of your statement, your judgment as to what changes ought to be made in the Aldrich-Vreeland bill in order to make it respond to the demands of the country during panics or hard times, and I thought you rather hesitated to do that. I think it is entirely pertinent, because it had been suggested by a number of Members of the Senate, and of the House as well, that a temporary change might be made in the Aldrich-Vreeland bill which would answer any immediate purpose without taking up the more elaborate provision of the currency legislation, and it was with a view of having your views, and views of the gentlemen who are here, upon that question that I asked that it be incorporated in the record. I think that anything that relates to the present law and proposed changes would be useful to us, and I would like very much, if you could, to have you submit your criticism of the bill as to its impracticability so that I might have it for consideration.

Mr. Wade. Senator, in the first place it has been six months or more since I have read that bill. I know in a general way it is impracticable, but to attempt to tell you offhand, or to try to criticize it in a meeting such as this, I would not care to attempt it, because I do not believe I could do the subject justice; and then again, I would not like to be singled out as one of the committee of seven who were invited here to prepare in concrete way a criticism of such a bill. I would rather take counsel and have the benefit of the counsel of my associates.

Senator Pomerene. That is what this committee is trying to do now.
Mr. Wade. If that were the judgment of our committee I think no doubt the chairman of our committee would be glad to call us together for the purpose of taking up that subject and giving you the general opinion on that subject after it is discussed by us.

Senator Bristow. When I made this request, I was inquiring as to how you would ascertain when more money was needed, when the need of commerce, as you expressed it, would demand a larger circulation, and you said it would depend upon the demand for loans. Now, do I understand by that that whenever a bank had more demands for money than it had the money to supply such demands, it would then take a part of its assets to the central bank in one instance and the board of control in the other and secure additional currency for the purpose of meeting such demands?

Mr. Wade. Yes, sir; your understanding of that is correct.

Senator Bristow. And that additional currency which this bank secures is issued according to your plan by the central bank, and according to the plan of the bill by the Federal board, through the regional bank?

Mr. Wade. Yes, sir.

Senator Bristow. And your suggestion is that the regional bank have 40 per cent of gold as a guaranty fund, a reserve fund, against this, as well as its credit?

Mr. Wade. Yes; 40 per cent gold reserve against all notes issued and 100 per cent commercial paper plus the total capitalization of the bank.

Senator Bristow. This 100 per cent commercial paper comes from the bank seeking the additional money?

Mr. Wade. Currency, bank notes; yes, sir.

Senator Bristow. The interest on that, of course, goes to the regional bank?

Mr. Wade. Yes, sir.

Senator Bristow. And the bank puts out the money and forfeits that?

Mr. Wade. Not necessarily the interest on those particular notes. You take your paper to the reserve bank and discount it. Your notes might bear 4 per cent. They might bear no interest, because they might have been discounted themselves, or they might bear 6 per cent, and you have to pay the rate for the use of that currency that was fixed by the Federal reserve bank in the district in which you were located. The rate might be higher or it might be lower.

Senator Bristow. Suppose the notes, the majority of those notes, draw 6 per cent.

Mr. Wade. I think not.

Senator Bristow. I am just supposing that. In some parts of the country they would and in other parts of the country they would not?

Mr. Wade. Yes.

Senator Bristow. Suppose they do draw 6 per cent. What would the regional bank charge this local bank for the use of the money?

Mr. Wade. Depending entirely upon the demand that was made on the Federal reserve bank, if it was properly managed.

Senator Bristow. Suppose it said 4 per cent. What becomes of the margin of 2 per cent?
Mr. Wade. Just exactly the same condition would exist as now, without this bill being in force. We would take $100,000 worth of paper, and I would go to Mr. Forgan and say, "I would like to sell you $100,000 worth of paper." If I discounted the note at 4 or 6 per cent and sold it to him on a 6 per cent basis, I would make 2 per cent and, on the other hand, if I discounted it at 4 per cent, I would lose 2 per cent in the transaction.

Senator Nelson. If you sold it to him at 6?

Mr. Wade. Sold it to him at 6.

Senator Bristow. I understand; and the bank discounts that paper and uses it as it would any fund?

Mr. Wade. Yes, sir; the only way now we could discount a note at the banks is by dealing with the fellow we discount with just to that extent. We take from him the amount that we discount.

Senator Nelson. Take the interest in advance?

Mr. Wade. Yes, sir.

Senator Bristow. You spoke, when Senator Hitchcock, I think, was interrogating you, of the fictitious reserve. What do you mean by "fictitious reserve" in referring to the plan suggested by Senator Hitchcock?

Mr. Wade. I do not remember making that statement.

Senator Bristow. You used the term "fictitious reserve." I wondered at the time just what you meant by it.

Mr. Wade. If you would tell me the whole interrogation, I think I could answer your question.

Senator Hitchcock. Was it on the occasion of my questions relative to currency that might be furnished by the Government of the United States?

Senator Bristow. Secured by bonds.

Senator Hitchcock. No. I suggested for your consideration a plan that the Treasury of the United States might furnish currency to the banks or to currency associations, and it might protect those notes by selling bonds and then procuring a gold reserve. I think you termed it fictitious reserve. I am not sure as to the language.

Mr. Wade. No. In that connection I said the 2 per cent Government bonds were maintained on a fictitious credit and not on a real credit as to the market value of those bonds——

Senator Nelson. That is the way I understood it. He meant the 2 per cent bonds at a fictitious credit, because they were available for banking, and without that they would not be worth their par, drawing only 2 per cent interest.

Senator Bristow. I do not know just what Mr. Wade had in his mind, but Senator Hitchcock was speaking of the Federal Government issuing to the bank that money and the Federal Government placing behind that currency 50 per cent gold reserve, similar to the system which we now have in regard to greenbacks, and it was in connection with that discussion that the term "fictitious reserve" was used. I did not understand just what you had in your mind, and that is what I wanted to bring out, what you meant by the fictitious reserve, because it seemed to me that it was a better reserve than had been suggested up to that time.

Mr. Wade. I think you probably must have misunderstood my answer, or I must have answered not understanding the question asked.
Senator Bristow. Possibly you used some other word than "reserve." It might have been a "fictitious value" as to bonds.

Mr. Wade. The market value of the bonds.

Senator Nelson. I understood it as referring to the 2 per cent bonds.

Senator Bristow. Another remark which struck me as very interesting, which has not a direct bearing and still has an indirect bearing on the subject, was when you spoke of Marshall Field borrowing money of a railroad which had made the business of Marshall Field.

Mr. Wade. Contributed to the development of Marshall Field's business.

Senator Bristow. The way you used the terms at the time indicated that you believed that the railroad had been responsible for Marshall Field's success, and I wondered just what you meant by that.

Mr. Wade. I was trying to illustrate, in answer to a question of Senator Nelson, I believe, that it was perfectly legitimate for a national bank in New York or in San Francisco or anywhere else to loan on call the money of its depositors secured by bonds and stock.

Senator Nelson. Collateral.

Mr. Wade. Collateral. And while it was perfectly legitimate for them to loan on call or on time its money on collateral notes, secured by stocks and bonds not only of railroads and manufacturing industries, it would not be the class of security that should be put behind Federal reserve notes. That is what I was trying to illustrate and what I meant by the railroad contributing to the development of Marshall Field's business. The building of any railroad into any community contributes to the commerce of that community.

Senator Bristow. Gives it commercial facilities?

Mr. Wade. Yes. It permits the transportation of all the products of the land, and it sends back the articles that are purchased from the sale of those products.

Senator Bristow. You would not say that the railroad made that community, any more than you would say that the community made the railroad?

Mr. Wade. Oh, no; the one contributes to the development of the other.

Senator Bristow. The two work together.

Mr. Wade. And therefore to attempt—which the question rather led me to believe was in that direction—to say that you should only loan or should make any discrimination in loaning on the railroad stocks and bonds, or the manufacturing corporation stocks and bonds, or the securities of a commercial establishment, or improvements built upon land for the purpose of creating factories, would be a mistake. But that was not the kind of security that we are advocating to put behind Federal reserve bank notes.

Senator Nelson. I would be very glad if the committee would hear Mr. Chapman. There are some questions that I should like to ask Mr. Wade here, but Mr. Chapman, from Minneapolis, president of the Northwestern Bank, is here, and is a member of this committee, and I should be very glad if you would give him a hearing, in order that he may go home this evening.

Senator Pomerene. I also would like to ask Mr. Wade a few questions.
The Chairman. If there is no objection, Mr. Chapman will be heard by the committee.

Senator Nelson. Mr. Wade wants to go home, too.

Mr. Wade. I wrote a man in New Hampshire and one in New York to meet me in New York to-day. I telegraphed that I would be there to-day.

Mr. Chapman. Finish with my friend, Mr. Wade. I do not go until 6.45.

Mr. Wade. You could finish with me in a few moments.

Senator Nelson. I will waive my questions to Mr. Wade.

Senator Shafroth. I intended to ask him one or two questions, but I will waive mine.

Senator Pomerene. In view of one matter to which he addressed himself, I have one question, and for that question it will only take a few minutes, if you have no objection.

The Chairman. Proceed.

Senator Pomerene. I assume that it goes without saying that the success of the plan embodied in this subject depends largely upon the extent to which the banks of the country avail themselves of its privileges?

Mr. Wade. Naturally.

Senator Pomerene. And the same may be said of the plan as amended by the committee of the American Bankers' Association?

Mr. Wade. Naturally.

Senator Pomerene. You called attention yesterday to the fact that in certain of these regions which it is proposed to lay out that if 10 per cent of the banks, and perhaps more accurately speaking, 10 per cent of the capital in that region should fail to avail itself of the privileges contained in this measure, they could defeat the purpose of the bill or the legislation. I understood you that way, did I not?

Mr. Wade. Yes, sir.

Senator Pomerene. If the proposed plan became a law; that is, if the proposed plan as amended by the bankers became a law, and 10 per cent of these bankers with banking capital should refuse to avail themselves of the privileges of the bill, it would very seriously embarrass the scheme. Is not that true?

Mr. Wade. No. In the first place, I said one-tenth of the banks that could be selected in any district or division of States, if they did not go in, would make it impossible to organize 12 reserve banks, because the remainder of them would not have sufficient capital to create a capitalization of $5,000,000 multiplied by 12 or more. If you adopted the suggestions that we have made here you would reduce the number of reserve banks to three or five, and therefore reduce the capital to be gathered together, just as 3 or 5 is to 12, and you ought not, in my judgment, in the initial stages of banking and currency reform, to attempt to create so many reserve banks at one time. If five proved to be successful, there is nothing to prevent you from extending it later if it is found to be practicable.

Senator Pomerene. The general purpose—I am speaking now of the amended scheme of the American Bankers' Association—is practically the same as the purpose of the original bill?

Mr. Wade. Our general purpose, gentlemen, is to help the Government of the United States to create a sound banking plan that can be workable and that can be put through in a practicable way.
Senator Pomerene. Suppose that either the original plan or the amended plan should be adopted, and 10 per cent of the national banks would fail to go in, would not that materially hamper the success of the system?

Mr. Wade. No; I think not.

Senator Nelson. Let me suggest to you if you will allow me: It might, if amended, be so practicable that many State banks would go in to make up the deficiency.

Mr. Wade. I will tell you why it would not, in my judgment. Take, for instance, the New England States. If I remember it correctly, the total capitalization of all of the national banks in the six New England States is $105,000,000. If they did come in you could have two reserve banks in the six New England States. In the Eastern States, roughly speaking, there are $337,000,000 of capital. If they all come in you could have six reserve banks, because you would have $300,000,000 capital to draw from. But if half of the banks in New England did not come in, and half of the banks in the Eastern States did not come in, there would be nothing left than to try one reserve bank in each of these different districts; and the reason I said one-tenth of the banks would be that if one-tenth of the national banks I could name would not join, then you would only have capital enough remaining to have one reserve bank. The smaller institutions I do not believe are going to flock into this reserve association, because I do not think they will get the benefit from it that would justify them in doing so.

Senator Pomerene. If the Congress should decide to provide for 12 regional banks, in your judgment it would be necessary to have the national banks go in in order to make it a success?

Mr. Wade. Yes; I think so.

Senator Pomerene. That being so, I wish you would point out why, in your judgment, Congress ought not to say to these banks, if it is going to adopt this scheme, "You shall go in"? I am speaking of national banks now.

Mr. Wade. You mean compulsory, without representation?

Senator Pomerene. Yes.

Mr. Wade. I thought I covered that very fully yesterday, Senator. I would only be repeating myself.

Senator Pomerene. The point I am trying to bring out is this: That if it were decided to make 12 regional banks, and you did not compel them to go in, then, necessarily, it would fail, according to your theory?

Mr. Wade. Yes, sir; if they did not come in.

Senator Pomerene. If they did not come in. Now, you have stated that you came here—

Mr. Wade. Let me answer you further, Senator, before you ask me that further question?

On the other hand, if you keep this bill in its present form, with the clause compelling the national banks to go in or go out of business or out of the national banking system, I then do not think you would accomplish your purpose; but I do believe that you will drive some of the very best national banks out of the national system by sending them into State systems, where they can get all of the benefit they can now get by doing a banking business.
Senator Pomerene. Your answer is dealing with prophecies rather than with facts.

Mr. Wade. Absolutely so. I do not pretend to say who will come in or who will go out. I am giving my opinion.

Senator Pomerene. I saw a statement the other day that if this bill should become a law they would surrender their franchise or charter and incorporate under the State banking laws.

Mr. Wade. Yes, sir.

Senator Pomerene. Is it your belief that that would be done to any material extent?

Mr. Wade. I think it would, Senator, I am sorry to say, but I believe that the banks would have to look to their own interests and to the protection of their own stockholders, and not turn over 10 per cent of their capital and 50 per cent of their reserve money to become stockholders in a corporation the stockholders of whom would have no voice in its management or direction.

Senator Pomerene. That is discussing another branch that I do not care to develop just now, although I have no objection to your answer at all, of course.

The statement was made here yesterday that there were something over 25,000 banks, I believe, in the country, and about 7,000 of them—

Mr. Wade. That is approximately correct.

Senator Pomerene. About 7,000 of them were national banks; so that you have this bill as presented to the Congress making it obligatory on 7,000 of the banks to go into this scheme, leaving it optional with the other 18,000, and you here largely represent the 18,000.

Mr. Wade. No, no; I represent myself. I can not do that.

Senator Pomerene. Well, you are speaking in behalf of the State institution.

Mr. Wade. Speaking as an officer of a State institution—put it that way.

Senator Pomerene. Yes. So that, so far as you are concerned and your bank is concerned, you have no objection to this bill—

Mr. Wade. I am also a national banker, you know, too.

Senator Pomerene. I am speaking of you as a State banker, now.

Mr. Wade. No. Speaking as a State banker, it would not make any difference to us, because you could not force us to do anything.

Senator Pomerene. And you still have the opportunity to avail yourself of the provision?

Mr. Wade. Yes, sir. But, speaking as an American citizen, I think it is improvident; I think it is a mistake; I think it is un-American; I think it is unjust to pass a law compelling these banks to subscribe to this stock or go out of a system that they have helped to build up.

Senator Pomerene. Well, if the success of a system is to depend upon whether we shall compel them to do a thing or to leave it to their discretion to do it, would you not have a good deal of misgiving about the success of it if you had to depend entirely upon the voluntary duty of certain institutions?

Mr. Wade. No. But if Congress can not draw a bill that will be so attractive in its operation, so practicable in its working, without forcing the banks to come in, then I think Congress would make a mistake.
Senator Pomerene. Speaking for myself, I want this bill to be so attractive that they will all want to come in; but at the same time it is my present judgment, and I state this with an open mind, that after we make it as attractive as it can be made they ought to be compelled to go in.

Senator O'Gorman. The national banks alone?

Senator Pomerene. The national banks alone. I think it ought to be made so attractive, however, that they would all want to come in. If there are any changes to be made in that respect I would like to hear what they are.

Senator Reed. There would not be a bit of difficulty in getting them in if you make it attractive enough. There might be some question about how the people of the country would receive it.

Senator Pomerene. I mean by that I doubt the wisdom of providing for a system and then letting individuals say whether they will abide by it or not.

Senator Shafroth. You had better let the witness go, or somebody else will get to asking him questions and he will not get away at all.

Mr. Wade. I am very much obliged to you, gentlemen.

STATEMENT OF JOSEPH CHAPMAN, VICE PRESIDENT OF THE NORTHWESTERN NATIONAL BANK, MINNEAPOLIS, MINN.

Mr. Chapman. Mr. Chairman and gentlemen of the committee, I have a very small thing to call to your attention, and I will do it just as briefly as possible. It is in the section of the bill which says "at the present time to permit or in times of emergency require Federal reserve banks to rediscount the discounted prime paper of other Federal reserve banks."

At a meeting of these bankers in Kansas City some time ago, where they were discussing agricultural matters, Mr. Jordan, of Pettis County, Mo., one of the real assets of that county in Missouri, made this statement. He said he was talking to a farmer and he said:

John, do you test your seed corn?

The farmer replied:

Certainly not. I don't believe in any of these new-fangled ideas.

Mr. Jordan said:

I want to tell you something. Every farmer tests his seed corn, either in the seed box or in the field.

I take it that the object of this meeting is that we want to test out this bill and see that when we get it planted out in the field whether it is really going to germinate and grow into something useful to the American people.

I want to call your attention to that clause, "or in times of emergency require," which we ask to have stricken out. I would like to be informed, for one, if there is in any civilized country in the world or ever has been any means devised by law to compel any man to loan money to another. In the medieval times history says that they used to boil the Jews alive in oil and torture them to try to force those men to loan them money.

Senator Reed. Did they get it? [Laughter]
Mr. CHAPMAN. But it was impossible. They could confiscate their property, but they could not get a loan unless the Jews were willing to loan the money.

Now, gentlemen, times have been changed very much in free America along that line. We have never considered it possible to force a man to loan money to another. That clause in the bill, whether it is constitutional or not I am not lawyer enough to say, but that it is un-American and uncivilized is absolutely correct. It harks back to the stone age, when a man went out with a club and took what he wanted.

Senator O'GORMAN. What are the objections to that proposed system?

Mr. CHAPMAN. We want that eliminated, and have the clause, Senator, to read:

_to permit Federal reserve banks to loan._

I will show you the reason why that will accomplish exactly what this reading at the present time will, with the objectionable matter left out.

In Minnesota Senator Nelson has a farm. It would be just as proper for the State Legislature of Minnesota to pass a law appointing a committee of seven citizens of Minnesota whose duty it should be to require or to compel Senator Nelson to loan his teams and his harvesting machinery to his neighbor when his neighbor was taking in his crop. It is just as reasonable to compel Senator Nelson to loan his teams and his harvesting machinery as it is to require or to compel one bank to give credit to another against its free will. I take it that none of you gentlemen considers the necessity of putting that in—that is, from a legal standpoint. It would appear to us that it is absolutely illegal and un-American, as I said before. What will the objection be to that bill without that clause in it? That is what interests us.

