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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. II

(INDEX AT END OF VOLUME III)

WASHINGTON
GOVERNMENT PRINTING OFFICE
1913

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RESOLUTION BY MR. OWEN.

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.
HENRY F. HOLLIS . . . . New Hampshire.
KNUTE NELSON . . . . Minnesota.
JOSEPH L. BRISTOW . . . . . . Kansas.
COE I. CRAWFORD . . . . South Dakota.
GEORGE P. McLEAN . . . . . Connecticut.
JOHN W. WEEKS . . . . . . Massachusetts.

JAMES W. BELLER, *Clerk.*

LIST OF WITNESSES.

[Roman numerals indicate volume of hearings.]

HEARINGS ON H. R. 7837.

WEDNESDAY, SEPTEMBER 24, 1913.

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

STATEMENT OF MR. F. E. KENASTON, OF MINNEAPOLIS, MINN.

[From proceedings of Sept. 23, 1913.]

Senator HITCHCOCK. Mr. Kenaston, please give your name and your business to the stenographer.

Mr. KENASTON. I live at Minneapolis. My business is manufacturing, principally agricultural implements, threshing machines, and farm tractors.

The volume of our business approximates between $4,000,000 and $5,000,000 a year. Our type of goods is sold on credit to farmers on long time. Consequently we have to borrow a good deal of money to carry farmers' notes, occasionally, when they can not pay for one reason or another. We have to borrow for the purchase of material of several months in advance and for our pay roll during the manufacturing season, and for ordinary expenses.

We do our business chiefly in the Northwest, where grain raising is the whole business of the farming community, except perhaps some stock raising. So far as it applies to our business, it is all grain raising. We have only one period of debt paying in the Northwest, and that is during the fall of the year, some time when the farmer markets his grain. Our borrowing begins, perhaps, in March and extends through the season until the 1st of September. Our collection season begins in September and ends the latter part of January. It is our main collecting season.

Second, we have to borrow practically on a period covering nine months. Now, we sometimes come very near paying all of our debts up by the first day of January, and we would do it probably every year were it not for the fact that the exigencies of the market conditions respecting steel and iron material, and sometimes lumber, make it necessary for us to buy in a year's supply in advance and have it come in the fall months. That material we use in the following year's business, so that our business overlaps from one year into another, and January finds us sometimes owing quite a bit of money. Generally speaking, our loans will have to run over a period of nine months.

Our arrangements for borrowing are such that we can borrow a large percentage of our requirements any time in March or later on, prepayable during the months of October, November, and December, which enables us to cover our borrowing by repayment that year.

A good deal has been said about the restriction of credit. There is just where, under this bill, our credit is restricted. The banks with whom we do our business in Minneapolis, Chicago, and New York have known us for a great many years. They have extended us loans—something was said about accommodations. I have felt sometimes as though it was an accommodation. I have gone to banks to borrow money at times when I thought it was a big accommodation to get the money. Of course I pay for it, but at the same time I regarded it as an accommodation at that time. At other times, perhaps, it was an accommodation for me to take the money.

But we have had a sort of mutual growth up there in the Northwest—most of the banks, most of the business men, gentlemen who are here to-day, who have lived there most of their lives. They have grown up with the banks, and there is a mutual understanding and mutual respect among them. We like our bankers in Minneapolis. they are good men to go to for counsel, and they are always ready to help us, and they are always ready to promote anything which seems to be worthy in the shape of any enterprise that goes there; and to that extent we have faith in our banks, and we want to see them prosper.

Under your bill here, if you will permit me to read from it, you are—I hope you will pardon me also if I ask a question or two, because I would like to get some information myself. As I was saying, such paper as we put is restricted to 90 days. You might just as well say to us, "Get off the earth." We can not give the bank in Minneapolis or any other place our paper, which they can in turn take to a regional bank and get it rediscounted, simply because we can not borrow under six months at a time. It is true you may give three months' paper and renew, but I want to tell you that when you give a three months' note time flies pretty fast, and a man gets old. It is not good business, and no scrupulous man is going to give short-time paper when he knows he can not pay it at maturity. Something may intervene.

You have provided here, under certain conditions, for 120-day paper—four months. That is no better in our business. [Reading:]

> Upon the indorsement of any member bank any Federal reserve bank may discount the paper of the classes hereinbefore described having a maturity of more than 60 and not more than 120 days when its own cash reserve exceeds 33⅓ per cent of its total outstanding demand liabilities exclusive of the outstanding Federal reserve notes by an amount to be fixed by the Federal reserve board, but not more than 50 per cent of the total paper so discounted for any member bank shall have a maturity of more than 90 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 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 stock of the bank for which the rediscounts are made.