In the bank with which I am connected we have over 9,000 checking accounts. Of those, over 50 per cent are accounts of $100 or less. We loan those people $100 or less. We look them up just as carefully and are glad to extend the credit to those people just as much as we are to loan a corporation or a firm $100,000 or $500,000, which is the most we can loan. There is no law that requires us or compels us to loan that money. That is what we are a bank for. That is what our business is, to loan that money.

Senator Hitchcock, I think, yesterday or the day before spoke about the continental banks in Europe and compared them to these 12 regional banks. There certainly is no law requiring those continental banks of Europe to discount the paper one for the other. Yet they do it. They do it because of the law of supply and demand. They do it because there is money in it for them to do it, and that is what the success of these regional banks is going to depend on—not on any force which will compel them to do it, but for the same reason that prompted Robert Morris to loan money to the Continental Army to carry on the war. Nobody forced him to loan that money; nobody forced the national banks to come into existence and buy those bonds. These gentlemen do it willingly and gladly. And, gentlemen, if you will leave that phrase out of that bill you will accomplish more in getting a friendly attitude toward all of the
banks of the United States and toward your purpose in establishing
this bill than you will by including in it something that is absolutely
unnecessary to the working success of your plan and something
that may be so unconstitutional as to absolutely make your whole
law invalid and void.

That is about all I care to say on that subject. I am willing to
answer any questions you gentlemen may have to ask me.

Senator Nelson. I would like to ask a few questions. You have
one of the largest banks in Minneapolis, and I would like to have you
tell this committee what you know about farm loans, real-estate
loans on improved farms, and how you look upon that kind of loans
and that kind of security. I know you are familiar with the subject,
and I know the committee will be glad to hear you.

Mr. Chapman. Well, sir, as a national banker, I am not familiar
with the loans, because our national bank can not, by law, make them;
but for years I have been an officer of the Minnesota Bankers’ Asso­
ciation, an association of about 1,000 banks. The national banks in
that State, outside of the reserve cities, have talked this matter over,
and they are anxious to have the privilege of loaning part of their
resources on first farm mortgages loaned on a conservative valuation.

Senator Nelson. Of how much, 50 per cent?

Mr. Chapman. Forty to fifty per cent; not over that.

Senator Nelson. How do they regard that kind of paper—farm
mortgages?

Mr. Chapman. That paper is regarded as the best in the world, of
its class. There is no better paper made than first farm mortgage
properly made.

Senator Nelson. If a man came to your bank to borrow money on
his note, you would rather have as security a good farm mortgage of
that kind than the ordinary class of stocks and bonds—outside of
Government and State bonds, I mean?

Mr. Chapman. Outside of Government and State bonds, if I knew
that loan was safely made, I would just as soon have it as any rail­
road bond ever made. But not in a reserve city, Senator.

Senator Nelson. No. Your idea, then, is, Mr. Chapman, that the
privilege of loaning on farm lands or, rather, the privilege of loaning
on real estate, should be limited to farm land?

Mr. Chapman. That is right.

Senator Nelson. On improved farms, and should be limited to
what are classed as country banks?

Mr. Chapman. Yes, sir.

Senator Nelson. Not banks in reserve cities, central reserve cities?

Mr. Chapman. No, sir; I would not give them the privilege.

Senator Pomerene. Why not?

Mr. Chapman. Because we act as reserve agents for 1,000 banks.
We must keep our assets in such shape that we can take care of
sudden call. A farm mortgage is not necessarily a liquid asset.

Senator Nelson. Is it not very nearly the unanimous feeling
among national banks, outside of the Twin Cities, that they are in
favor of amending the law so that they can loan on real estate farm
mortgages?

Mr. Chapman. Yes, sir; I should say so.

Mr. Nelson. It is the universal sentiment.

Senator Reed. In Minnesota?

Senator Reed. There has been mentioned several times the question of whether the Government could compel one of these Federal reserve banks to transfer money to another, and the question of the constitutional rights that was raised has entered into it, and you likened it in your illustration to Senator Nelson's farm, where the Government would provide that a board of directors should compel him to loan his farm tools and machinery. Let me call your attention to this: No bank exists as a matter of right. There is not a single bank in this country but what exists because the law provided the plan for its existence. If the Government were to provide a system of banking, and in the law creating the system it was to provide that every bank coming into the system should have certain privileges, they would have those privileges, would they not?

Mr. Chapman. Yes, sir.

Senator Reed. And if it provided that it should also assume certain duties and obligations, they would have those duties and obligations, would they not?

Mr. Chapman. Yes, sir.

Senator Reed. And if they failed to respond to the duties and obligations, the Government would close their doors, would it not?

Mr. Chapman. Yes, sir.

Senator Reed. Do you not think that disposes of the constitutional question?

Mr. Chapman. Absolutely not—not unless you want to go back to the times when they boiled the Jews.

Senator Reed. I am talking about constitutional questions. I am not talking about boiling Jews; I have always been opposed to that. [Laughter.] You have already answered about the farm mortgages, which is illuminating; and I want to ask you this: In the large banks, even in these big cities, do they not have an organization that is pretty closely affiliated with them to take care of farm loans?

Mr. Chapman. Yes, sir; we have a trust company.

Senator Reed. Right in the same building?

Mr. Chapman. No, sir; adjoining the building—but there is a connecting door. [Laughter.]

Senator Reed. Does it have the same officers?

Mr. Chapman. No, sir.

Senator Reed. It has some of the same officers?

Mr. Chapman. None of the same active officers. No officer of the national bank is connected in any way with the making of those farm mortgages.

Senator O'Gorman. The same interest controls them both?

Mr. Chapman. Yes, sir.

Senator Reed. Somebody controls them.

Mr. Chapman. Yes, sir.

Senator Reed. There is one man there, I take it, and he is probably the president of the bank?

Mr. Chapman. Yes, sir.

Senator Reed. So that even the large bank in reserve cities does not want to let go of that class of business, but he wants to keep it in a separate till?

Mr. Chapman. He wants to keep it separate from his demand obligations, from where they do not belong.
Senator Reed. What do you think about the proposition, or the plan, that was suggested by Mr. Wade this morning of these mortgages taken by a reputable firm being a pretty easily convertible thing when we want to convert them?

Mr. Chapman. I should say that that would depend absolutely on the integrity and the ability and the experience of the company making those loans.

Senator Reed. That is pretty nearly true of every bank; your bank depends on that.

Mr. Chapman. Yes, sir; but every bank does not sell paper and does not sell mortgage notes to individuals of that kind.

Senator Reed. But I think the proposition that the business must be properly conducted goes with every bank?

Mr. Chapman. Yes, sir.

Senator Reed. I want to ask you this, whether you agree with the statement that was made here by Dr. Johnston, that the money is flowing out of the Bank of France now because of the war conditions, that the people are drawing the money out of the Bank of France and putting it into hiding, thus reducing its assets. Do you know whether that is the situation?

Mr. Chapman. I only know what I read, and that is to the effect that—of course we must take into consideration that the average peasant of France is a wealthier man than the average citizen of this country; that is, the average business man of America. They have more money in the banks. The Frenchman is naturally thrifty. The reason for that is that when this Balkan War was closed and there were securities offered at a high rate, Mr. Thrifty Frenchman wants to be ready to get it; he wants to have his money where he can get it and sell it and make more money on it.

Senator Reed. Could he not draw a check on the bank for it?

Mr. Chapman. He might.

Senator Reed. Do you agree with Dr. Johnston that this war condition having obtained, the money is being drawn from the Bank of France?

Mr. Chapman. Yes, sir; it is due to the war condition; certainly.

Senator Reed. Do you think that that comes because of the fact that he is hiding his money or investing his money?

Mr. Chapman. I think both.

Senator Reed. Both?

Mr. Chapman. Yes, sir; he is getting ready to invest his money.

Senator Reed. So that the theory that has been advanced here, that if the bank is entirely separate and distinct from the Government, the bank stands alone, like a Rock of Gibraltar in time of war, does not seem to be quite borne out?

Mr. Chapman. Absolutely; there is no question of the integrity of the Bank of France to-day.

Senator Reed. I am not talking about the ability to break it, but the question of inspiring this implicit confidence that remains through all the terrors of the long war and leave the bank absolutely standing out in the sunlight unpatinated and unharmed.

Mr. Chapman. I do not think that. In Europe the banks are coming out of this stronger than ever——

Senator Reed. Do you think the Frenchman is drawing out all his money from the Bank of France to-day any slower than he would be
drawing it out under the same circumstances if that bank was actually
owned by the French Government? France is not in any danger.

Mr. CHAPMAN. That is a pretty hard question to answer. I do not
know about the diplomatic conditions in Europe; I do not know
whether France is in danger or not.

Senator NELSON. I have understood that it is not as common for
the peasantry of France to deposit their money in the bank as it is in
this country. They like to keep it at home. That is the custom of
the country.

Senator SHAFFROTH. That is the reason it takes a larger circulating
medium for that country.

Mr. FORGAN. All of the peasants of France that have money in the
bank also have a little pile besides, generally.

Senator SHAFFROTH. France also has a limitation as to the quantity
that can be deposited there by one individual.

STATEMENT OF ROBERT F. MADDOX, VICE PRESIDENT OF THE
AMERICAN NATIONAL BANK, ATLANTA, GA.

Mr. MADDOX. Mr. Chairman and gentlemen, I have been requested
to bring to your attention the recommendation of the convention of
bankers in Chicago in connection with the last paragraph of section 17
of the bill in regard to par points of checks. For your information I
will read it.

Senator SHAFFROTH. Section 17?

Mr. MADDOX. Yes, sir; that is, in our printed form. It was
adopted at the meeting in Chicago.

The CHAIRMAN. Page 32.

Mr. MADDOX (reading):

It shall be the duty of every Federal reserve bank to receive on deposit, at par and
without charge for exchange or collection, checks and drafts drawn upon any of its
depositors or by any of its depositors upon any other depositor and checks and drafts
drawn by any depositor in any other Federal reserve bank upon funds to the credit of
said depositor in said reserve bank last mentioned. The Federal reserve board
shall make and promulgate from time to time regulations governing the transfer of
funds at par among Federal reserve banks, and may at its discretion exercise the func­
tions of a clearing house for such Federal reserve banks, and may also require each such
bank to exercise the functions of a clearing house for its shareholding banks.

The convention discussed that paragraph at length, and finally
adopted as a recommendation, respectfully, that the paragraph be
changed to read as follows:

It shall be the duty of every Federal reserve bank to receive on deposit at par
checks and drafts drawn upon any other Federal reserve bank.

From the last annual report of the Comptroller of the Curren y we
find that of the 7,397 national banks in operation in the United
States more than 2,000 were banks in small cities operating with only
$25,000 capital and 4,706, or 63 per cent, had capital less than
$100,000. It was largely the consideration of this great number of
small national banks and the small State banks throughout the
United States that undoubtedly prompted those in attendance at the
recent convention to respectfully recommend the change in that
paragraph of section 17.

The small banks of the country have performed and are performing
a great service to the Nation. They encourage thrift in their com-
munities and facilitate trade; they are the kindergartens of commerce. Especially in the South and West these small banks have been of great benefit. In the spring they have made advances to the farmer which enabled him to pay cash for his supplies, and they are gradually emancipating him from the burdensome system of trading on long time, with its accompanying high prices.

In the operation of the smaller banks of the country the exchange received is a considerable portion of their annual profits. To make the regional reserve bank receive at par all checks drawn upon any member would, it is believed, in time force all banks in that district to cash at par all checks drawn in that district. The check deposited in the regional bank, drawn upon any member, would immediately be charged against the reserve deposit of such member, and thereby enforce its collection at par and eliminate from the member bank any possibility of collecting a reasonable rate of exchange. As the member bank would never know what amount of checks drawn upon it would be deposited in the regional reserve bank nor when they would be deposited it would force the bank to carry a large amount to its credit with the regional bank above the reserve required, for which the bank would receive no interest, and frequently require the member bank to ship by express at considerable expense currency to meet these checks which are drawn payable at the counter of the member bank.

As there are more than 25,000 banks in this country, of which only 7,372 are national, and the success of the new banking and currency bill must depend upon the cooperation of a large number of banks of all kinds, the importance of the proposed revolution in collecting checks and the enormous labor, expense, and risk imposed upon the regional reserve banks, together with the loss of revenue to a large percentage of the other banks, should not be underestimated.

As is generally known, the clearing houses in certain cities have, through mutual cooperation of banks in other cities, been able to work up a system by which checks upon certain banks and cities are now received at par. This has proven successful in a measure in the thickly settled sections of the country, especially New England. In other cities banks have cooperated in having their out-of-town items collected jointly through their clearing houses, thereby reducing somewhat the cost to the city banks.

In New York City the clearing house has been working on a plan of cooperation for a par basis with outside cities for some time, but notwithstanding the large number of banks which carry accounts in New York City, they have been able to get only the banks in the following number of cities in five States to remit at par: In New York, 43; in New Jersey, 34; in Connecticut, 14; in Rhode Island, 9; in Massachusetts, 74; while in 15 States the banks will not remit at less than one-tenth of 1 per cent, and in 30 States the banks find it necessary to charge one-fourth of 1 per cent. It is therefore clearly shown that the question of exchange charges is one to be regulated by local conditions, and not one which warrants at present national control.

The development of the above-mentioned systems of collecting checks is progressing satisfactorily to both the city and the country banks, and as its operation is based upon voluntary cooperation it is likely to continue. We believe that after the regional banks are organized they can reach some agreement with the member banks in
regard to a uniform rate of exchange which will be mutually satisfactory.

While the collection feature of the proposed bill may be considered favorably by some of the large cities, we do not believe the country is ready for a national enforcement of free collection of checks, as proposed in the present bill.

At a recent group meeting of bankers in a prominent southern State resolutions were adopted, from which I quote the following:

Resolved, That if paragraph 6 of section 17 of the proposed bill is intended to cause universal parring of all checks and drafts and thereby destroy the present source of income country banks derive by making reasonable charges for collecting and remitting to cover checks and drafts, that the said provision is pernicious and will result disastrously to the earnings of country banks.

Resolved further, That this question of exchange is a local question, involving different considerations in the several communities of the United States, and should not be regulated by national legislation.

Resolved further, That the forfeiture of exchange earnings would so penalize the State banks of ——— as to prohibit their becoming members, and that it would force country national banks to retire from the system, and thereby cause the financial power of the country to remain in the centers without relief to the country districts.

As the checks upon the small country banks are usually drawn by country merchants, who trade largely with their nearby wholesale merchants, a large majority of their checks circulate within a radius likely to be included in the Federal regional reserve district. In consideration of the trade of these country merchants, we have not heard of the city merchant seriously objecting to paying the small exchange charged by the city bank and never exceeding one-fourth of 1 per cent to reimburse it for the charge made by remitting by the country bank. I say reimburse it, but the city bank does not, as a rule, charge an amount which does reimburse it. The city bank allows its depositors to “bunch” their out-of-town items, and they are of course collected individually. The rate for remitting by the country bank being more on small amounts than on large.

In the city of Atlanta, for instance, the clearing-house banks collect through their clearing house a large amount of their miscellaneous country checks payable in Georgia, Alabama, and Florida. The average cost to the Atlanta banks to collect these items is $2.07 per thousand, while they only charge their customers $1.25 per thousand, showing a net loss of 82 cents a thousand. The operation of the par feature of the proposed bill would virtually mean that in order to collect every check in the United States at par a member bank would only have to open a reciprocal account with one other member bank in each of the Federal reserve districts.

We believe that there is now existing a most encouraging spirit of cooperation between the banks of the various cities and towns of the country, each willing to accord to the other every due consideration, and they are all working for the benefit of their communities and to the prosperity of the Nation.

The banks are now satisfied with the existing arrangement, and their patrons are pleased. Under such conditions, we believe the amendment we propose would be to the best interests of the regional reserve banks and satisfactory to the people. It virtually makes 12 par points, representing every section of the country, which would be all that is needed and furnish a sufficient basis of exchange at bar. It would leave the Federal reserve banks, at least for the present,
free to perform the function for which they are most needed; that is, to control the reserves of the Nation and furnish to our people a wisely secured circulating currency receivable in gold.

Senator Shafroth. What does this cost that you refer to consist of?

Mr. Maddox. I do not believe I quite understand you, Senator.

Senator Shafroth. I mean exchanges.

Mr. Maddox. In dollars and cents?

Senator Shafroth. Yes.

Mr. Maddox. You mean to the country at large?

Senator Shafroth. No; I do not mean the country at large. I mean what does each item amount to? Suppose I bring a check to you, and charge you me one-fourth of 1 per cent. You say that it costs the bank that much or perhaps a little more.

Mr. Maddox. The city bank?

Senator Shafroth. The city bank. What does that cost consist of?

Mr. Maddox. We take the check that we receive over the counter to-day at Atlanta. I will use Atlanta for illustration. It receives the check deposited by one of its customers on Valdosta, Ga. We send that check to Valdosta, and the bank in Valdosta will remit us an Atlanta exchange for $1,000, if that were the amount of the check, less one-fourth of 1 per cent. We have the use of that money for probably two or three days. But the city banks, as a rule, only charge their customers exactly what the country banks charge them for remitting the checks back to the counter from which they were taken and deposited.

Senator Reed. Why should that bank make that charge?

Mr. Maddox. It is just a source of revenue for them. They have to keep their money in Atlanta and frequently have to send it by express to the different parts of the country.

The Chairman. There is postage and clerk hire also.

Senator Reed. I am trying to get at the reason. You are a banker in Atlanta?

Mr. Maddox. Yes, sir.

Senator Reed. I live in Kansas City. I go down to Atlanta and I give you my check for $1,000 upon my bank in Kansas City, and you give me $1,000.

Mr. Maddox. Yes, sir.

Senator Reed. I readily understand you have got to lose the use of that money until you can get it from Kansas City. You lose that much of your funds. When that check gets back to Kansas City, to my bank, my bank pays the face of it.

Mr. Maddox. Certain cities of the country are recognized as par points. The city of Atlanta is one. The city of New York will take any number of checks at par. Take Kansas City and New Orleans and Louisville and Cincinnati and Baltimore and Chicago at par. If my bank can collect that check at par in any way it would charge you for it.

Senator Reed. Why, in all instances, does the check not go back to the bank upon which it is drawn?

Mr. Maddox. It does.

Senator Reed. That bank proceeds to discount the checks?
Mr. Maddox. No, sir. It is willing to pay out the currency at par value for the check over the counter, and it does it every hour of the day; but when I receive that check and see that it was drawn in Kansas City, that it was not a check on New York or Atlanta, it costs the bank in Kansas City something to maintain that balance in Atlanta, and therefore the bank in Kansas City charges a certain rate of exchange for furnishing me that piece of exchange instead of the currency.