It has occurred to me that that is a rank discrimination against all domestic business in this country. I can not understand why we people who have gone out into the West, who have been frozen in winter and who have been baked in summer, who have made that country smile as a garden—why we should be discriminated against.

This is a measure which fits business of New York City, which fits the business of New Orleans dealing in the cotton crop. Why should not we be treated as well in the Northwest as those people are treated in these particular things? I submit that to you, gentlemen.

As I stated before, we have, through long years of experience, established our lines of credit with our own banks, and now we feel perfectly safe in conducting our business. In my line of business I have got to buy and manufacture one year in advance. If there is no crop raised in the Northwest next year, I will not sell my goods, and I have got to carry them over. But the nature of the business is such that we have got to build and put the money into them.

I go to my banker and I offer him my paper. He knows when I can pay it just as well as I do myself. He says: "I am sorry we can not use that paper. We are loaned up just as close as we can and we have not any other paper that we can substitute and take yours on for three months until we can slip out into this under the 90-day maturity clause, and consequently we can not deal with you."

That is one of the things that restricts credit, in my judgment. It is the disrupting, the overturning of a system under which we have grown up, which we understand, and which we believe in, and have faith in, and, so far as I am personally concerned, I think that the business conditions—the banking conditions—of this country to-day do not need very much tinkering with, except to make the bankers behave themselves. I think if the business is conducted along the lines laid down in the present national bank act, that the country is safe enough.

Speaking for our own Northwest, I was interested in what one of the Senators said that he heard from some gentleman in New York. I can say, from personal knowledge, Senator, that the Northwest is fundamentally all right. It has got assets in sight to-day that would astonish you if you would go up there and go through the country. We have magnificent crops of all kinds of cereals, we have got plenty of stock, and our people are in good financial condition. I do not believe that conditions, fundamentally, were ever better in the Northwest than they are to-day, and there is a great deal of business. The volume of business that is being done is larger than ever before, and it would continue to grow, would grow a great deal faster, if it were not for this eternal desire to change, to get something new, to bring in some new sort of legislation which many people who are honest enough in their beliefs think is going to do an immense lot of good.

We do not feel that we need anything up there. We think that we are all right. We hear the banks talk about this matter a great deal, and we know that the banks would like a place where they could go in an emergency, such as, for instance, 1907, and get some ready money to tide them over a period when many people are frightened. That is all it amounts to. There is just as much money in the country the day after the panic as there was the day before, but it is down in the people's stockings. What we want more than anything else is to instill a little confidence into the people. If you can make them feel that the business conditions are all right and that the most of the people in the country are honest and trying to do business, we would not have as many panics as we do.

As to this bill, we all have a right, of course, to object; that is the great American prerogative.

There are a number of injustices which I think are apparent and which have been discussed so much that I do not believe I will dwell upon them. The matter of enforced contribution to the capital of these regional banks seems to me to be rather un-American. It may be all right; it may be necessary; but it hardly seems to be in line with the Golden Rule. The payment of interest on Government deposits, an obligation that is placed on these proposed regional banks, as against an absolute refusal to pay interest on other people's deposits I think is another discrimination. I do not think that is right.

The provisions for this advisory council I was going to speak of, but Mr. Wells has given you my ideas fully. I concur in everything he said, so I will pass that.

We believe that this reserve board mentioned in this bill is clothed with such extraordinary powers and authority that it gives to the administration which happens to be acting an opportunity and a power, so that if they want to punish anybody they can do it. The overlordship which is assumed is a thing which is very diffiuclt for the average American to swallow, because it is not fair play. The man who invests his money with you in business ought to have a little to say about it; at least he ought to have the privilege of making you listen to his advice and have you recognize him as an adviser.

I want to say a word on the open-market operation——

Senator SHAFROTH. What page?

Mr. KENASTON. On page 27:

> 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.

May I ask some Senator to tell me what is meant by "prime bankers' bills" in connection with this measure?

Senator HITCHCOCK. I suppose Senator Weeks, who is a banker, would be able to elucidate that. We have been discussing that very thing here, with not very good results.

Senator NELSON. I should say, but of course, I may not be correct, that there are two classes of bills classified here—commercial bills and finance bills—and I take it that it probably refers to commercial bills drawn against bills of lading for products, merchandise—I should call that prime bills; but I am not quite sure whether it would not include what is called "finance bills," which are not drawn against—you know the difference and what I mean?