Senator Reed. Going back to the transaction between yourself and myself, you sent the check to my bank in Kansas City where I have an account now, and they send a draft to you upon New York. It is justified in making a charge to you for that draft, because it has to keep a large sum of money in New York and it is out that much interest; and that is the reason it keeps that account in New York. Does it not get anything on this account there?

Mr. Maddox. Usually the New York banks pay 2 per cent interest on balances.

Senator Reed. But that does not compensate it for money that it might get. It might get 5 or 6 per cent. I see. Then there is occasionally money actually shipped all over the country?

Mr. Maddox. We do it. From Atlanta we have to ship it at large expense.

Senator Shaffroth. Where you do not charge between points it is because they have correspondent accounts?

Mr. Maddox. Yes, sir. The city banks never attempt to collect the exchange out of a check, but they can collect the par. All the banks throughout the country try to collect them from their customers as reasonably as possible, and we voluntarily make par points; and under the present theory, for instance, if New Orleans would be our regional reserve, we would have to keep money going to New Orleans all the time, and we would have to keep an excess there to meet the demand, and I would have to send currency there to meet it unless it was payable on the counter of my bank in Atlanta.

Senator Shaffroth. Do you know how many par points there are in the United States?

Mr. Maddox. I have no idea; but I think New York is in a better position to create par points, because of the large number of reciprocal accounts kept there, and the banks find it absolutely necessary to make these charges or they would not do it. It would be a serious handicap to the success of this measure, in my opinion, when you realize that 4,700, 63 per cent, of the national banks are operating with less than $100,000 capital—and that is an important part of a small bank’s profit. In my State there are 600 more State banks than National banks, and they are mostly smaller banks. I suppose there are over 200 State banks, with $15,000 capital, which could not possibly come into this system.

Senator Nelson. What proportion of the $25,000 national banks have you?

Mr. Maddox. There are only 13 in the State of Georgia, whereas there are 1,700 banks altogether. In some States there are banks operating with $10,000 capital. Under this proposed law no bank can come into the system with less than $25,000 capital.

Senator Bristow. You say it costs more in some regions of the country than in others?
Mr. Maddox. Yes, sir.
Senator Bristow. Why should it cost more?
Mr. Maddox. Because exchange on the leading cities is less available, and it is more necessary to express.
Senator Bristow. In what sections of the country is the expense heavy?
Mr. Maddox. In certain parts of the South, when cotton bales are moving, and the cotton merchants are trading on Europe and in New England. It is necessary, in order for us to buy New York exchange, to pay a very large premium for it; and that applies in the different sections of the country. New York is the par point that America remits upon for all checks.
Senator Bristow. In some sections of the country the banks in one town charge more for the collection of checks than in other towns, do they not?
Mr. Maddox. That is due to local conditions.
Senator Bristow. The cost is just the same?
Mr. Maddox. It is just the same. It is for the same reason that one merchant in a town will sell goods at a much less price than another one will.
Senator Bristow. As far as my knowledge goes, the banks have the same rule governing these charges.
Mr. Maddox. They usually have some agreement about it that will meet the conditions of the town itself.
Senator Bristow. But if in one town they make a charge and in another town they do not, that would indicate that it was not very important factor in the revenues of the bank, would it not?
Mr. Maddox. There may be some special reason why that bank particularly wants to encourage a certain means of collection from a certain section, and do it somewhat as an advertising feature; but it does it at a loss, I think. The country banks are really entitled to some exchange, in my opinion, after these regional reserve banks are organized, and the country banks come in. If the regional reserve banks will make some equitable arrangement with the member banks for a uniform rate, I believe it will be less than the prevailing rate. I believe it is one-tenth of 1 per cent. It would be uniform throughout the regional reserve. Here in our bank, say, it would cost a man $6,000 to $10,000 a year if his checks were forced to be cleared at par. A small country bank—
Senator Shafroth. In the illustration of Senator Reed giving you a check at Atlanta on Kansas City for $1,000, you would send that check to New York, would you not?
Mr. Maddox. No, sir. Of course there is a different system by which different banks collect their out of town checks, but I think any such amount as that, the banks would send it there. All the larger banks would.
Senator Shafroth. You having a balance in New York and the Kansas City bank having a balance in New York, they would offset each other?
Mr. Maddox. That might be, if Kansas City was collecting at par. If that is the case, I would not charge the customer who came in with the check and wanted $1,000 clearance. The banks are all anxious to protect their par points as much and as liberally as possible for the accommodation of their customers. The other matter—
Senator Hitchcock. Before you leave that, Mr. Maddox, I want to ask you a question along that line. Suppose this provision should stand in the bill as it is, it would be easier for each bank to make these collections if there were a large number of reserve banks than if there were a small number, would it not?

Mr. Maddox. I think not; for the reason that while a small number of regional reserve banks would necessarily include a little larger territory if there were 5 instead of 12, yet the bill says each bank shall receive on deposit at par the checks of any member of that district; in other words, one bank in the entire South must receive at par checks of every other member in the entire South.

Senator Hitchcock. These checks do not have to go through a remote center if there are a large number of regional reserve banks.

Mr. Maddox. That is true.

Senator Hitchcock. If they had to go through a remote center would not that complicate the matter of collection somewhat rather than having more centers?

Mr. Maddox. It would be a little longer distance from the remote center.

Mr. Wexler. Instead of a reserve bank they would have branches.

Mr. Maddox. I believe it is contemplated that the reserve bank would have branches. Of course, we do not know how largely that branch feature would be developed.

Senator Hitchcock. Have you any of showing what per cent of profit come back, we will say, to a bank of $75,000 capital, from charges upon the collection of checks.

Mr. Maddox. I am not prepared to answer that. I should say, roughly speaking, 20 per cent. Mr. Wexler, would that be out of the way?

Mr. Wexler. That would depend upon deposits of the banks. I should think more than that. I should think nearer 35 to 50 per cent.

Mr. Reynolds. I might say that there is a vast difference in charges made for the collection of these checks in the different sections of the country. You take the northern and western banks in the small towns, and the exchange feature, the selling of exchange checks over the counter has dwindled down to almost nothing, whereas in the South, where Mr. Maddox is, I think you still maintain a fair rate of exchange on those items; so that while the South will get a very large revenue and income from this, in some other sections of the country it is very materially reduced.

Mr. Maddox. It is purely a local matter.

Senator Nelson. Has not the practice grown up among banks to issue drafts in such cases without charge for their customers who are depositors in the banks—those who do business with the banks as depositors—without exchange?

Mr. Reynolds. A very large percentage of the banks in the North and Northwest do that, but not many in the South.

Mr. Forgan. Before Mr. Maddox proceeds to the next subject, I would like to say that this subject—the exchange charges on checks—was more hotly debated than any other feature of the bill in our meeting at Chicago. It was brought up especially by the representatives of the small banks in the South, who protested most vigorously against that provision of the bill. I want to draw your
attention to that, because if you want to make the bill popular with
the smaller banks of the South, you will find that that is the prominent
sticking point that they are objecting to.

Mr. Reynolds. I think, if I may, I can give you a little idea as to
what this means in dollars and cents, as one Senator here suggested.
By quoting from an average of perhaps a dozen letters that I have
received from southern correspondents bearing upon this subject,
as I recall these letters, and I should say offhand, without having gone
over the figures to justify it, that the banks from which I heard would
have a capital averaging perhaps $150,000 apiece; and in their letters
protesting against this clause being inserted in the bill, the amounts of
the loss that each of these bankers claimed their banks would incur
in event of its passing ranged all the way from $7,000 to $20,000.

Senator Shafroth. A year?

Mr. Maddox. A year.

The Chairman. The volume of these exchanges as shown by circu-
lar 34, an abstract of the condition of the national banks, July 3, 1913,
is that these checks and cash items run from $250,000,000 to
$296,000,000, during the year, on daily account current.

Mr. Maddox. Outstanding all the time.

The Chairman. Outstanding all the time, and it, of course, makes
a very large business.

Mr. Forgan. Right there I would like to give you a little bit of
statistics to show you that this is no small matter that we are talking
about. It might seem a small matter when the individual check is
considered, but when I inform you that we have a department in our
bank in which we keep more than 60 men doing nothing else but
handling these checks, and that we handle 25,000 a day, and send them
to their destinations from Chicago alone, and that Mr. Reynolds here
must have at least 30 per cent more than that, you will realize the
volume of business that is done along that line.

The Chairman. I would like to ask you, Mr. Forgan, in that case
whether a large part of those are not checks passing through your
bank for collection?

Mr. Forgan. Oh, yes.

The Chairman. And would not those checks if they were on de-
posit on a Federal reserve bank be canceled at the Federal reserve
bank, and therefore make unnecessary the sending of that check
down to the correspondent and back again to be simply charged
against him?

Mr. Forgan. That could be done, but it would be very bad, as
the banks would have absolutely no control of their balances, and
that is what we are running across every day now. There is not a
bank correspondent on our books that will permit us to charge $1
to their account until we have got their signature to a check or order
telling us, "You are authorized to charge it," so we have to send
every check on every correspondent to that correspondent and wait
until we get back an order to charge.

The Chairman. It would, however, be an economic advantage, if
it could be done?

Mr. Forgan. If it could be done; but by doing it you complicate
the management of each individual's business to such an extent that,
for instance, he has no knowledge of what checks his customers are
drawing on him, and if his balance with his reserve agent is impaired by charging to him checks which are not honored, and sending them back to him before he has provided for them, he has to keep a very much larger balance in order to protect his reserves against such charges, of which he knows nothing until after they have been made.

The Chairman. But the premises upon which you proceed in the case of a Federal reserve bank which dealt along with banks of a qualified class as members of a Federal reserve bank would be a different premise from that which now forms a just basis upon which an objection would be made by a correspondent bank and yourself.

Mr. Forgan. I think not, because the reserves would be kept by the Federal reserve banks.

Mr. Reynolds. By way of completing the record with reference to this and giving you a little better idea, perhaps, as to the magnitude of this business, and which I hope to touch upon a little later, I will only say that in our institution we handled last year 19,000,000 checks and items of this kind, checks and items on points outside of Chicago and New York City. We have in one department 200 men doing this business alone. We have in transit in process of collection an average of about $13,000,000 the entire time.

When you undertake, Mr. Chairman, to have those go through the Federal reserve bank and cancel them as you suggest, you overlook one of the most important things necessary in the handling of checks of that kind, and that is that you do not know the genuineness of the signature of the maker of the check, nor do you know that he has the balance in the bank upon which it is drawn. If those things could all be put in the hands of the Federal reserve banks, if they could know that every check that comes through their office is signed by a genuine maker, and that the balance which that man would have in that particular bank upon which he would draw the check was sufficient, your theory would be a good one; otherwise it would be fraught with much danger.

The Chairman. I would like to have it appear in the record in this connection that if there were established 10 reserve banks, involving 27,000 banks, there would be 2,700 banks on an average in each of these 10 Federal reserve districts. Each one of these 2,700 banks would have its signature of record at its Federal reserve bank, and I take it also, if necessary, at the other Federal reserve banks. I am not talking about private checks—I am talking about checks sent by the members of the banks; and therefore when any one of these member banks draws a draft upon any other member bank or any member bank of another Federal reserve bank, the process would be that such checks going into the reserve bank No. 1 would be there canceled and sent as vouchers to member banks, who would be carrying deposits with such bank, and in like manner such bank would be itself credited with checks drawn on other member banks belonging to that particular Federal reserve bank. If, however, the checks were drawn upon a member bank of another Federal reserve bank it would be transmitted by the Federal reserve bank No. 1 to Federal reserve bank No. 2, and a like process of cancellation obtained, and therefore there would be an obvious economic advantage. I would be glad to have the record show in that particular that process is wrong.
Mr. Maddox. There is just one thing I would like to add, referring to your comment of a moment ago: The convention recommended a substitute for that paragraph, to be that—

It shall be the duty of every Federal reserve bank to receive on deposit at par checks and drafts drawn upon any other Federal reserve bank.

In other words, any member in any district could draw a check on the Federal reserve bank in that district and that check would be collectible at par at any other Federal reserve bank, which would merely make, as I said before, as many par sections of the country as there were Federal reserve banks. I could draw a check on the reserve bank in which my city was located, for illustration, and it would be taken at par, and also all over the United States in any other Federal reserve banks.

Senator Reed. Let me ask you if that would work out this way: The customer of a country bank desiring to pay a bill, say in Atlanta, and that country bank was a member of the reserve association or the reserve bank, and could go to that bank and draw his check to the bank and get a check from his bank drawn upon the Federal reserve bank, and use that check to pay his bills.

Mr. Maddox. All over the United States.

Senator Reed. And then that would avoid the payment of any exchange.

Mr. Maddox. Yes, sir.

Senator Reed. And if he drew his own check directly you want it so he would still have to pay no exchange?

Mr. Maddox. That was the object of this provision.

Mr. Forgan. That is the milk of the coconut. You have brought it all out right there; that is what the country banker objects to. I do not want to reflect on the country merchant, but the not infrequent practice of some country merchant is to issue his check on his own bank, knowing that it is going to be three days going and three days coming back, and he does not make his deposit until he figures it has had time to get back.

Senator Pomerene. Perhaps you ought to modify that and say "some country merchants."

Mr. Forgan. I say "some"; I did not say all. That is the feature that the country bank objects to.

Mr. Wexler. The customer of the country bank in paying a bill in St. Louis, instead of going to the counter of his local bank and buying a piece of exchange on St. Louis, as he ought to do, and remitting that to the merchant in St. Louis in current funds of St. Louis, he will draw his check on the local bank and send it to the merchant in St. Louis, and it takes that check probably three days to go and a day in St. Louis, and three days to come back, so that he need not have the money in bank to protect that check for several days while it is in transit; and further than that he is generally interested in the local bank, and he thereby enables the local bank to make a collection charge upon the St. Louis bank that received it from its customer, so that he is benefiting again by it.

I do not think you are going to get the small country bank into this system unless you eliminate this clause to which they object, as Mr. Maddox has said; and I think it is a proper subject to leave for adjustment and working out after your bank has been established.
I think it would be most wise and politic to do that, because, as I heard one banker say:

Even though the country perish, we must keep our collection charges.

Senator Shaftroth. Is there not this advantage in drawing a check of that kind; that is, you get the receipt direct of the man to whom you are going to pay the money? He can do it by going to the bank, but it is a round-about way. That is the reason I pay my bills by check, because I write on each check what the bill is for and it answers for the receipt; and that is of great value to me, because I do not have a very big account.

Mr. Maddox. There is one other thing, which I do not think is hardly necessary to dwell upon, but I can see the effect if every regional reserve bank were compelled to take at par the check on every member bank that it might encourage what we call "kiting." It would facilitate that very bad feature that some customers of banks practice. I will not go into that, because I do not think it is necessary at this time.

Senator Weeks. Mr. Maddox, do you not think it would be well to explain just what you mean?

Mr. Maddox. If a concern had a branch office in another part of the section of a regional reserve district and they both had accounts in the different towns where those branches were located, those checks would have to circulate at par, do you not understand, in any part of that district, and one branch could draw the check on his home bank and they could draw a draft on that member and they both would be taken at par, which is just keeping it in circulation until it came back and then the regional reserve bank would not know whether the check was good upon the issuing bank until it came back. There would be no way of the regional reserve bank knowing if those checks were good. In every bank in the larger cities—certainly in Atlanta, although I do not call Atlanta a large city—every day there are probably 25 or 30 checks thrown out of the bank that come through the clearing house that are not good. Those checks would have been cashed by the regional reserve bank and charged to our account, and in some instances those checks aggregate a large amount and it would have reduced our reserve by that amount, although we did not know that the man who drew the check did not have the money sufficient to his credit to pay it.

Senator Reed. Would you object to this clause if it was amended so that it was the duty of a Federal reserve bank to cash without charge the check of any member bank?

Mr. Maddox. If I get your question, it is what the provision is we are now complaining about?

Senator Reed. Do you think that would be identical with the present provision?

Mr. Maddox. Practically the same.

Senator Reed. This reads:

And without charge for exchange or collection, checks and drafts drawn upon any of its depositors or by any of its depositors upon any other depositor.

Mr. Maddox. That word "depositors" means members, because no depositor can be a depositor without being a member.

Senator Reed. I see, we get back to the same place.
Senator Bristow. A moment ago there was an indirect criticism made on drawing a check for bills, and figuring on the time incident to the return of the checks, in order to prevent overdraft on the local bank, and when that check comes back, the man who drew it makes a deposit and not when it was drawn; instead of that, if he had to buy a draft and deposit that with the local bank, would not the local bank have the use of the customer's money before its obligation was met; but as it is now the country merchant has the use of the bank's money?

Mr. Wexler. That is correct.

Senator Bristow. Why should not the merchant have the use of it as well as the banker?

Mr. Wexler. We do not say that he should not, we are just simply stating the case.

Mr. Maddox. The point is simply this, to boil it down, that the present system of collecting checks, while a little bit onerous upon the city banks—and they would benefit more than any other class by this bill—we believe, and our committee that considered this feature were nearly all city banks, but they sincerely and conscientiously believe in the interest of this bill that it would be unwise to put this burden upon country banks, or, rather, to withdraw from the country banks the profit that for years they have been accustomed to earn through exchange.

Senator Weeks. Mr. Maddox, you have just said that this bill would be more beneficial to the city banks than to the country banks?

Mr. Maddox. I said this provision.

Senator Weeks. You said "bill."

Mr. Maddox. I beg your pardon.

Senator Weeks. You meant "provision"?

Mr. Maddox. I meant "provision."

Senator Reed. You think this provision has got to be limited, practically, to simple transactions between the reserve banks?

Mr. Maddox. Yes.

Senator Reed. That takes away one of the advantages claimed for the bill. It occurs to me, as we proceed, that the bill is something like I heard a young lady say about her good looks. She said she would be good looking herself if it wasn't for her nose, her eyes, her mouth, and her complexion. [Laughter.]

Mr. Maddox. Gentlemen, our committee has conscientiously—and I happen to be a member of the committee that revised this bill, or rather suggested some of the resolutions in the committee, and worked harmoniously with the committee—and I believe that we should work in the interest of the whole country in suggesting these amendments, and if there are any features of the bill that appear to favor one class of citizens, it was not the intention of the committee.

Senator Hitchcock. Mr. Maddox, you make no distinction in your objection between a check drawn by a country merchant drawn on one bank and a draft drawn by one bank on another bank, they both being members of the reserve association?

Mr. Maddox. Yes. The provision is that any check of any member drawn upon any regional reserve bank shall be taken at par by all the regional reserve banks.
Senator Hitchcock. But a check drawn by one member bank upon another member bank shall not be taken at par?

Mr. Maddox. No. A check drawn by one member bank upon another member bank may not be good, and the regional bank might cash the check for $10,000 when one member bank might not have it in another bank.

Senator Hitchcock. Are there any cases like that?

Mr. Maddox. Frequently banks draw upon Atlanta a check where they have not sufficient funds. They probably expect to get them there, and maybe the train will be late, and sometimes they do it without any expectation of having it there, just to obtain circulation.

Senator Hitchcock. I supposed that individuals did that, but I did not suppose that banks ever did.

Mr. Maddox. I have heard of it having been done, have you not, gentlemen?

Mr. Wexler. Yes.

Mr. Maddox. The next feature, gentlemen, if you have finished with that, to which I would like to call your attention, is the feature of savings banks in the national banks or the national banks doing a savings-bank business. When the convention met in Chicago, the bill stood as it appears in the printed report——

Senator Brustow. Before entering upon that, there is another feature I would like to inquire about. If a merchant, we will say, here in the city of Washington is making a remittance to New York, and he sends his check on his local bank here to New York, the party to whom the check is drawn in New York deposits that check in his bank. Is that check cleared there in New York and charged to the account of the bank correspondent, or does it always come back to the city from which it was drawn?

Mr. Maddox. If I catch your question, I will repeat it so that I may be sure that I did: A merchant in Washington will send to a merchant in New York a check on a Washington bank, the merchant in New York deposits it at his New York correspondent, and that New York correspondent will forward that check to his correspondent in Washington, the same as a check drawn to a merchant in Washington, and charged to that bank's account in Washington; but if it happens not to be a check on the Washington bank it might or might not charge it—as far as Washington and New York are concerned. I have no doubt that all Washington checks are taken at par in New York, and the exchange feature does not enter into that transaction at all.

Senator Brustow. That is what I wanted to know, whether the bank simply charged it in New York to the account of the bank here and then the bank was out nothing.

Mr. Wexler. I would like to say that that practice does not generally prevail. For instance, we have a large number of correspondents and receive a great many accounts on those banks that keep accounts with us, and none of them permit us to charge those checks to their account. We assemble all checks on a particular point during the day and at night they are put into a letter and listed, and they are sent to the particular point, to our banking correspondent in that town. He collects them from the various banks in the town and sends us the check to cover; that is the usual procedure.
All banks endeavor to get their bank correspondents to permit them to charge these items up to them, and in former years there was considerable of it done, but nowadays the banks will not let us do it; they insist that we send the item to them and let them challenge the signature and ascertain if the check is good, and then send us their exchange, usually on ourselves, if it is our correspondents, or sometimes on New York, Chicago, St. Louis, or Kansas City, or wherever it might suit their purpose.

Senator Hitchcock. Mr. Wexler, is that true, of a draft drawn upon one bank by another bank?

Mr. Wexler. Yes; if, for instance, a bank in the city of Shreveport sends us a check on the bank in Monroe for the credit—that is, for the Shreveport bank—we have got to take that check just the same and send it up to Monroe and collect it.

Senator Hitchcock. An individual check, you are speaking of?

Mr. Wexler. I am speaking about a bank check. For instance, the bank at Shreveport, La., has a credit in Monroe which it desires to get out of there and get into a reserve city, like New Orleans. I am its correspondent—that is, of the Shreveport bank—and it draws a check on Monroe and sends that check to me at New Orleans. I in turn send it to my correspondent at Monroe, and he mails me New Orleans exchange, or Chicago exchange, or St. Louis exchange, or New York exchange, which we call current funds, and then the Shreveport bank has the money to its credit with me in a reserve city. The Monroe bank charges us at the rate of $1.50 for collecting that item, and we in turn charge the Shreveport bank the same—$1.50—that we have been charged by Monroe for collecting it.

Senator Hitchcock. Suppose both of those banks have accounts with you, why could not you credit one and charge it to the other?

Mr. Wexler. Because they won't let me; in the first place, because they do not know how many checks are out, and they do not want to impair their reserve; and another thing is that they want the checks to come back to their counter so as to ascertain whether it was good or not; it may not be good.

The Chairman. Suppose the Shreveport bank sent you at New Orleans a check on the Monroe bank and it went to the Federal bank; you would take it and put it right in the Federal reserve and take credit, and the Federal reserve bank having an account with the banks in that region, would then charge the Monroe bank and credit you, and you would credit the Shreveport bank, and the transaction would be economically completed there, without this sending back and forth; and therefore it would be an economic saving in the matter of time and postage and clerk hire and use of the money?

Mr. Wexler. Absolutely, and it would be extremely desirable.

Of course the next step would be that the regional bank would send the item to Monroe, which it would have to do for verification of the signature and to ascertain whether it was good, and the credit it would give you would be subject to being charged back if it was not good.

The Chairman. That would be the result in any event.

Mr. Wexler. That would be a step in the right direction. It would be economy if that could be done, but that would not affect the various collections of the small country bank.
Mr. Maddox. The question of exchange is more or less local, and it is very difficult to pass one rule that would apply all over the country.

The Chairman. The present system would go on in any contingency, I take it?

Mr. Maddox. Yes.

The Chairman. Because all of these banks have at present and will continue to have large accounts with other banks where they keep their reserves?

Mr. Maddox. Yes, sir.

The Chairman. At present the country banks keep 10 per cent more than the legal reserve now?

Mr. Maddox. Yes, sir.

The Chairman. I believe you will concede that to be the case?

Mr. Maddox. Yes, sir.

The Chairman. And that that system would still go on; they would not be obliged to send their remittance through the Federal reserve bank; they would still have the opportunity of using the present system, which is possible in the way of exchange.

Mr. Maddox. But if the amendment stands as at present, any check of any member, you understand, will come into the reserve bank at par some time, very likely.

Mr. Reynolds. Mr. Chairman, I think I can clarify that just a bit for the members of the committee by making this statement: In its practical application the parring of checks, as the chairman has indicated, would be decidedly to the advantage of the city banks; it would at the cost of present income of the country bank; that is exactly what it would mean when put into force. It would, however, as the chairman has stated, make available for reserve purposes very much more quickly a very large amount of money, and it would be an enormous economic saving in the collection of the funds.

The Chairman. It would relieve approximately a part of the present volume of $250,000,000 to $298,000,000 which are daily current in these exchanges.

Mr. Reynolds. If the national banks would all join the association, I should estimate it would relieve 70 per cent of it.

Mr. Wexler. I would advise you to leave it out of the bill, because these country banks will not come in.

The Chairman. I think they will.

Mr. Wexler. I have talked to 100 of them, because I advocated that it should remain in the bill—that it was in the direction of economics. I tell you they will not come in, and I would advise leaving that for adjustment after you get the banks started.

Senator Pomerene. I think they would come under your persuasive argument.

Mr. Wexler. That was when they said they would rather see the Nation perish than to lose their collection charges.

Mr. Reynolds. I agree with Mr. Wexler as to its practical application, though I want to be frank enough to have you understand that from my viewpoint it would be a decided advantage to my institution to have that remain in the bill, although for the very reason Mr. Wexler has stated there is a prejudiced opinion against it by the small country banks.
Senator Bristow. Mr. Chairman, you spoke of $200,000,000 or $300,000,000 being carried here as though it were a loss—as though losing the money. Who is losing the money?

The Chairman. The country.

Senator Bristow. Who, in the country?

The Chairman. The individuals.

Senator Bristow. What individuals are losing this money?

The Chairman. Those who are entitled to the active use of the money and who are compelled to carry it.

Senator Bristow. Who are they?

The Chairman. I leave that for my friend Maddox to answer. I could answer it.

Senator Bristow. It is the banks?

Mr. Maddox. I do not know.

Senator Bristow. Is it not taking from the public a facility which it now has, which is a convenience to it, because it costs the bankers something to carry this?

Mr. Reynolds. There is, however, a very large exchange charge made by the banks against this very practice which ultimately must be charged back to the people.

Senator Reed. Senator Bristow, you are not laying the pleasing unction to your soul that these bankers really lose this money themselves?

Senator Bristow. If they are charging the people and get the advantage of a higher rate than they would have to pay otherwise, of course they are making profit by it.

Senator Reed. That is just it; they are charging these customers ultimately at one end of the line or the other. Either the man who draws the check or the man to whom it goes in payment has to pay these exchange rates.

The Chairman. The economic loss must rest on the commerce of the country, and that is where it belongs. You can not charge it up to any other source.

Senator Hitchcock. I would like to ask you whether this practice that country banks have of charging for the collection of these checks has not actually been promoted by the banks in the large cities themselves as a means of securing country depositors?

Mr. Maddox. No; I do not think so.

Senator Hitchcock. And has it not been offered as an inducement to these country banks?

Mr. Maddox. I do not think so. That is one of the features the banks recognized when the bank was chartered and organized and developed; it was existing then and is existing now.

Senator Hitchcock. As far as crediting at par the checks of one bank against another bank, they both being members of the reserve bank, while a bank would lose in one case, would it not gain in another case, and would not the offsets be reasonably equal?

Mr. Maddox. Well, I do not think so, sir. The difficulty about having the regional reserve bank cash any check except the check the signature of which it has on file and a knowledge that the funds are available if that check is bad—

Senator Hitchcock. I am speaking now of the check of the one bank against another bank, they both being members of that reserve association or another reserve association.
Mr. Maddox. The regional reserve bank could have no way of knowing whether or not the check was drawn by an authorized officer, in the first place, or whether the check of one member was good upon another bank, but immediately would charge it against the member's reserve account when it came into the reserve bank, and I do not see the necessity for it.

Senator Reed. I did not understand that.

Mr. Wexler. Let me explain that.

Senator Reed. I do not understand why the central reserve bank could not have the signature of the cashier of each member bank.

Mr. Maddox. It could.

Senator Reed. Then it could tell when it got the check.

Mr. Maddox. It would not know whether it was good or not.

Senator Reed. The check of the bank which is a member bank?

Mr. Maddox. Yes.

Senator Reed. Now, it has some of the funds of that member bank on hand, and that member bank has some investment in the central bank, and it draws its checks in serial numbers. I do not see why you can not verify the signatures.

Mr. Maddox. If, for instance, one member bank in Atlanta draws a check upon a bank in Savannah, your idea is to have the regional reserve bank in New Orleans cash that at par?

Senator Reed. No; I was talking about the bank in Savannah drawing its check payable to me—it's own check—and my putting the money in my own bank, and my bank transmitting it to the regional reserve bank. When it gets there, you have got books in which you have the signatures of the 600 or 700 cashiers of these banks. You would have, of course, to verify the signature. You would not have any difficulty about that, would you?

Mr. Maddox. That is a feature that might be incorporated—as I catch your idea, it is such as we call 'cashier's checks.'

Mr. Wexler. For the transfer of funds.

Mr. Maddox. Drawn by any member bank upon any other member bank would be redeemable at the regional reserve bank at its face value at once.

Senator Reed. Yes; that is what I mean.

Mr. Maddox. I do not see any objection to that.

Senator Reed. What I have in mind is just this sort of a transaction: A merchant in Atlanta, Ga., wants to pay a bill to a wholesale house in Chicago, say $10,000. He comes to your bank and draws his check to you for $10,000. You thereupon issue him a check of your bank, drawn upon the regional reserve bank in Chicago. It goes to the wholesale house, and they take it and deposit it in their bank, and their bank is a member bank.

Mr. Wexler. That is just what they recommend, Senator Reed.

Senator Reed. And the member bank thereupon—

Mr. Wexler. Is charged up with it.

Senator Reed. Thereupon collects it through the central reserve bank.

Mr. Maddox. That is exactly what we recommended.

Senator Reed. That is all right, is it?

Mr. Maddox. We recommend that with this distinction. As I get your question, Senator, it was the check of the bank upon itself—a
cashier’s check, you said. You said a merchant would go to a bank in Atlanta and get a cashier’s check.

Mr. Wexler. He said a merchant would go to a bank in Atlanta and get a cashier’s check.

Mr. Maddox. I did not understand him to say that.

Senator Reed. Why not a check upon itself if it had all the time money to its credit in the regional reserve bank?

Mr. Maddox. That is entirely satisfactory, and this provision covers that feature, or it would be very easily incorporated.

Senator Reed. Then, if a merchant did not want to “kite” a check—I guess that is a correct term—that is, send the check in, as was described here by Mr. Wexler, who seems to be something of an expert on that—

Mr. Wexler. On stopping them. [Laughter.]

Senator Reed. On stopping them; yes. If he did not want to send the check when he really did not have any money, and thus gets the benefit of three, four, or five days’ time; but I mean if he really had the money and was willing to use it at once he could, under this suggestion we are now talking about, draw his check to his own bank and could save the exchange, and he would not be out anything. You do not object to that sort of thing?

Mr. Reynolds. That would be a common practice.

Mr. Wexler. That is exactly what it should be, but what the country bank wants is to add:

Nothing in this clause shall be construed to compel the country banker to collect items drawn upon him free.

That has no relation to items drawn upon the regional banks, but items drawn upon the country banks, free. I think that should be put in order to encourage the country bank to come into this system.

Senator Bristow. Mr. Maddox, on that point, if I am in business, we will say, at Bradford, Nebr., and I remit by check to pay a bill in Chicago, and the check makes its rounds and comes back to my bank, and it is charged to my account. I get a check from some one in some other town in my favor, and I take it and deposit it. At Bradford the bank may charge me for collecting that check.

Mr. Wexler. Yes, sir.

Senator Bristow. If there is any bank in that community which will not make the charge, that bank will get a great deal of business which it would not otherwise get?

Mr. Wexler. Yes.

Senator Bristow. So the banks make an agreement that they all will charge or none will charge.

Mr. Wexler. That is right.

Senator Bristow. If some bank in the town wants to go in and not charge, they will get the business, and all the rest will go in and be each tumbling over the other to do it.

So you do not have to give them the guaranteed right to charge, because if one goes in they will all go in. They want to guard against our forcing them to come in and forcing them to handle these items for nothing; that is, they do not want to give up this line of profit because another community has already given it up.

Mr. Wexler. Senator, there are a great many small banks that really could not exist without the collection charge, they could not
earn a dividend. Take a bank with $25,000 and $50,000 deposits, of which there are thousands throughout the South I know. They cannot earn enough upon their small deposits to pay their dividends if they did not make this large collection charge. The collection charge collected by the State of Mississippi, as shown by a very respectable and trustworthy representative of that State, is that it amounts to $650,000 a year, collected by all the banks in the State of Mississippi for the collection of checks held by banks or individuals outside of the State of Mississippi on banks located in the State of Mississippi. They realize that the establishment of this system of banks will reduce that charge very materially, and should do so; but they do not want any provision in here under which the entire charge can be eliminated, and I tell you that it is a good policy to put nothing in the bill that will indicate that that entire charge is going to be eliminated, because they will fight you, and their representation is enormous, and you will have a great deal of difficulty in putting the bill through if you antagonize that very large class of banks throughout the country.

Senator Bristow. If we are making a bill wholly for the benefit of the banks, your argument is very good, but I do not understand that the purpose of this currency legislation is wholly and simply in the interest of the banks; I think the whole country is interested.

Mr. Wexler. I agree with you, and banks located such as mine and Mr. Reynolds's and Mr. Forgan's, and the banks in all the large cities will benefit tremendously by having any such charge eliminated entirely. Therefore, we are talking against our own personal interest in the suggestion to you not to interfere with this as far as concerns the country banks. You will have to work out a great many other things in connection with this currency and banking scheme after it is once in operation, and you recognize that policy must govern you to some extent. You want to pass the bill, and you do not want the antagonism of this vast number of small banks scattered all over the United States which are to-day earning money from this source, and you can therefore just as well let a subject alone that will be too hot for you to hold, if you attempt to solve it at this time. [Laughter.]

Senator Reed. There is one trouble about your logic, and that is that it does not follow that we want to pass this bill.

Mr. Wexler. I am presuming that you do.

Senator Reed. And if you keep on raising objections to it, I am going to think it is about the worst bill I ever heard of.

Mr. Wexler. The objections that we have raised are only to a small part of the bill. There are a great many excellent features which we have not referred to.

Senator Reed. I am getting interested in knowing what some of them are.

Mr. Wexler. We will get to that subsequently. It is merely a matter of policy that I am referring to in regard to getting these banks with you in this proposition.

Senator Hitchcock. You answered Senator Reed's question, but there is still another question I would like to have cleared up. Is this merchant in Atlanta buying a draft for the payment of his bill? As I understand it, he buys a draft on the St. Louis bank and it is sent to the wholesale house in St. Louis, and the wholesale house in St. Louis takes that $10,000 draft and deposits it, say, with Mr.
Forgan’s bank in Chicago, and Mr. Forgan’s bank deposits it with the reserve bank located in Chicago. Now, he has deposited a draft drawn by an Atlanta bank upon a St. Louis bank.

Mr. Wexler. Yes, sir.

Senator Hitchcock. Are you willing to have that received at par?

Mr. Maddox. The provision we recommended did not contemplate that.

Senator Hitchcock. That is what I want to get clear.

Mr. Maddox. The transaction that you refer to could be very much simplified under our provision. The gentleman doing business in St. Louis could come to a bank in Atlanta in order to pay the merchant in St. Louis for a bill of goods. There would be no reason under our provision for him buying a draft on St. Louis. He would simply buy the bank’s draft on the regional reserve bank in our district, which would go at par in St. Louis.

Senator Hitchcock. You are the bank in Atlanta. His bank in Atlanta is privileged to keep a part of its reserve not only in a reserve bank but in a private national bank, and it may prefer to draw its draft on that bank. So that is bound to occur. What I want to clear up is whether your association objects to having the draft of one bank upon another bank received at par by the regional bank.

Mr. Maddox. I do not think that that would be wise. I think the regional banks of those districts—there could be no reason why a bank in Atlanta would draw a check on a bank in St. Louis if it could draw a check on the regional bank and have it cashed at par in St. Louis to accommodate its merchant.

Senator Hitchcock. It might be either. It might be that the bank in Atlanta had $20,000 in one of the national banks in St. Louis, and it might have a small amount——

Mr. Maddox. It would still draw its draft on the St. Louis bank and ask the St. Louis bank to send its check on the St. Louis regional bank, which would immediately go at par in the Atlanta district. That is exactly what you say.

Senator Hitchcock. Your answer is that your association objects to having the draft of one bank on another bank received at par by the reserve bank?

Mr. Forgan. We do not object to any check being received at par.

Senator Hitchcock. You advise against it?

Mr. Forgan. No; we do not advise against it. What we object to is the removing of the charges made by these small country banks at the present time, and that is all. These transactions that you are giving as an illustration would all go at par now.

Mr. Reynolds. We are perfectly willing to have that.

Mr. Maddox. The removing of the charges made by the small country bank is the objection.

Senator Hitchcock. Is the check of the individual on the country bank?

Mr. Maddox. That is the interest of the country bank in it, and that is the objection; and as they number 63 per cent of all the national banks, you can see at once if they do object it would be very serious.

Senator Hitchcock. I understood you to object to a draft by one bank on another bank because you could not tell if it was good. And one bank might not have a balance.
Mr. Maddox. All objections along that line are not insurmountable.

The Chairman. Mr. Maddox, do you interpret the language of the bill with reference to individual checks and not bank checks?

Mr. Maddox. What was your question?