Mr. KENASTON. Yes. I have heard the name "prime bankers' bills" in connection with English bankers, but it is a new term here and I did not know just what was meant by it. I have asked a good many people, and they seemed a little at sea.

Senator NELSON. I may say, that in London, for instance, there are what they call "accepting houses" or "firms," and bills are drawn here in this country upon those firms and accepted by them, and they pass current, but they are called "finance bills," and are not that grade, I think. They all depend upon the solidity of the accepting house and the drawer. They are not that grade of commercial bill.

Go on, Mr. Kenaston.

Mr. KENASTON. Further, I would like to ask whether in the opinion of the Senators this section 15 permits the Federal reserve bank to deal direct with individuals; and if so, whether it is the intention of the Federal reserve board to so act and do business with individuals, in competition with the ordinary banks which have contributed the capital to the Federal reserve bank.

Senator HITCHCOCK. No; that is not contemplated. The Federal reserve bank does no business except with member reserve banks and other reserve associations.

Mr. KENASTON. How about this section 15, Senator:

That any Federal reserve bank may, under rules and regulations prescribed by the Federal reserve board, purchase and sell in the open maket, 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.

Senator NELSON. That allows them to go outside the banks.

Senator HITCHCOCK. That must be a new provision of the bill; I do not recall it. I suppose it is intended for foreign business particularly.

Senator REED. That is foreign business.

Senator BRISTOW. Does it say "foreign business"?

Mr. KENASTON. "Domestic or foreign."

Senator BRISTOW. Domestic or foreign.

Mr. KENASTON (reading):

Domestic or foreign banks, firms, corporations, or individuals, prime bankers' bills, and bills of exchange——

Senator BRISTOW. That puts the reserve bank into the business directly, does it not?

Mr. KENASTON. I beg your pardon.

Senator BRISTOW. That puts the reserve bank into the business directly. I had not noticed that.

Mr. KENASTON. That was the interpretation that we have placed upon it, but we were not just satisfied, and that is the reason for my inquiry. I do not think I have anything further to say.

Senator HITCHCOCK. Mr. Wingo, of the House committee that first passed upon that bill, tells me that that was inserted for the purpose of enabling the reserve bank to enforce the discount rate by going into the open market and establishing the rate which it had made. I was not familiar with it at all. Have you anything further, Mr. Kenaston?

Mr. KENASTON. No.

Senator HITCHCOCK. Senator Nelson, have you any question?

Senator NELSON. No.

Senator HITCHCOCK. Senator McLean, have you any?

Senator McLEAN. No.

Senator HITCHCOCK. Senator Bristow, have you questions that you desire to ask?

Senator BRISTOW. As I understand, none of the paper which your firm signs—the credits which you have—could be used by this reserve bank as the basis for currency except as it approached maturity, within 90 days?

Mr. KENASTON. Yes, sir.

Senator BRISTOW. What is the aggregate volume during the year of the paper that your concern would have out?

Mr. KENASTON. Our maximum borrowers—that is, the high point—is about $1,500,000.

Senator BRISTOW. Have you studied this sufficiently to state what per cent of the bank credits in your section of the country is such paper as would be available for this rediscount?

Mr. KENASTON. I do not know of any mercantile, or what we call "commercial," paper, Senators, that is issued by any of the larger concerns in Minneapolis under less than six months' maturities. That is the common and customary way of putting out paper.

Senator NELSON. By the jobbers and wholesalers?

Mr. KENASTON. By the jobbers, wholesalers, grain dealers, and manufacturers.

Senator BRISTOW. The great mass of the paper which is contemplated as the basis for this currency is in the commercial centers and the seaport cities, is it not?

Mr. KENASTON. The great mass of paper that is issued in Minneapolis?

Senator BRISTOW. No; the mass of paper that is contemplated to be used in this bill as the basis of currency is usually in the commercial centers, like New York?

Mr. KENASTON. That is simply my deduction from a reading of the bill, that the gentlemen who are the drawers of your bill are familiar with trade conditions in New York City, New Orleans, and seaport places, where there is a lot of this foreign exchange——

Senator NELSON. Short-time paper?

Mr. KENASTON (continuing). Exports and imports are being made, where bills of exchanges would run anywhere from 60 days to 6 months.

Senator BRISTOW. As I understand, in your judgment the bill is drawn very largely to fit that condition of credit?

Mr. KENASTON. That is my judgment.

Senator BRISTOW. And that the amount of credit of that character as compared to the total bank credit of the country is very small, is it not?

Mr. KENASTON. I am not prepared to say, sir, but I should think so. The manufacturers all over the country, so far as I know—and I have read over a great many brokers' lists of paper—put out paper at six months' maturities, and I do not know of any shorter borrowings in the usual way of doing business.

Senator BRISTOW. What do you think of a proposition to retire all of the national-bank notes that are now in circulation, some $730,000,000 or $740,000,000, and substitute a currency based wholly upon this 90-day paper?

Mr. KENASTON. Well, Senator, frankly, I will say that I think we would be making a mighty poor swap.

Senator BRISTOW. You are not a banker, though. Is there a banker in this delegation?

Senator NELSON. He knows something about the banking business.

Mr. KENASTON. I have been inside of a bank several times——

Senator NELSON. Have you been in the banking business?

Mr. KENASTON. But not with a jimmy. [Laughter.]

Senator BRISTOW. If you have been in the banking business, there is a question I want to ask you.

Senator REED. Are you a banker?

Mr. KENASTON. I have been in a small way, in a country bank, a great many years ago.

Senator REED. Are you interested now in any bank?

Mr. KENASTON. Yes, sir.

Senator BRISTOW. It has been said here that the country bank that has its reserve—9 per cent of it in the city banks—getting 2 per cent on that, would be favored because it could reduce the amount from

15 to 12 of its reserve, and the amount which it had to carry locally would be reduced from 6 to 5 per cent, and that the gain which it makes by this reduced reserve could be taken to the Federal reserve bank and could be loaned and notes taken, and then it could take those notes to the Federal reserve bank and get currency and thereby make more out of that surplus than it is able to get now by getting only 2 per cent on it, and that it releases Government bonds which it now holds which draw 2 per cent, and can invest them in commercial paper, and if need be rediscount commercial paper and get the currency to loan. As a matter of fact, when that bank takes this surplus upon which it has been getting 2 per cent and invests it in notes, and rediscounts those notes for currency, does it not depend wholly upon the interest that it has to pay for the currency as to whether or not that is a desirable transaction?

Mr. KENASTON. I think I heard you ask practically the same question of one of the other gentlemen. Have you connected up the terms of the Government bonds with this question?

Senator BRISTOW. No; I referred to them, but I will not connect it. Just deal now with the reserves, and then we will take up the bonds later.

Mr. KENASTON. Well, I can deal with that in this way, but if I was running a country bank I would not rest easy nights with 12 per cent reserve.

Senator BRISTOW. That is just the point I wanted to get out. Would you rest easy nights if you only had 5 per cent of your deposits in cash in your vaults?

Mr. KENASTON. No, sir.

Senator BRISTOW. Do not the country banks carry a great deal more than 6 per cent cash on hand as a rule?

Mr. KENASTON. Yes; as a rule they do.

Senator BRISTOW. When they get down to 6 per cent they get nervous, do they not, until they get it above the 6 per cent mark?

Mr. KENASTON. Yes, sir.

Senator BRISTOW. Do you believe that they should carry any less money in their vaults if that reserve were reduced from 6 to 5?

Mr. KENASTON. The prudent banker, I do not think, would ever let his reserve get below 20 per cent in the average country bank.

Senator BRISTOW. So this reduction from 6 to 5 is of no advantage whatever, then, to the country banker?

Mr. KENASTON. It is an advantage to them if they want to take it, but it is an unsafe advantage. It is a speculation, as has been said here by Mr. Wells, who knows about the country banks, as he was for a great many years in that western country. Of course, conditions are a good deal different now from what they were, but he knows the situation, and the character of loans that a country bank makes to the farmers. They have to deal with the farmers and must depend upon the farmer to pay it before they can pay the banks. A loan is made to the farmer, and while the money is perfectly good—you know you can make him pay if you force him—but in his mind his note to you is not due until he gets ready to pay it. He will pay you some time in the fall. He has got to get it out of his crops. There are a great many things that come up between the harvesting and the thrashing and the marketing of grain—bad weather, bad roads, sickness in the family, and all that sort of thing; and he will not permit himself to be jogged out of his regular rut. He will sell his wheat and will pay you when he gets ready, but he will usually pay you. He will usually clean up before the first of the new year. You are pretty certain to get the most of your money, and what you do not get then you have got to wait on him until the fall.

Senator BRISTOW. If your bank takes that man's note to this regional reserve bank and hypothecates it for currency, and a payment is demanded when it is due, the banker gets into trouble with his customer, does he not?

Mr. KENASTON. Immediately. You can not treat your customers that way, because they do not understand you. They have not a commercial training that many people enjoy. The better off a farmer is, the worse he is. He says:

> I am all right. What are they worrying about? They know that I am good for it.