The Chairman. I asked whether or not you construed the language of the act as found in the last paragraph of section 17, to which you have been referring, as intended to par private checks on individual banks, or whether it related alone to checks of member banks?

Mr. Maddox. The paragraph reads:

It shall be the duty of every Federal reserve bank to receive on deposit, at par and without charge for exchange collection, checks and drafts drawn upon any of its depositors, or by any of its depositors upon any other depositor.

That is, any bank.

The Chairman. They are exclusively banks, are they not?

Mr. Maddox. Yes.

The Chairman. Therefore this section relates alone to checks on banks and on member banks?

Mr. Maddox. No, checks upon any member.

The Chairman. Upon any of its depositors?

Mr. Maddox. Depositors, when members; no depositor can be a depositor without being a member.

The Chairman. Therefore it only relates to member banks?

Mr. Maddox. Absolutely—on checks on members, Mr. Chairman.

The Chairman. I see the point you are making.

Mr. Wexler. If our bank gets a whole lot of items from its customers, drawn on little country banks, and we take—

The Chairman. You do not object to checks of member banks being taken at par upon another member bank or upon any regional bank?

Mr. Wexler. Not at all.

Mr. Maddox. Mr. Chairman, the other subject is the question of the savings feature of the national banks. You will see from the printed report that there is a long provision controlling the savings departments of national banks.

Senator Hitchcock. What section is that?

Mr. Maddox. Section No. 27.

The Chairman. Page No. 29.

Mr. Maddox. The provision seeks to control the savings deposits of national banks, and after a very full discussion of that feature, it was unanimously suggested that the provision be stricken entirely out, and no further recommendation in regard to savings banks than at present; in other words, to permit the national banks to continue to operate their savings department at present under the ruling of the comptroller.

At the recent convention of bankers in Chicago a resolution was unanimously adopted urging Congress not to incorporate in their new banking and currency bill section 27, covering savings departments of national banks, but recommended that the national banks be permitted to continue to operate this feature of their business as at present.

The last annual report of the Comptroller of the Currency showed that of the 7,397 national banks, 3,268 had savings departments, and that 2,709,048 depositors had to their credit $748,247,183, or an average deposit of $276.20. The savings deposits in the national
banks is less than 12 per cent of the total deposits in all national banks.

In the 25,195 banks in the United States in 1912 there was deposited $17,024,067,000, exclusive of bank deposits. Of this amount there were $8,406,192,000 in savings deposits, showing that of the total deposits in all the banks in the country 38 per cent consisted of savings.

Out of the 25,195 banks in the country the 7,374 national banks held practically one-half of all the individual deposits, while only 630 mutual savings banks held 55 per cent of all the savings deposited in the Republic.

The amount of savings deposits per capita in the United States in 1912 was $67.77, and for each geographical section was as follows:

<table>
<thead>
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<th>Geographical Section</th>
<th>Amount</th>
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<tbody>
<tr>
<td>New England States</td>
<td>$237.00</td>
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<tr>
<td>Eastern States</td>
<td>129.23</td>
</tr>
<tr>
<td>Pacific States</td>
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<td>9.89</td>
</tr>
<tr>
<td>Western States</td>
<td>8.56</td>
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The average dividend of the national banks upon their capital and surplus last year was less than 7 per cent.

Senator Hitchcock. Is that for savings banks strictly?

Mr. Maddox. All savings accounts.

Senator Hitchcock. It is not for building and loan associations, is it?

Mr. Maddox. I took that from the comptroller's figures. I presume he figured it in that way.

State institutions doing a savings business in some of the States of the country are required to segregate savings deposits, and the law specifies into what investments they shall be placed. The wisdom of this method of handling savings accounts has been discussed by the officers of State banks, trust companies, and national banks at their various State and national conventions for several years, but owing to the rigid rules and regulations controlling national banks, it has not been thought necessary to apply this system of segregation of deposits and further regulation of investments for the savings deposits of national banks.

While the mutual savings banks have by far the larger part of the savings of this country, they operate principally in the larger cities, and the State banks and the national banks in other sections have opened savings departments in order to encourage saving and accommodate their customers, and they have attracted many deposits which otherwise might have been hoarded. The operation of a savings department provides an incentive to thrift and brings to the community an increased supply of capital and therefore benefits the banks and the people by furnishing increased deposits available for loan.

The opening of the United States postal savings banks has brought out $25,000,000 from persons who were too timid to let their funds run through existing banks into the channels of trade, and has proven to be a wise movement on the part of the Government.

It has been generally believed that about the best asset a bank can have is a good short-time paper made by a solvent individual or corporation. It is upon this class of paper we are about to base the
new circulating notes of the Nation. It is into this class of paper that the national banks have largely invested their savings deposits and against which they have carried the reserve required for demand deposits.

While in New England, New York, and Pennsylvania the local securities may be attractive for investment of savings funds, their low rates of interest are not so attractive in other sections. In Massachusetts, with its $800,000,000 in mutual savings banks, it is said that 90 per cent are invested within that State.

In Michigan 51 per cent of the savings must be invested in mortgages and bonds, 15 per cent held as reserve and the remaining 34 per cent may be invested as the directors see fit. In Massachusetts one-third may be invested in commercial loans and the remainder held in cash or mortgage loans.

While there are but few reasons for national banks segregating their savings deposits, we believe there are none why they should be forced to purchase bonds and mortgages. The investment question is purely a local one and what might be practicable in one section would be wholly impracticable in the other. We believe the requirement to set aside 20 per cent or one-fifth of the national banks' capital for their savings department and to require that such an amount shall be invested in bonds and mortgages is especially burdensome, as the banks now pay full taxes on this amount to the State, city, and county. We believe that the restriction as to the purchase of bonds of cities with a minimum population of 25,000, and also limiting the list of bonds of cities to those having bonds outstanding of only 5 per cent of their assessed valuation, will force the banks to purchase bonds of a very few cities. The interest on bonds of the United States and the different States is so low that there would be but little margin, if any, between the rate of interest paid savings depositors and the available income from such investments.

While this section of the bill does not so specifically state, it is presumed that the savings depositors will rely upon the segregated assets of that department, or will have a first claim on those assets, and if there is a deficiency they will have a further pro rata claim upon the other assets of the bank. We have seen in the recent past a great decline in the market price of bonds of all kinds and especially those which are available for use in savings banks, while commercial paper is still worth its full value.

If to meet a heavy demand on the savings department of the national banks in times of distress, the banks are forced to sell these bonds on a declining market, it would seem that this would likely produce a deficit in the savings department, but if the short-time commercial paper was held it would liquidate the savings accounts at par.

The preference of the savings depositors and the danger above referred to might seriously affect the confidence of the depositors in the commercial departments of the national banks, while all depositors are now mutually sharing responsibility in the solvency of the institution.

The bill proposes that about $750,000,000 now on deposit in national banks and doing their full duty to facilitate trade by being turned over three or four times a year in the currents of commerce shall be withdrawn from that service and locked up in long-time
bonds and mortgages. Business would be shaken as credits were withdrawn. Loans would be called and the borrowers would be forced to make loans elsewhere. There would be a hardening of rates, and many sections of the country would be seriously affected.

The demand for money in the United States has grown in proportion to its commercial development, which has been astonishing in the past two decades. The growth of the South and West has been wonderful, and these two splendid sections of our country are now throbbing with new life. The banks in those sections, aided by banks in the North and East, are doing much to promote this condition of agricultural and commercial activity, and their efforts have added to the credit and glory of the Nation.

To force the national banks to withdraw the amounts of their savings deposits from their present investment and convert them into bonds at this time would be hurtful, and we believe it is unnecessary. It would reduce the earnings of the banks, curtail credit, and the wage earners, who are the principal savings depositors, would certainly suffer. It would mean that large amounts would be withdrawn from the communities where they have been earned and taken to the large cities of the East or Middle West to find the character of securities prescribed in the new law. It would mean that the rate these investments now earn in the channels of commerce would be materially reduced if they are converted into low-rate bonds and mortgages. The banks would be compelled to reduce the rate they are now able to pay in their savings departments, or it would mean that the profits in the commercial side of the bank would have to go to make up the loss in the savings side.

The withdrawal of the loans from the customers of the national banks to meet the new law would force many of their patrons to other State banks and trust companies, which are now permitted to invest their savings deposits in commercial paper. In certain sections it would be impossible for the great mass of merchants and business men to obtain sufficient accommodation for their business in their own State.

At present, by encouraging the wage earner to save a portion of his earnings and deposit it in the home bank, the bank is enabled to again put it back, through loans to the merchant and manufacturer, into the business from whence it came and enable them to continue to pay the wage earner and by this process keep the wage earner busy and thrifty and keep the wheels of commerce moving.

To take the wages of the workingman out of the community where it was earned and where it is needed for commercial purposes and purchase bonds and mortgages in other parts of the country is a direct restraint of local development.

So far as we know, there is no demand from the savings depositors in the national banks to have their deposits segregated and the investment of their funds restricted to bonds and mortgages.

The present splendid law regulating the operation of national banks and the rigid governmental supervision of their action has given to the country a safe system of banking, protecting the depositor and benefiting the people.

We believe that the officers and directors in control of the national banks of the country can be trusted to continue to carefully safeguard
the interests of all their depositors; for their interests are mutual and inseparable.

The national bankers of this country have played an important part in the upbuilding of our Republic and are a credit to the Nation. They are as patriotic as can be found in any other profession, and as few have been found unfaithful to their trust as have been found in the other walks of life. The continued prosperity of our country is of vital interest to the bankers, not alone because they are bankers and have other large outside investments, but because they are Americans. Their interest in this bill and their presence here today is but an evidence of their patriotic and unselfish desire to assist as best they can, through their practical experience, in framing a banking and currency bill which will meet the needs of the Nation and promote the prosperity and happiness of all our people.

Senator Reed. Mr. Maddox, that is a very beautiful and inspiring peroration, and I congratulate you, but I would like to know how you make it jibe with the remark of the gentleman quoted by Mr. Wexler, who said—

Let us have our exchanges though the Government fall.

Mr. Maddox. He probably was not included in the class I referred to. There are some patriotic bankers, I believe, in this country.

The Chairman. Mr. Maddox, what is the present actual cash reserve against the savings deposits of the savings banks of the country?

Mr. Maddox. Well, I think that varies in different sections, Senator.

The Chairman. Take it as an aggregate.

Mr. Maddox. I am not prepared to answer that—the total reserve required.

The Chairman. I think it can properly be said to be 1 per cent cash.

Mr. Maddox. I know in some States that it is very small.

The Chairman. Can you give the average of the distinctively savings banks of the country? I say that it is 1 per cent cash, while the reserves of the national banks at present is 25 per cent cash in the central reserve cities, 12½ per cent cash net in the reserve cities, with 12½ per cent as open accounts with reserve stations in the central reserve cities, and 15 per cent for the country banks, although the country banks carry 25 per cent of actual deposits.

Mr. Maddox. Yes, sir; they carry the same reserve now.

The Chairman. I was going to ask you this question: If it would not be feasible as to the savings deposits of the national bank system to require against the savings deposits a small amount of cash reserves, since the savings deposits are peculiarly stable in character?

Mr. Maddox. I think it would. The objection the banks make at the present time—and I mean the savings deposits of national banks. There are a large number of them in the large cities, but they are mostly in the smaller cities. I am not prepared to give the figures as to the section, but I do know that in some of the southern cities they have developed good savings banks and the amount brought back into the channels of commerce.

The Chairman. If they were required to have a smaller cash reserve most of these savings departments would release a portion of the capital for the service of the country.
Mr. Maddox. I think they would. I think if the national banks were allowed to carry a smaller reserve in their savings department it would be a distinct improvement.

The Chairman. Would you think it advantageous to the national banks to carry these savings accounts now, to permit them to use a part or a considerable part of these savings deposits for loans upon farm mortgages?

Mr. Maddox. Well, I think that the national banks, some of them, would like to invest their money probably on real estate loans, but they would not like to be told to do that.

The Chairman. I mean, of course, if they are given permission to do that, which now they do not have. You think it would be well to give them that permission?

Mr. Reynolds. I think if you reduce the commercial deposits and then allow them the privilege that it would be a good thing.

Senator Reed. Do you restrict that answer of yours that you just made to the savings bank departments; that is, the savings departments where they receive money for a stipulated period of time?

Mr. Maddox. Yes, sir.

Senator Reed. And you think that department could properly engage in loaning money upon farms or other real estate?

Mr. Maddox. Well, in some sections it might; in others they might prefer to continue to loan on commercial paper.

Senator Reed. Do you think it would be proper for them to have that authority?

Mr. Maddox. I think they ought to. I think national banks should be permitted to make loans on real estate if they so desire.

Senator Reed. How about a bank that did not have a savings department?

Mr. Maddox. Well, that is a very much mooted question. Some national bankers think it ought to be confined to commercial paper and others think they ought to be permitted to loan on real estate. In my own State I do not think that if that permission were granted the national banks would make any loans on real estate.

Senator Pomerene. That, of course, depends on financial conditions in the particular community.

Mr. Reynolds. Mr. Chairman, may I have just one word? In this connection the employment of savings deposits must be looked at from two different standpoints; first, the standpoint of the benefit to the local community which has just been outlined by Mr. Maddox. But there is the other theory, which prompted, no doubt, the writing of the original bill, was for the protection of the savings bank depositors on account of the business of loaning money in the banking business generally, because of the inability to discriminate between good and bad banks. I think those are the two points and I think they ought to be both borne in mind in the formation of this bill.

Senator McLean. These savings bank departments generally exercise the privilege of notice—require notice?

Mr. Maddox. Nearly all of the savings bank departments, I think, have that provision in their savings book. But of course you can understand that it is very seldom that that is ever taken advantage of.

Mr. Reynolds. They could not do it under the law.

The Chairman. Are there any other questions, gentlemen?
Senator Weeks. Speaking of reserves on savings bank deposits, do you think it of any great importance whether there is any material reserve or not in a community where there are banks where they can obtain the cash for their daily transactions?

Mr. Maddox. I think it would be an advantage to the banks if the savings department could carry a little less reserve. In some States this reserve constitutes a large proportion of the total receipts. At present under the national banking law they are required to carry 16 per cent reserve.

Senator Weeks. Savings banks in Massachusetts do not have to carry any reserve whatever. They simply have to have a daily balance on hand to take care of the current business.

Mr. Wexler. Under the law of Louisiana we are required to carry 5 per cent.

Senator Weeks. I move, Mr. Chairman, that we adjourn to meet at 11 o'clock to-morrow morning.

The Chairman (after putting the motion). The motion is carried, and the committee will now adjourn to meet to-morrow morning at 11 o'clock.

(Thereupon, at 5.20 p. m., the committee adjourned to meet to-morrow (Friday) morning at 11 o'clock a. m.)

FRIDAY, SEPTEMBER 5, 1913.

COMMITTEE ON BANKING AND CURRENCY,
UNITED STATES SENATE,
WASHINGTON, D. C.

Present: Senators Owen (chairman), Hitchcock, Shafroth, Nelson, Bristow, Crawford, McLean, and Weeks.

The Chairman. I wish to say to the members of the committee, and to those whom we have expected to hear this morning, that there is a conference going on now of the members of the Democratic Party in the Senate, which may take some little time; but I think that the committee may proceed with the hearing, with the understanding that when the full membership of the committee is present—or when we certainly have a quorum present—those gentlemen who are making statements before the committee will be available for cross-examination. If that is agreeable to the committee we will proceed.

Senator Bristow. I suppose that is the best we can do, Mr. Chairman—unless we postpone the hearing.

Senator Weeks. I think that will be all right, Mr. Chairman.

The Chairman. Then we will proceed. Mr. Wexler, Senator McLean would like to ask you a question.

Senator McLean. Yes; I would like to ask just one question.

Mr. Wexler. Yes; certainly.

Senator McLean. I think one of the members of your committee the other day said that, no matter what bill might be finally passed by Congress, he thought that, owing to the condition of credits in February and March, it would be a better time to adjust the banking and currency system of the country by the proposed currency legislation than at any previous time.
And I want to ask you, if you could get this bill amended as is suggested by your committee, would you prefer to have it become a law immediately (or as soon as possible), or do you agree with the gentleman who testified the other day that there is a time in the spring of the year when this revolution in the system could be better adapted to conditions than at present?

FURTHER STATEMENT OF SOL. WEXLER, OF NEW ORLEANS, LA.

Mr. Wexler. My answer to that question would be this: That even if the bill were adopted at the present time with these suggestions embodied in it it would probably take several months before the organization would be sufficiently complete to have the bank in proper operation to do business, and we have been striving for banking and currency reform for so many years, and we feel that we are probably nearer to it now than we have ever been, if the amendments that we have suggested should be adopted by your committee and passed upon favorably by the Senate and become enacted into law, that we think it would be better not to take the chance of anything happening to prevent the legislation by deferring it until some months after date.

It is a fact, of course, that money is easier, under ordinary circumstances, in the spring than it is in the fall; but, after carefully working over the figures to see just how this will work out if these amendments are adopted and the bill passes with the suggested changes we have made, we do not think it will give us any trouble whatever in paying over to the Federal reserve bank the necessary capital and the necessary reserve.

Senator McLean. Well, would the enactment of the law by the 1st of January next be as satisfactory as it would to have it enacted the 1st of November?

Mr. Wexler. If we are certain to have it enacted, I do not think the matter of two or three months makes any difference at all.

Senator McLean. Well, in the event that these amendments are approved by the committee? But you must anticipate the enactment of this bill as reported to the House. What would you have to say as to the wisdom of immediate action?

Mr. Wexler. Well, I should think that it would be very advisable for the Senate to defer action upon a bill as imperfect as that bill is; because if they should decline to accept our suggestions and should pass the House bill as reported by the House committee, you would simply have a shell; you would have a bill that would never come into operation, because the banks would not go into the system.

Senator McLean. But suppose you have got to go into it?

Mr. Wexler. Do you mean assuming that the bill will pass in its present form?

Senator McLean. Yes; we are assuming that this bill, as reported by the House committee, should become a law?

Mr. Wexler. Yes.

Senator McLean. What would you say as to your preference in the time of its beginning to operate?

Mr. Wexler. Well, I can not conceive of the bill ever coming into operation in that form, even if you pass it. You can not make the
18,000 State banks come into it, and you can not make the national banks come into it; consequently, you will not have any banks in it. You can pass all the bills you like; but if you do not have a sound bill, you have nothing but a bill; you have not got a bank.

And I can not answer that, because I know that if you pass the House bill without these changes which we have suggested, you will not have any bank. I am willing to stake my reputation on that proposition, that you will not have any Federal reserve bank, because you will not get any contributions to its capital. Therefore we need not argue on that point.

Now, going back to the other questions, as to passing the bill with the suggested amendments, if you are absolutely certain, or reasonably certain that you can pass a sound currency bill in January, and if you are not taking any risk of not being able to handle Democratic Representatives as well in January as you could now upon a measure of this kind, why there is no objection to its going over to January. But if there is any danger on that score, I would rather see a sound bill passed now.

Senator McLean. Well, Mr. Wexler, I think it is a supposable thing that you may have to accommodate yourselves to the bill as reported to the House. I think that is supposable. If you will try to assume that such a thing is possible, I would like to have your views as to your preference as to the time it should go into effect.

Mr. Wexler. Well, admitting then, that we will be compelled to enter under any system that may be devised in such bill as you might pass, then I think the longer you could put it off, the better it would be.

Senator McLean. That is all.

The Chairman. Are there any other questions the members of the committee desire to ask?

Senator Bristow. Just let me ask Mr. Wexler a question, Mr. Chairman.

The Chairman. Certainly, Senator Bristow.

Senator Bristow. Would you prefer that the bill which has been reported to the House should pass rather than to have no legislation at all?

Mr. Wexler. I would prefer no legislation at all.

Senator Bristow. You would?

Mr. Wexler. Yes, sir; simply because I do not think the banks would come into it, and it would be a wasted effort, and an opportunity lost of getting what the country really needs.

Senator McLean. You base your opinion upon conditions in the South, largely?

Mr. Wexler. Upon conditions in the South and upon the conversations I have had with bankers all over the country. I have been identified with banking reform for about eight years very actively.

Senator McLean. But you are exceptionally well informed as to conditions in the South?

Mr. Wexler. I am. I do not think the bill as reported out of the House is a workable bill. There are a number of features connected with it that are not workable.

Senator Hitchcock. Is some member of your committee of bankers going to explain why the bill is not workable?
Mr. Wexler. Why, all the objections we have raised and the changes we have recommended have been in the direction of making the bill a workable bill; they are based upon that idea largely. And if I might ask a question, the point was raised that we might be compelled to enter into any system, irrespective of the merits of the bill which might be adopted. Have you ever considered whether you could compel the banks to enter such a system?

Senator McLean. Well, no; I do not think that is necessary to reply to the question I asked.

Mr. Wexler. No; but it just raised my curiosity. I thought you might have in mind some way by which this could be made operative, whether the banks wanted it or not.

Senator McLean. No.

Senator Hitchcock. Suppose the subscriptions to the bank were thrown open to the public; and the subscriptions of the banks were not absolutely necessary to the success of the measure, what would be your judgment as to the establishment of the bank?

Mr. Wexler. Well, of course, the Government would have the power to go into the banking business in competition with the 24,000 or 25,000 banks that are now doing business; and there would be nothing to prevent their doing so. But we are perfectly willing to stand that competition. We believe we can hold our own against it, and we believe that we could survive a bank of that character, and that its competition for such a length of time as it was in operation would not injure our business to such an extent that we could not recover. In other words, we are willing to take our chances.

Senator Hitchcock. But that bank would not be in the general banking business, but would only be a bank of banks; that is, receiving banks' deposits and granting credit to other banks.

Mr. Wexler. But, suppose the banks would not do business with it? You could not compel us to do so. You could drive us to the trough, but you could not make us drink.

Senator Hitchcock. Well, is it your opinion that the banks would not rediscount your paper with such an institution if they wanted additional funds?

Mr. Wexler. Well, if the proper facilities were offered, they might do so—if the bank was properly managed and in proper shape to do business.

Senator Hitchcock. Is it not a fact that all the central banks of Europe are entirely independent of the commercial banking system?

Mr. Wexler. They are independent of it; yes.

Senator Nelson. Still, they do a commercial business; the Bank of England does a commercial business.

Senator Hitchcock. Yes; they do a commercial business, but it is not as large as that of the commercial banks. In fact, I understand that the Crédit Lyonnaise is larger than the Bank of France, so far as the deposits are concerned, and commercial business.

Mr. Wexler. Yes; very much larger.

Senator Weeks. Going back to that subject which you discussed of the directors of reserve banks. There are three characters—class A, class B, and class C—appointed by the Federal reserve board, one class of three elected by the banks in that district, and the other class of three elected from the business element?

Mr. Wexler. Yes.
Senator Weeks. Now, it is the last three over which there is a contentition. You bankers desire to have those men so elected that they will be familiar with banking matters and in a sense represent the banking community.

The idea of the bill as it now stands would seem to imply that they should be entirely independent.

Now, could not those three directors be elected so as to answer both objections in this way: Have three directors appointed by the reserve board, three elected by the banks, and those six select three men from the business community who are not in any way connected with banks, or banking, or owners of stock in banks, or having any other affiliations than any business man would have in any community?

Mr. Wexler. I don’t think there would be the slightest objection to that. The objection that we raised was as to the right of the Federal reserve board to remove, at their pleasure, these three men whom we have elected to represent the agricultural and commercial interests. We did not object to their personnel; we did not object to the class of business which they represented. We merely objected to the right of the Federal reserve board to remove them.

Now, the method which you suggest for electing them, would suit the banks throughout the country just as well as the method provided in the bill.

Senator Weeks. Well, you think that would give a fair and impartial board do you?

Mr. Wexler. I do.

The Chairman. Are there any other questions, gentlemen? The Senator from Kansas.

Senator Bristow. I have got an impression from the hearings—it may be erroneous, but it is my impression—that your principal objection to the bill is that it does not give the banks a representation on the Federal reserve board of their own selection?

Mr. Wexler. Yes, sir.

Senator Bristow. And you ask that you be permitted to name three of the seven. And you also maintain that there are too many regional banks—that there should be 5 instead of 12; and I got the impression that these two were the major objections that you had; that the others were matters of detail and of less consequence?

Mr. Forgan. No, sir; there are two gentlemen who are going to address you now on two other serious objections, or rather, as soon as they get the opportunity. They are here for that purpose.

Senator Bristow. Well, we will hear them upon the subject.

Senator Nelson. There are two other serious objections. One is compelling the banks to become members of the regional reserve banks, and the other is compelling one regional bank to discount for another, whether it wants to or not.

Mr. Forgan. Then there are two other objections still to come that have not been brought out.

Senator Bristow. Well, your objections to compelling banks to become members whether they want to or not is dependent, is it not, upon your ability to have these three representatives on the central board? If you have three representatives on that board you would not object to that, would you?

Mr. Wexler. Yes; we would.
Senator Bristow. Would your objection be just as serious?
Mr. Wexler. Yes, sir.
Senator Bristow. Even if you had representation on the board?
Mr. Wexler. Yes.
Senator Bristow. I had not gained that impression.
The Chairman. Mr. Wexler, the committee has been carefully attending the objections that have been raised to the bill. I will ask you, before you leave, if you observed anything in the bill that was meritorious?
Mr. Wexler. Yes, sir. I observed a good deal in the bill that is meritorious.
The Chairman. I should be glad to have you enumerate the points which you think are meritorious.
Mr. Wexler. Mr. Chairman, do you want that now, or would you not rather wait until these two other gentlemen—Mr. Reynolds and Mr. Hill—of our committee have finished their discussion. I have had a great deal to say upon the subject that has been allotted to me; but if you desire me to go into this question after they have finished I will be very glad to do so.
The Chairman. Will you be still available for that purpose at that time?
Mr. Wexler. Yes, sir; and very glad to do it.
Mr. Forgan. Mr. Wexler is to appear before you again.
Senator Nelson. Before you start in I just want to call the attention of all of you to this: Do you not think it is a good feature in the bill that no interest is paid on deposits by regional banks?
Mr. Wexler. Excellent.
Senator Nelson. And do you not think that it will be a good plan to carry it further and provide that the other banks should not pay any interest on bankers' deposits?
Mr. Wexler. Well, if the law passes as drawn, we would not have any deposits from banks to pay interest on.
Senator Nelson. I mean why would it not be a good thing to provide that banks in reserve cities or central reserve cities should not pay any interest on deposits of other reserve banks?
Mr. Reynolds. For the simple reason that the reserves are fixed——
Senator Nelson (interposing). I do not mean just the reserves, I mean all bankers' deposits, whether they were reserves or not.
Mr. Wexler. If you would reduce the requirement as to the reserve, I would subscribe to that theory; otherwise I would not.
Senator Nelson. Are you aware of the fact that after the panic of 1873, resulting in the Cook failure, the clearing house of New York had an investigation thoroughly made into that panic, and one of the chief reforms that they recommended after that investigation was that there should be no payment of interest on deposits, and that the majority of the banks coincided in that report; but there was a small fragment that would not agree to it, and hence it could not be carried out?
Mr. Forgan. I think we are about in the same position.
Senator Nelson. Now, as you gentlemen here are public-spirited enough to want to assist the public, why not apply the same principle of payment of interest to your banks that you would apply to reserve banks?
Mr. Wexler. Senator, we are in the position of paying interest, and not receiving interest, and it is the small country banker who carries his account with us who gets his interest.

Mr. Reynolds. We are not the men who receive interest on deposits, but the men who pay interest on them.

Senator Nelson. I will, by and by, call your attention to some other things in connection with this. I want you to discuss the good things, and I want you to be a little unselfish and say what you think we ought to do in the way of reform, not merely what you want to do.

Mr. Forgan. If we could get the deposits—

Senator Nelson (interposing). And was it not from bad banking, rather than from bad currency legislation, that we had the financial panic of 1907?

Mr. Reynolds. It was from both.

Mr. Wexler. Yes; from both. We had not the machinery to check the panic when it occurred. That made the panic. If we had had the proper machinery, we would not have had the panic.

STATEMENT OF GEORGE M. REYNOLDS, PRESIDENT CONTINENTAL AND COMMERCIAL NATIONAL BANK OF CHICAGO, ILL.

Mr. Reynolds. The question of good or of bad banking can not alter or be applied to public opinion, and public opinion, in times of depression, is the difficult thing with which the banks have to contend.

Senator Nelson. Do you not think that that panic of 1907, which leaves a bad taste in our mouths, because the country was prosperous, and it came like lightning in the midst of a sunny day; it came upon the country right there from New York, and the money interests were to blame for it, and not the law?

Senator Hitchcock. Mr. Reynolds, do I understand you to say that the Chicago National Bank receives no interest upon the balances of their deposits in New York?

Mr. Reynolds. I did not say that; but the balance upon which we get interest is very small, compared with the balance upon which we pay interest.

Senator Hitchcock. Oh, yes, I see your meaning.

Mr. Forgan. If the suggestions should be carried out that there should be no interest paid upon any bank balances, the First National Bank of Chicago would be saved an expense of $1,200,000 a year.

Mr. Reynolds. It would save us an expense of over $2,000,000 a year; and you can readily see that we would not object if it could be put into operation and operate fairly with us as compared with everybody else.

The Chairman. Mr. Reynolds, would the passage of an act of that character, providing that banks should not pay interest on deposits, would that interfere, do you think, with the deposits which you have, in any material way?

Mr. Reynolds. I could not say that it would interfere so much with deposits in centers like New York, or Chicago, or St. Louis, as it would elsewhere. But there is one thing which must be borne in mind in connection with this problem, as well as every other problem;
and that is, that any system which is economically expensive, the expense must be borne by the public.

Now, if you take away from the banks of the country the right to draw $10,000,000 interest on their balances with their reserve correspondents—as they are doing to-day—and give them nothing to compensate them for that, either in the way of reduction of reserve requirements, or something else which would bring them some profit, then the rates of interest will have to be increased proportionately to give them a moderate return upon the investment in the capital stock of various banks, which will result in higher rates of interest, which in turn will increase the cost of living that we hear so much about.

All principles must go back to the people, and it makes no difference whether it is beneficial to the banks or otherwise in its effect it must work back to the masses.

Senator Nelson. Now, let us go back to the practical ideas. Is it not a fact that when money is plentiful in the interior of the country the country banks and the banks in the reserve cities send the money to New York, to the banks in New York, for the sake of getting their 2 per cent interest on the deposits? The banks in New York, at that season of the year, in order to utilize that money and make that interest, instead of investing it in what I call commercial loans or commercial strictly they invest it in call loans on stock collateral on the stock exchange, in those gambling contracts; and there is where the money comes from to do that. And then, in the fall of the year when there is a demand for the money in order to move crops and so on, their money is tied up in those stock collateral.

Now, would it not be safer to keep that money at home instead of getting that 2 per cent interest on it—would it not be better for the whole country?

Mr. Reynolds. I do not think, Senator, there is any question about that at all. That does not, however, change the force of my statement to the effect that it would reduce the income of the banks from their present status of a little over $10,000,000 a year, which must be borne at some place by somebody else. Now, if you want to ask whether, as a principle of economy, if it would be better to take that $10,000,000 and spread it in higher interest rates which the people would have to pay, that is another proposition.

Senator Nelson. Well, would it not be better, so far as the question of safety is concerned?

Mr. Reynolds. I do not think there is any question about that.

Now, let me in the same connection make a statement as to how I regard this thing of the investment in the so-called stock exchange loans. If that money would be kept at home, Senator, and be invested by the local bankers in such loans as they can get over their counter, the liquidity of the assets of banks to that extent would be reduced, because I think you will agree that if the farmers of the country borrow this money and are called upon to pay it back before their crops have matured or before their live stock has been fattened for the market, it could only be done at a sacrifice.

Now, the whole tendency of sending money to New York for loans upon stock-exchange collateral is not because the banks of the West want to do it, but because, under existing conditions, it is the only
place to which they can go and invest their money in a class of paper
that can be collected immediately upon call.

Senator Nelson. Now, let me read you here from Mr. Sprague's
report from the monetary commission upon the panic of 1907:

Among the many lessons which may be drawn from the study of the experience of
the national banks during the crisis—

And then he goes over the crises of 1873 and 1893, and then comes
to this crisis—

The entire absence of liquidness and call loans, so far as the New York banks are
concerned, is the most certain, and by no means the least important. And out of a
total loan of $63,000,000, the call loan account was $54,000,000, and, furthermore, the
time loans with collateral securities were stock exchange loans, to the extent of
$4,000,000. The only kind of loan which was reduced at all was the ones of the variety
of commercial loans, a time loan on paper with a single individual.

Now, during the panic the call loans were not reduced; it was the
commercial loan which was reduced.

Mr. Reynolds. I agree with that as to the commercial loans.
And in order that I may be understood clearly, let me state that it is
a fact that the institution with which I am connected makes no loans
in New York upon stock exchange collateral, either on call or on time,
with the exception of very minor loans occasionally, where it is done
for some particular purpose.

I might say that during the past six or seven years we have never
had more than $1,000,000 or $2,000,000 loaned in New York at any
one time against stock-exchange collaterals, very largely for the rea­
son, first, that we can not afford to; the rates are low. And secondly,
for the reason that commercial banks in my city, almost uniformly,
try to employ their money in commercial enterprises in an effort
to develop the commercial and industrial enterprises of the com­
munities from which we draw our money.

Senator Nelson. Mr. Reynolds, do not understand me as charging
your Chicago banks with the responsibility for that condition. I
think you are immune. The guilt is at the door of the New York
banks.

Mr. Reynolds. But I want to put what I say as forcefully as I can,
because I am not interested in it, personally, one way or the other.
Applied to normal times, the statement you have made is literally true,
because the man who borrows money on stock-exchange collaterals in
New York, and who wants to realize on them quickly, must depend on
the ability of the borrower to reborrow that money immediately else­
where or upon the sale of same. Now, if the condition is so bad that
the banks of New York City are unable to extend the accommoda­
tion, the result is that there is a very violent break in the values of
securities, and we are in the midst of a panic.

Senator Nelson. Yes.

Mr. Reynolds. Now, that is what actually happened in the panic
of 1907; and the illustration you have made is literally true; and that
is the reason that in all the discussions I have had on the subject of
currency legislation I have insisted that the security for bank notes
should be in a character of paper which naturally liquidates itself,
and thereby forces to that extent notes which are issued against it.

Senator Nelson. You are undoubtedly right. Now, you remem­
ber that in the panic of 1907—excuse me for interrupting you.
Mr. Reynolds. You are perfectly free to do so. That is what we are here for.

Senator Nelson. In the panic of 1907 we imported nearly $100,000,000 of gold. I think it was some ninety-odd million dollars of gold, between ninety and one hundred million. How did we get that gold? We did not get it on financial bills; we got it on commercial bills; we got it on commercial bills accompanied with bills of lading, and it was American wheat, American flour, American cotton, and the commodities of our country which brought this ninety-odd million dollars worth of gold into the country.

Mr. Reynolds. Yes, sir; that is true.

Senator Nelson. And in addition to that our banks during that time—there was a suspension of 2 months and 10 days—increased their circulation some fifty-odd million dollars, and the Treasury deposited fifty-seven-odd million dollars in the banks. Four million dollars went to New York and was used for the stock-exchange loans, and two banks got most of that money.

Ought we not to provide for an emergency like that? Ought we not to legislate for panicy times and meet that situation when it arises? In easy, good times we do not need any law.

Mr. Reynolds. I think that is what you contemplate in your bill here. As bankers we do not contemplate that there is going to be a great necessity for a very large expansion of credit, but we regard this as the means to the end you suggest.

Let me take the matter you have just referred to, Senator. What would have been the result in the importation of the gold we have referred to had that panic occurred at a time when our crops were not ripening and had not been harvested? We would have had none of those commodities the exportation of which brought us gold. What would we have done in that contingency?

Senator Nelson. We would have had a hard time to get the gold.

Mr. Reynolds. That is the point exactly; and that is what I submit we should keep in mind in the matter of carrying the reserves in the banks at home. I agree with you fully in the principle, but in the adoption of that principle you must take into consideration the question of credit or exchange and the effect upon business; and you must try to modify the requirements of reserves within the limits of safety always, so that you will not lock up more money than is actually needed.

Senator Nelson. Do not misunderstand me as limiting my question simply to reserves. Most of the banks in the larger cities for exchange purposes—in New York, St. Louis, and Chicago—have the reserves that they are required to carry under the law. I would have this nonpayment of interest apply to deposits of the country banks. These reserve banks are paying interest.

Ought we not to legislate in these piping times of peace and not let this matter drift along until another situation similar to that in 1907 arises?

Mr. Reynolds. What is the cause of the panic? Is not the panic and the hoarding of money always subsequent to an inability of solvent and responsible firms to borrow money? What leads to the hoarding of money and the lack of confidence in times of panic? It is the knowledge of the fact that the best men of the community,
who are known to be financially responsible, are unable to get the credit necessary for the proper conduct of their business. If you provide a proper system of banking and currency, forming the organization through which credit can be extended to any reasonable requirements of business you are going to take away from the banks the liability of that fear which prompts the public to want to take their money out of the hands of the banks and hoard it.

Let me illustrate just a little how that works from the standpoint of the man in the city who carries these reserves. I can do it perhaps better by taking an example from my own business and my own experience during the panic days of 1907. At that time one of my junior officers came to me and said, "One of our customers is here, and he is very boisterous and he is very excited and he says he wants to get what he put into our bank." I said, "Well, there is no trouble about that." He said, "Well, this man is very much exercised, and I think you would better see him," and so they showed the gentleman in.

I said to him, "What can I do for you?" He said, "What is the matter with this bank; what is the reason I cannot get out of this bank what I put into it?" I said, "Why there is no trouble about that. I am sure your idea must be entirely erroneous." "Well," he said, "this is the first intimation that I have had of any encouragement at all along that line." I said, "Sit down, and let us see what the trouble is."

I investigated the matter and found that his bank had $67,000 on deposit with us, and then I said to him, "Very well, we will give you back what you gave us."

I found that in the make-up of that $67,000 there was $13,000 of sundry items payable all over the country in his cash letter just received. Then I said, "By way of doing what I said we will do, here is your letter and your $13,000 of sundry items. Now we owe you $54,000. Now we will prepare a bundle of checks, indiscriminately, because that is the sort of checks you gave us, aggregating $54,000, and we will give them back to you, and we will then have given you what you deposited with us."

He said, "I don't want that; I want the money." I said, "I beg your pardon; your statement was that you wanted what you put into this bank." "Well," he said, "what I want is the money."

I said, "What you want me to do is to let you and your community accumulate these checks, no matter what they may be, and you want to send them to us, and in times of emergency you want me to be a magician and turn these checks into bank notes, because every avenue through which we could hope to realize on them in cash is absolutely closed through public fear and distrust of the banks."

Now, gentlemen, let me first briefly, as I can illustrate what I believe is necessary in considering this legislation. I believe the prime necessity is the passage of a law that will enable me as a banker to exchange these forms of credit sent to me in the natural course of business, and of which we are getting millions every year, into some other form of credit to meet the requirements of the man who makes the deposit. In the first place, a man in the country sells a horse for $100, and I am taking this merely as an illustration. He takes a note of the man who purchases the horse upon the theory that he is not going to need the money; yet a little later on he finds
that he wants to use a part of that money and he goes to the bank and discounts it. He has converted the individual credit into a bank credit for the note upon the books of the bank.

Another process in the exchange of credit of that note into some other form of credit is when he issues his check upon the bank. He is known to be solvent in his community and his check is acceptable there, but suppose he has business transactions away from home. He is not known there and he fears perhaps his check will not pass current because they would not know it would be good. Consequently he goes to the bank and says, “I want to draw my check for your bank draft.” He sends that bank draft to you in Minneapolis or any other city and it is deposited in your bank without any discussion whatever. You in turn have deposited that credit in the bank in Minneapolis or in some other place and you wish to go abroad, and you say, “Your bank draft will not be known there; I want currency for it.” And what do you do? Through these processes you have converted or exchanged that credit through the various forms of credit which it represents into bank notes, which after all are only another form of credit.

If in this legislation you will provide an ability on the part of the bank to make these exchanges of the forms of credit from the nature in which they are deposited at the bank counters into such other forms of credit as the various customers of their banks may require in the daily transactions of their business, you will have solved the whole problem.

Senator Nelson. Excuse me for interrupting you so much. I did not want to break into your statement.

Mr. Reynolds. You do not interrupt me in the slightest.

Senator Nelson. I was merely going to say that you might go on with your statement.

The Chairman. I would like to ask you a question with regard to the panic of 1907. Do you remember whether or not in the months preceding the panic, beginning in January, February, April, May, there was any constriction of credit by the banks of New York City?

Mr. Reynolds. I do not think there was, Senator, except as it was required by their declining deposits.

The Chairman. Would not the constricting of credits and the declining of assets necessarily go hand in hand?

Mr. Reynolds. They must necessarily go hand in hand, but if the ability is not present to extend credit to the community when the community needs it because our reserves are insufficient we must decline to grant that credit or take the chance of having our charters revoked.

At this point I want to impress upon the committee the fact that the bankers of this country are not shirking their duty. As a matter of fact they are taking more responsibility than they have any right to do under the law in undertaking to maintain a free exchange of credit throughout the country, but as bankers we are deeply interested in this and we are very frequently forced either to decline to extend the credit desired or we are forced to make temporary impairment of our reserves. The average banker in a commercial city goes as far as he feels it is possible for him to go consistent with safety to provide the credit necessary, and I think my friend Mr. Forgan will bear me out in the statement that the most worrying thing we
have in the conduct of our respective banks is the floor walking necessary for us to do in our effort to accommodate the public, as we frequently do. We must impair our reserves below the legal requirements, and we are never certain that we are going to be able to meet the full requirements of the community even then.

The Chairman. Was there any voluntary contraction of credit preceding the panic of 1907, as far as you recall?

Mr. Reynolds. No, sir. I am frank to say that in our city the demand for money was not very severe before the 1st of July. In our own institution we had been quite full handed due to the fact that there was a lack of demand for money earlier in the year which had enabled us to make very large investment in commercial paper, so that on the 1st of July, 1907, even though our deposits were only $75,000,000 we had a maximum of $20,000,000 of outside commercial paper. The result of that was that in practical operation during the fall we were able to extend credit to our correspondents almost without censoring the amount. I mean by that without asking them to take a smaller amount than they asked for, so that if the balance they had carried with us was sufficient to justify the loan to the full amount of their application we gave them that amount of money. That was not true with banks generally where they had a larger percentage of borrowing customers, and during the months—I should say the four months preceding the panic of 1907, banks generally were obliged to restrict the granting of credit they extended to their correspondents because of the impairment of their reserves.

The Chairman. Was there not a tendency, beginning in January and February, of the banks of the country to enlarge their reserves as far as possible, and did not the country banks particularly undertake to enlarge their reserves?

Mr. Reynolds. I do not think so, Senator, not as early as that. I should say perhaps beginning in August or the middle of September. You will remember that the clearing-house certificate basis was not declared until the 26th day of October.

Senator Nelson. I think you are right.

Mr. Reynolds. And my remembrance is that the tendency of the banks in the country to increase their holdings of legal money as reserves did not manifest itself, not to any extent, until September.

Mr. Forgan. There was, if you will remember, 10 days' suspension.

Senator Nelson. I was under the impression that the Chicago banks would never have been obliged to suspend if you had not been tied up by New York.

Mr. Reynolds. I do not think I would be fair to my friends in New York if I did not make this statement and let it go into the record, and I make it in all candor and frankness. I know that in 1907, through pride, perhaps, many of the bankers of the country gave as a reason for their failure to pay cash their inability to get their money out of New York.

Primarily that was true, but when I tell you that so far as our own institution was concerned after the first four or five days of the panic we had extreme difficulty in securing New York exchange enough to meet the wants of our customers, it probably will present a different aspect to you. In fact, during the panic of 1907 I can recall very distinctly that there were four or five days when we were unable to remit balances to New York when our friends requested us to do so,
for the express reason that we were unable to buy in the city of Chicago exchange on New York, even though in some instances it sold as high as $5 or $6 a thousand premium.

Senator Hitchcock. What do you argue from that?

Mr. Reynolds. I argue from that that they did not have the money there.

Senator Hitchcock. Where?

Mr. Reynolds. In New York. If our correspondents were asking us to send balances to New York the inference naturally would be that they had not sufficient New York exchange, and if we in turn had not sufficient exchange to sell to remit there and could not buy it in the market the inference naturally would be that there would be a shortage of New York exchange in all the banks.

Senator Hitchcock. At that time were the deposits of the country banks not about $300,000,000?

Mr. Reynolds. They were; scattered, of course.

Senator Hitchcock. That would seem to be a large balance.

Mr. Reynolds. When you scatter that amongst 25,000 banks it does not mean so much as you would think. Then, too, you must bear in mind that the figures given by the comptroller show balances due from reserve cities representing $250,000,000, I think Senator Owen said yesterday, of what we call the floating or transit. It was not in New York, although charged on the books of outside banks as being in New York. The moment a bank in Omaha enters upon its books a check and charges it to our account the books immediately show a credit with the Continental Commercial National Bank of Chicago of that amount.

Senator Hitchcock. But the figures given by the Treasury Department give the showing of the books in the banks of New York, and when I say $300,000,000 I mean that the books of the New York banks showed that they held that amount.

Mr. Reynolds. That might be true. I would not undertake to discuss it, as I am not familiar with that particular matter. I have no doubt that your statement is correct. But I would answer it this way, then—the small banks of the country do not require much New York exchange. If a bank in Colorado or California carried $10,000 with us and we needed New York exchange we could not ask them to sell us New York exchange, although they may have had $25,000 of this amount to which you refer. I am trying to illustrate the difference between their demand and the demand in the commercial centers, because that is the only knowledge we have.

Senator Hitchcock. What, in your opinion, was the effect of withdrawals by local depositors; was the market really depressed by reason of the fact that country banks were taking out their balances?

Mr. Reynolds. I should say both. In Chicago, I think, that we must have shipped to the country in the 10 days preceding the date upon which we went upon the clearing house certificate basis—$15,000,000 altogether. During that time we could not get money in New York of any kind, due to the fact that public confidence had been disturbed in New York and both banks and local depositors were trying to withdraw their money.

Senator Hitchcock. The local demand on the New York banks only related to a few concerns. The great clearing house banks were
not suffering from the local withdrawal but were suffering from legitimate withdrawals which came from banks from other parts of the country.

Mr. Reynolds. You will bear in mind, of course, that the season when this occurred was the season of greatest activity in the movement of crops and fall business generally. Naturally I should suppose that the greater majority of their withdrawals were to the West.

Senator Hitchcock. Mr. Reynolds, let me ask you your opinion on this question: Suppose the New York banks—the national banks—were prohibited from allowing interest on balances of banks from other parts of the country. Do you think the banks of the rest of the country would keep on depositing there $300,000,000 constantly?

Mr. Reynolds. Well, not that amount probably, but they would be obliged to keep on deposit fairly large amounts, because when you take into consideration that the exchange transactions of this country amount to about $1,000,000,000 a day you will readily see that banks must have fairly large working balances in all the centers, and inasmuch as New York is without question the financial center of this country everybody nearly must do some business with that city. The tendency, however, in the West is for the banks to carry their chief reserve balances with the nearest by-reserve city correspondents. For example, at Fullerton, Nebr., a bank would carry its largest balance at Omaha. Omaha in turn carries their largest balance with Chicago. It works that way all the way through.

Senator Nelson. Mr. Reynolds, I want to call your attention to the fact that from the 22d of August to December 3, 1907, the New York banks increased their loans to the extent of $63,000,000 and out of this $63,000,000 over $54,000,000 was stock-exchange call loans.

Mr. Reynolds. Yes.

Senator Nelson. And there is where the money went?

Mr. Reynolds. Yes, sir; but I maintain that that did a world of good, because it helped to create a serene public confidence when confidence had been seriously disturbed.

Do not misunderstand me; I do not mean to say that under normal conditions that would do so much good, but whenever public confidence is disturbed and whenever solvent people are unable to borrow money anywhere in the country, anything which shows that there is money for investment has a wonderfully quieting effect upon public opinion. That is what I mean, and in that way it helps public opinion materially.

Senator Nelson. What right have those banks to cry out every fall and say "We need money for moving crops," when they put such an enormous quantity into these stock-exchange loans, instead of holding it for the purpose of moving the crops?

Mr. Reynolds. I do not know what they do.

Senator Nelson. That is what they did on that occasion.

Mr. Reynolds. I have heard a great deal of that sort of talk. I think there is a wrong impression in the minds of the people with reference to that.

Senator Crawford. Mr. Reynolds, you spoke about the impairment of reserves, particularly when these stringencies occur such as the one in 1907. Of what good is a reserve if we do not impair it?
Mr. Reynolds. I quite agree with you, Senator; but the trouble is that the law does not give us that right.

Senator Crawford. But should not the law give you the right?

Mr. Reynolds. In the bill which you have under consideration you provide, as it now stands, for an impounding of $520,000,000 of reserves, and you say the minimum must be so and so. Is that a reserve when you do that? If we are unable to use it in case of an emergency is not that an absolute impounding of money and is not that in reality capital rather than reserve?

Senator Crawford. It seems to me that it is a mistake to do that, to provide for these reserves and then when the crisis comes and the full power of the banks should be used to ease the situation, to have an ironclad bar there to prevent the use of those reserves. It is like refusing to use water to put out a fire because you are afraid you will use up the water.

Senator Nelson. Senator Crawford, will you allow me to say one thing there—excuse me for breaking in.

Mr. Reynolds. I hope you will break in whenever you desire. That is what we are here for.

Senator Nelson. If you abolish the payment of interest on bankers' deposits I would be quite willing, speaking for myself, to leave this question of reserves to the banks, to their own judgment.

Mr. Reynolds. You have taken the words out of my own mouth. I want to discuss with you the question of reserves. I am going to conform to the recommendations made by our committee; but in the meantime I am here to express my individual opinion on that point. So far as I know America is the only place in the world where there is any requirement by law for reserves. I believe that the basic principle of reserves is that we should have a proper reserve and it should be gold. I believe the quantity to be kept should be left to the experience, judgment, and the skillful management of the bankers themselves, and if you are going to allow me to arrange that in what I regard the most scientific way I would let the banker carry what he thinks he ought to to protect himself.

If you were a merchant or manufacturer or jobber you would of course carry money on hand. Is there any law to tell you how much you must carry? Are not the requirements of your business and the precedents under which you work in that business the thing that should be taken into consideration?

One of the objections to this bill, which I wish to take up later on and which I will briefly touch upon at this point, is that we believe that they are asking for too much money to be put into the Federal reserve banks at the beginning, for the express reason, as we believe, that the minimum amount required there ceases to be a reserve if it can not be withdrawn in time of emergency. It is a good deal like a hospital bed in a city hospital endowed but with the understanding that it is always to be held in reserve.

Senator Nelson. Or like a spare bed in the founder's house.

Senator Crawford. Mr. Reynolds, is it not also a mistake to begin to curtail loans and refuse to extend credit when these trying times come? Is not that the time when, so far as possibly can be done, accommodations should be increased?

Mr. Reynolds. If you will allow me to be somewhat personal in answering these questions and take incidents in my own experience
and business as the basis of my replies I think they will mean more
than if I entered upon a strictly theoretical discussion.

Senator Crawford. Yes; I think that is the best plan.

Mr. Reynolds. I will answer your question by saying that I
believe the only way in the world to allay panics once started is to
do all you can to feed out credit, because, as I said a moment ago,
the desire to hoard money is only because of disturbed public con­
fidence and distrust in the banks, and that occurs only when there
is an inability on their part to extend credit.

Senator Crawford. Is it not a fact that in New York those peo­
ple have done great injury in these periods of stringency by holding
on to these reserves and contracting credit when they ought to have
used the reserves and extended credit?

Mr. Reynolds. I think, if you will study the records themselves,
you will find that they have used it very frequently. On the other
hand, I might answer you by saying that they can only conform to
the requirements of the law in that respect.

In 1907, during the 60 days of the panic, our own institution made
$16,800,000 new loans. During that time we used our credit more
freely with the clearing house in Chicago than some of our friends did,
but that was what I conceived the purpose of going on a clearing-house
basis, and I exercised the functions as I regarded them proper to ex­
ercise and extended credit to my customers to the fullest extent to
which I felt justified. I borrowed freely from the clearing house,
using the clearing-house certificates as the basis for settlement of our
transactions between the banks. The result was that the man who
felt that he would need credit later on and had the assurance that he
could get it did what he could to cooperate with us to allay the
panic. The result was, too, that our deposits increased. If a banker
carrying a reserve balance in three different cities writes to all of them
that he may need some accommodation and two of them say to him:

These are peculiar times; we can not let you depend upon us for anything, and you
must stand upon your own bottom, because we have nothing with which to meet this
emergency;

and the third one to whom he writes says:

If you are consistent and careful and do not loan money for speculative purposes and
do not borrow money to build up a balance against which we must carry a reserve,
certainly we will do what we can for you, and we think we can take care of your needs—
the result would be that he would transfer as much of his balance
as he could to the bank which promised most certainly to give him
assistance, and naturally he would reciprocate by cooperating to the
best of his ability.

Senator Hitchcock. You think that if the law prohibited banks
in reserve cities and central reserve cities from accepting deposits
of country reserve banks it would result in keeping the money nearer
home.

Mr. Reynolds. Well, I think it would to some extent, but that
money would be invested at home. Then the question of whether
it would be invested in liquid assets and could be readily gotten
at when needed is a question that would have to be considered. Of
course, the exchange requirements would make it necessary to carry
balances in large centers.

The actual working of that situation in 1907, for the first 10 days
of the panic we city bankers were besieged by personal visits from
our correspondents in the country, many of whom came with their carpet bags, and some of them with clubs. They were going to have the money they had on deposit with us. They would send us checks from all over Christendom, and they wanted us by the stretch of our imagination to turn them into money or currency, which we were unable to do. There was a good deal of criticism the first 10 days, and bankers were abused pretty severely, but two weeks later those same men wrote back to us and said that by the application of the same principle of conserving their resources that we had applied they were running into more money than they needed, but they said "Please, will you not lend us some money to make exchange?"

That is the way it worked out with the man who in the first instance was worried about his balance with us, who in the second instance plead with us to give him some credit, in order that he might keep the channels of commerce open through the selling of exchange.

Senator Hitchcock. If these balances were kept nearer home and if they did not drift into New York and other great centers, where they become sources of danger in times of stringency, would it not be better for the country as a whole?

Mr. Reynolds. I do not know that I caught the full meaning of that point.

Senator Hitchcock. Would you think we would have had any panic in 1907 if there had not been those great balances of country banks which were being withdrawn, to the embarrassment of the city bank?

Mr. Reynolds. Absolutely the same. It was a disturbed public confidence, and if you can pass some legislation that is sure to keep men from becoming frightened and disturbed and suspicious of each other, then you will prevent any disturbance of that kind.

In this connection I want to say that I do not believe you could pass any law the strict adherence to which would take care absolutely, under all conditions, of business. This disturbing of the public confidence would go too far. If a disturbed public confidence would have been noted only in the vicinity of New York, I would answer your question "Yes"; but how was it created? It was created because men like Mr. Wexler and brother bankers of his in the South, who had been promised lines of discount in New York City at the cotton-moving season, went there to get their lines of credit, and the New York banks, by reason of reduced deposits and reserves, had to say to them, "Gentlemen, we are sorry, but we can not keep our promises." What was the result? The result was that those men went back home thoroughly imbued with the idea that we were going into a very serious time financially; and with our present expeditious way of transmitting information it went all over the country in 24 hours, and it had almost as instantaneous an effect as the exploding of a dynamite bomb. It affected the whole country everywhere, and that is the reason we had to ship to our correspondents $10,000,000 or $12,000,000 in a week.

Senator Hitchcock. Let me ask you, would it not have been quite possible that Mr. Wexler might have procured the money which he needed for the cotton-moving if it had not been for the fact that 10,000 or 15,000 western banks were drawing balances out of New York at that time?
Mr. Reynolds. I do not think they were, Mr. Hitchcock. I think if you would study the records of that closely you would find that they only drew their balances after the condition in New York had reached a point where they were unable to do it. I know the first notice we had of it was from the South, from the people to whom we had loaned money. We had extended their usual lines, and had loaned money, in many instances, in amounts as large as $500,000 and $750,000, and many of those people came back to us and said:

We must ask you for additional credit, because we can not get it in New York. They have shut down on us.

Senator Hitchcock. Let me draw your attention to times in New York.

Mr. Reynolds. Yes.

Senator Hitchcock. Liquidation had been going on there since spring.

Mr. Reynolds. Yes.

Senator Hitchcock. There had been a run on three or four different banks?

Mr. Reynolds. Yes.

Senator Hitchcock. There had been meetings of the clearing houses and conferences. The result of those meetings had been telegraphed all over the country. Do you not think that these 5,000 or 6,000 or 15,000 or 20,000 banks over the country which had balances in New York were reading the papers, and do you not think that they were withdrawing their balances because they realized that New York was in difficulty?

Mr. Reynolds. They did, to an extent, but to what extent the best record would be to take the report of the comptroller. Of course, that all had a tendency to help increase that state of distrust which was gradually growing, and which a little later burst forth in a storm so fierce that everybody wanted their money.

Senator Hitchcock. Let me ask you another question. Is it a fact that your own bank is much more apt to be embarrassed by withdrawals of country bank deposits than by local deposits in Chicago?

Mr. Reynolds. Yes, sir; if there was a fluctuation, very much more so, sir.

Senator Hitchcock. The demand comes much more suddenly, however, because of stringency and attempt to readjust credit?

Mr. Reynolds. There is no argument on that. On the other hand, the serious question in all this discussion is as to how efficient you want your money to be. You could with more propriety say that you are very much safer in making the trip from here down to your hotel on foot than you would be to take an automobile. There are a great many ramifications that must necessarily affect a discussion of a question of this kind. If you have your reserves at home and have only the idea of their utmost safety in mind, you will necessarily impair their efficiency as reserves. By which I mean that it will be necessary for you to reduce the amount of credit that you can extend against those reserves. They are all factors in this proposition.

But what I hope to accomplish most by the little I can say is to impress upon this committee that this is the most important problem of legislation in this country since the Civil War. The ramifications
of the passage of currency legislation are so many and so great that it is only by discussions of this kind and the free interchange of opinions that is going to bring out the facts that will give everybody a proper viewpoint of the whole situation.

Senator McLean. Mr. Reynolds, in that connection, what are the resources of your bank?

Mr. Reynolds. About $225,000,000 in the national bank.

Senator McLean. You probably have correspondents in a great many States?

Mr. Reynolds. In every State in the Union.

Senator McLean. Now take, for instance, the Dakotas.

Mr. Reynolds. Well——

Senator McLean. In the time of stress, have you any tendency to discriminate against the small banks, say, in the country—in an agricultural community like the Dakotas?

Mr. Reynolds. Absolutely not. The contrary is the case, because, as practical and experienced business men, we know that their requirements are such that $1,000 or $2,000 may mean life or death to them, and so they are considered first.

Senator Nelson. We people of the West, Senator, have never felt that our banks were discriminated against.

Mr. Reynolds. We have about 5,000 correspondents, located in every State in the Union, and at the present time we are carrying a little over $100,000,000 in balances of those banks.

Senator Crawford. Those people out there know you, and they know Mr. Forgan, and they simply enjoy your confidence completely. Now, I want to ask you——

Mr. Reynolds. Thank you for the compliment.

Senator Crawford. I want to ask you, knowing that banking business out in that country, what there is in this system for rediscounting that really justifies compelling them to furnish capital for these big reserve banks—those little banks out there, as you know them?

Mr. Reynolds. If I may be frank with you——

Senator Crawford. If you will just permit me to finish this question. Have they that class of paper which to any large extent would be recognized in the rediscounting done in these reserve banks?

Mr. Reynolds. Well, I think, Senator, answering the last part of your question first, that they are all somewhat mistaken as to that. They say they loan their money for six months. That means that even though the majority of their loans may be for six months or longer, that in the ordinary course of business they make one loan to-day, another loan to-morrow, and another the next day, and so on, so that in the last analysis they have a certain amount of paper maturing every day. In the natural practices they send to their correspondents in the centers everywhere such checks as come in and accumulate every day. If they would apply the same principle to their notes, sending in to the Federal reserve bank for discount every day the notes that would mature in 45 days, they could find a great deal of paper that would be eligible for discount.

Senator Crawford. That is the point I wanted to be informed on.

Mr. Reynolds. Answering the rest of your question, I do not see any reason in the world how they can be benefited more than they are. I do not believe that with the exception of a few days early in the panic of 1907 there was a single case where our bank declined to
extend credit to any correspondent who has asked for credit, provided their balances with us were of a character that we were warranted in doing so, and provided also we felt that the character of the bank and the collateral which they offered justified a loan. In other words, we have never declined to loan our correspondents, except during a few days in the panic of 1907, and even then such loans as we declined the first four or five days were recalled by telegraph and discounted.

That being the case, the banker in your State, Senator Crawford, who has his account with Mr. Forgan's bank or with mine, knows full well that if he is in good standing he can get what discount accommodations he requires. Therefore, he says:

Why should I go into this? Why should I be asked, in the first place, to put up a part of my capital, and why should I be obliged to lose the interest on my reserve?

They think they are getting all they want. I believe if a canvass were made among the corresponding banks of all of the reserve centers in the West—and that does not limit it to Chicago—I believe if the bankers throughout the country could be written to and asked where they keep their accounts, and how many disappointments they have had, and how many times they have been badly treated, that you would be amazingly surprised at how few criticisms you would get, because, so far as I know, they have no occasion for complaint. We have something like 375 bank correspondents in South Dakota, and I can not recall ever having declined to loan to any of them if we felt they were good for it. Sometimes we are asked for loans by banks that are not in good repute, where we think their collateral is sufficiently liquid, or where they would be unsafe people to loan to, but even those instances are very rare.

Senator Nelson. We must not lose sight of the fact that in spite of these regional reserve banks that probably the bulk of the business of the small country banks would be with the banks in reserve cities after all.

Mr. Reynolds. Yes; there is no doubt about that. Let me illustrate another point.

Senator Crawford. Just there, before you go to another point—I do not know that you have made it very clear—they are getting all the accommodation they need?

Mr. Reynolds. Yes.

Senator Crawford. They are not making any complaint; they can rediscount the paper they have with your bank and Mr. Forgan's bank?

Mr. Reynolds. Yes, sir.

Senator Crawford. They are not only asked to but they are simply required to—

Mr. Reynolds. They resent it; that is all.

Senator Crawford (continuing). To give up this capital to a reserve city bank which they do not need?

Mr. Reynolds. They resent it; they say they won't go into it.

Senator Crawford. Is it really a fair proposition?

Mr. Reynolds. I do not think it is. I do not think the proposition of compulsory entrance into the system is fair from any viewpoint, and I do not think that the establishment of Federal reserve banks under this bill can be accomplished in anything near the time by the adoption of that as would be the case if left free to do as they please.
Senator Nelson. Is it not necessary to get this new system complete and effective and in working order that State banks should be taken in?

Mr. Reynolds. I think so; indeed I do; because there are two to one.

Senator Nelson. And why should the national bank be treated in a different manner than we treat the State banks? Why should we make it compulsory in one class of banks and not in the other simply because in one case we may have the power to do so and in the other we have not?

Mr. Reynolds. My dear Senator, that is just what we are here appealing to you not to do.

Senator Shafrroth. What advantages could you give or what inducements to any bank to come into this voluntarily?

Mr. Reynolds. Why, if you adopt all the suggestions we have made here it would correct the bill. This question of inducement and all that sort of thing gets down in the last analysis to a question either of profit or a question of doing something which will not entail a loss, and that I think enters very largely into the discussion of this whole question of not paying interest on reserves. That is not going to stop the inclination of people to use that money at a profit in some direction or other. I think that so long as men want to make a profit there is going to be speculation, and so long as there is speculation there is bound to be various forms of it. Of course, as bankers, we all want to encourage the system and policy which will permit of the least speculation possible.

Senator Shafrroth. Do you believe that the national banks would come into this system with considerable unanimity if the compulsory part of it were eliminated?

Mr. Reynolds. I would hardly want to say they would do it from that one thing alone. If we eliminate that, and could have some representation, I should say, "Yes," because other things objected to may be made workable through a process of evolution.

Senator Shafrroth. So the only suggestions you make us are those two things?

Mr. Reynolds. That is not the only suggestion I make. There are many suggestions. But I regard them as infinitely the most important, because they are most repulsive to the people, and because we think they are unnecessary. We do not think we ought to be compelled, in the first place, to buy anything we do not want to buy, and, in the second place, we do not think we ought to enter anything in which we have nothing to say about the management.

Senator Shafrroth. If this provision were amended just as you suggest there, what percentage of the national banks do you think would go into this voluntarily?

Mr. Reynolds. I think, if you make the modifications we have recommended, a very large percentage—I believe practically all of them—would go in; all of the larger banks especially. I am not prepared to say that the small banks would, because, as I have tried to illustrate here, they have been given such satisfactory service, generally in the reserve centers where they have carried their balances, they are satisfied, and for the time being they would be a little cautious. They know, on the other hand, that we would have the facilities for giving them the very thing they need—rediscounts in emergencies—and they say, "What is the use of our joining?"
Senator Crawford. Would it be necessary for the success of this system for all of these little country banks to go in?

Mr. Reynolds. It is not. I would not have suggested that voluntarily, and I do not regard it as at all necessary, but, gentlemen, if you must know the truth of it, the reason we recommend only five Federal reserve banks was because we did not feel that the great majority of these little banks would go in at the start, and we do not believe that it is necessary that they should. We believe that they should be given the same rights that you give larger banks, and I believe if you start out on a proper basis that in time they will gradually come in until most all will avail themselves of the privilege, unless, of course, you force them out of existence.

Senator Weeks. There is a sentiment in Washington, which I hear frequently referred to, to the effect that little banks are really in favor of the plans of the provisions now pending before the House, and that any expression that comes from them that they are not in favor of it is influenced by the larger banks. What have you to say about that?

Mr. Reynolds. I do not think there is anything in that at all. In the first place, I should question the correctness of that statement, because I have yet to find the first small bank that is in favor of the legislation.

Senator Nelson. That has not been my experience.

Mr. Reynolds. On the other hand, I want to say, unqualifiedly, I have seen nowhere evidences of any large banker trying to urge, coerce, or compel people to stay out.

Senator Shafroth. Mr. Reynolds, how many banks or what proportion of banks do you think, if the bill were enacted in its present form, would dissolve their national charters and take State charters?

Mr. Reynolds. I am afraid a very large percentage. Of course, that is a difficult question to answer. No man can definitely foretell. It is a question of opinion, of viewpoint, and that viewpoint is made up of the consensus of opinion of men in banking with whom we come in contact. So far as the expressions which I hear are concerned, they are of a character which will justify me in saying that the bankers generally would not come in.

Senator Shafroth. Would that percentage be very largely among small banks or city banks?

Mr. Reynolds. Well, both, I should say. That represents a principle, they feel, Mr. Shafroth—it is a principle that they do not think should be applied to force them into the system and not allow them representation.

Senator Hitchcock. Just before you pass from that point. Under the terms of the bill, they have a year in which to reach that decision?

Mr. Reynolds. Yes.

Senator Hitchcock. How much of that time do you think would be occupied in discussion and consideration?

Mr. Reynolds. I should hope all of it, because I should preach moderation myself. Sometimes men change their viewpoints when they come closer to a proposition and look it fairly and squarely in the face, and sometimes things which do not appeal to them just as the moment look more acceptable later.
Senator Hitchcock. Take your own bank; would it be submitted to your stockholders?

Mr. Reynolds. Yes; it would have to be, because we could not take any action anyway that would not make that necessary.

Senator Hitchcock. Would there likely be a diversity of opinion?

Mr. Reynolds. There would no doubt be that.

Senator Hitchcock. Would that be true in the case of most banks?

Mr. Reynolds. I do not think I or any other bank president can tell you what the attitude of his stockholders would be.

Senator Hitchcock. That discussion or uncertainty might go on for the better part of a year?

Mr. Reynolds. That is it, and we do not, as bankers, think there is any necessity of taking that chance without modifications such as we have recommended. Unless you have no faith in us as honest, well-meaning American citizens, who would formulate a system of banking and currency that would be successful, and I can not understand why we should take a chance in it at all, when it seems to me so easy to work out something that would be just and fair if we could only reach that point of view.

The Chairman. Mr. Reynolds, why should any of the country banks join this system at all if they get no corresponding benefits?

Mr. Reynolds. That is what I do not know.

The Chairman. Why should the country banks, who at the present keep on an average of 25 per cent of their deposits, a large part of it, with their reserve agents, not be profited by a system which would give stability to them and which would enable them to carry a much more reserve and invest their resources at a profit of 8 or 10 per cent instead of 2 per cent; is not that an advantage?

Mr. Reynolds. You do not provide for that. There is an indirect advantage, Senator, in anything that is established that is good as a principle—an indirect advantage. It would make the position of the country banker very much more secure if this bill were enacted and the larger banks would go in it, whether or not he comes into it, because he would get an indirect advantage in a greater measure of protection and safety, even though he might not be conscious of it. It would be an unconscious insurance against his being unable to meet the demands made upon him for money.

The Chairman. Would it not be both direct and indirect insurance against any undue demand upon him to meet his deposits?

Mr. Reynolds. Absolutely so.

The Chairman. It would be both direct and indirect advantage to him in that particular, would it not?

Mr. Reynolds. It would, indeed; there is no question about that.

The Chairman. Then, where he now carries an average of 25 per cent of his deposits as a reserve, because of his fear of some demand, because he, like any other of the 25,000 banks, is concerned to protect himself independently of protection that might be afforded to him through his correspondents——

Mr. Reynolds. Well, now——

The Chairman. Let me finish my sentence. Since that is true, would he not therefore be justified, under this bill, in keeping a much smaller reserve than he is now?

Mr. Reynolds. Yes, sir; I agree to that.
The Chairman. And if he did keep a smaller reserve, he would be able to loan that amount which now is in reserve at 2 per cent at the rate of 6 or 8 or 10 per cent; is not that true?

Mr. Reynolds. Absolutely that difference, whatever it would be.

The Chairman. If he did do that, Mr. Reynolds, would it not withdraw a large volume of deposits from your bank?

Mr. Reynolds. Yes, sir; it certainly would, but it would not hurt our earnings when he withdrew it. I want to make that statement perfectly clear.

The Chairman. I would like you to explain why.

Mr. Reynolds. It would be the character of business upon which we pay interest. It is the most expensive part of the business we have, on account of the immense number of these checks, which require a large clerical force; and I say in all candor and with all frankness that if this bill is adopted to-day, I honestly believe it would make our bank $300,000 to $400,000 a year more than it is making to-day; and yet, notwithstanding that, I am here pleading with you not to pass the bill, for other than selfish reasons, because I am afraid that in the process you are going to create a condition under which business will suffer.

Let us take our own business as a basis for argument.

The Chairman. Just a moment.

Mr. Reynolds. All right.

The Chairman. You say that now you carry hundreds of millions of dollars of deposits, mostly of country banks?

Mr. Reynolds. Yes, sir.

The Chairman. Do you wish the committee to understand that you are doing that business at a loss?

Mr. Reynolds. Because we are going to do it under this condition—an entirely new condition.

The Chairman. I am talking about the present conditions.

Mr. Reynolds. No; we are not doing it at a loss.

The Chairman. What is the average profit upon that business, for your bank?

Mr. Reynolds. It is about one-half of 1 per cent, net.

The Chairman. One-half of 1 per cent net?

Mr. Reynolds. On the business itself, but we have the indirect benefit which would apply in this way, that the bankers who have $100,000,000 with us are the biggest percentage of deposit customers to the smallest percentage of borrowers for we will not loan to banks to exceed 10 or 12 per cent of that money because they will not need it. They furnish the basis of loans which enables us to make loans of a million or two millions, and we get our indirect benefit there.

The Chairman. What are the current rates?

Mr. Reynolds. Current rates fluctuate. It may be 3½ to 6 per cent. It is 6 per cent at the moment, and at the moment we are making more than one-half of 1 per cent on these balances. I am figuring on the basis of 5 per cent. When we loan a man $500,000 we get $100,000 free balances from him, on which we make some profit. I am not now referring to banks but to firms and corporations.

When you follow that to its finality, the indirect advantage that comes to us is quite considerable, but I am giving figures based upon the employment of money at 5 per cent, the average rate during
any period of five years. There will be times when we will not be able to get more than 4½; there will be other times it will go as high as 6 per cent, but under the law of averages in any five years we are able to employ our money at an average of 5 per cent.

The Chairman. What is the estimated cost of handling this volume of money we are speaking of, the hundreds of millions of deposits, where reloaned in part?

Mr. Reynolds. I could not give you that. I have no estimate of that.

Mr. Forgan. Including interest, a small fraction over 2 per cent.

Mr. Reynolds. About 4 per cent. When you take into consideration that banks like ours in central reserve cities carry 40 per cent, loaning only 60 per cent, it is only a mathematical proposition; but, through the exercise of a function of banking, that money is more or less centralized, where it can be used in the channels of business, at other places where the money is needed and where the borrower could not go directly to the source. It is because of this centralizing that we can make large loans.

I am objecting to the passage of this bill in its present form for the reason that most of these other gentlemen are. Because of this enforced entrance and the lack of representation in the control; but there is another reason that I am objecting to it, and that is as the representative of the country banker. I was born and raised in the country, had my early experiences in banking in a town of 850 people, and I believe I am fairly well qualified by reason of that experience and of later experience in Chicago and other cities, where my horizon has been somewhat widened out to see this situation from the viewpoint of the country banker. Having 5,000 correspondents, and having had almost a unanimous protest go up from them, I feel it is my duty to come down here and protest for that great class of bankers who are so closely related in a business way with my own bank. I believe every banker who has appeared before you to-day has such sense of regard for his citizenship that he is imbued with that spirit of a desire to do what he can to work out this plan along some lines that will be absolutely fair to everybody, and I want to tell you that the only basis upon which a bill of the importance of this can be reached is without prejudice and without animus, and it must be met with a determination of trying to do justice to everybody and to every class and give no one any advantage; and when you can convince me that you have a bill of that character I will be the first who will join you in adopting it, no matter how it affects my institution or myself.

The Chairman. Just a moment, Mr. Reynolds. You do not wish the committee to understand that your arguments heretofore have not been heard by those who have been working upon this bill?

Mr. Reynolds. No; I do not wish to convey that impression at all. The people with whom I have had contact in this matter have been extremely courteous and have impressed me with an honest desire to try to work out the best bill possible.

The Chairman. Have you not appeared before the House committee—last January or February?

Mr. Reynolds. Yes; I did.

The Chairman. Did you not appear before the Secretary of the Treasury?

Mr. Reynolds. Yes, sir.