Senator REED. In other words, it is not so much a lack of commercial training as it is the natural independence of the man himself?

Mr. KENASTON. Well, a little of both.

Senator BRISTOW. If he is good and the bank is willing for him to later pay it when he can sell his crop at the most advantage to him, why should we enact a law to disturb that condition that has grown up and that is entirely satisfactory to both parties?

Mr. KENASTON. Senator, I really do not know myself why you should.

Senator BRISTOW. I guess that is all.

Senator WEEKS. Were you in business in 1907?

Mr. KENASTON. I was.

Senator WEEKS. Did you have to borrow money during the panic?

Mr. KENASTON. I could not. [Laughter.]

Senator WEEKS. What did you do?

Mr. KENASTON. I can explain the situation to you so I think you will understand it.

The panic struck us at a period of greatest possible prosperity. I never saw collections coming in any better than they did in my life at that time up in the Northwest; and we had a lot of paper coming due, as we always do.

Senator NELSON. Farmers' paper?

Mr. KENASTON. Yes, sir; farmers' paper; and we had a lot of paper that we had to pay, Senator, coming due in October, November, and December—a lot of it. There was a period of, I guess, about two weeks—was there not, Mr. Wells?—in which a farmer could not sell a bushel of wheat and get any money for it; and we all wrote letters and published it broadcast that if they would ship their wheat down to Minneapolis and turn it over to any of our good friends, we would take their checks; if necessary, we would take 36-day checks.

We got things started up in about two weeks, so that wheat began to come in and we began to do business in that way, only in the place of money we had wheat checks, and we accepted them and eventually got our money. It was good all the time. It was simply a question of somebody having to wait. And finally, I think it was the 26th day of October, the heavens fell, and between that date and the 1st day of January, my concern collected over $100,000 from the farmers, which enabled us to pay our debts.

Senator WEEKS. How did they get the money—the farmers, I mean.

Mr. KENASTON. They got checks and one thing and another.

Senator WEEKS. You collected it in checks, not money, then?

Mr. KENASTON. The business was handled by a check system, largely, until later on, you know, the banks opened up.

Senator NELSON. There were a great many small country banks that never suspended.

Mr. KENASTON. Oh, there were a lot of country banks that never heard of the panic and kept doing business right along.

Senator NELSON. In my town we had three banks and they never suspended a moment, but ran open shop.

Senator WEEKS. Do you not think, Mr. Kenaston, that it would have been of some advantage to you and to the whole situation if your Minneapolis banks had had such a reserve as is provided for in this bill? That is, to go to some place and get some additional circulation?

Mr. KENASTON. Yes; I think it would; but I think the greater advantage would have been if the other fellow had gone there and got it first and had given to the Minneapolis banks the money that belonged to us and which we had a right to demand. During the panic, Senator, the banks in that city of Minneapolis were running stronger than they are to-day. Is not that so, Mr. Wells?

Senator NELSON. Yes.

Mr. WELLS. They could not get the money out of their eastern correspondents.

Senator NELSON. Their reserves were tied up in New York and Chicago.

Senator WEEKS. We all assume that the system is bad, that it leads frequently to trouble; and that is one of the reasons why legislation is being proposed. It is not necessarily the fault of the New York and Chicago banks, because they receive credits and are asked for circulation when it comes to a time of necessity. If they had to pay out in circulation all the money that has been deposited with them in the form of credits, why of course it would break every one of them. We want to correct that system.

Mr. KENASTON. I think it would be a measure of safety; it would be a great thing for the country, and if it were only advertised so that the country knew what it could depend upon, I do not suppose they would ever avail themselves of it. If there were some place where, in times of stringency, the banks could go and get money on their assets temporarily——

Senator WEEKS. There is a place, now.

Mr. KENASTON. Mark you; temporarily.

Senator WEEKS. There is a place, now.

Senator REED. But there was not in 1907.

Mr. KENASTON. The act creating that expires soon, does it not?

Senator WEEKS. Yes.

Senator SHAFROTH. Next year, in June.

Mr. KENASTON. But I believe that if there were any place provided where the banks could take certain of their assets under certain requirements of safety and go and get money to tide them over temporarily, it would be a splendid thing, and I believe that the Government, if it issues this emergency currency, could charge a large enough rate of interest on what is outstanding to make it absolutely necessary to return it at the earliest possible moment.

Senator WEEKS. Do you not think that charging a rate of interest of any size on circulation is a tax on business?

Mr. KENASTON. Yes; it is.

Senator WEEKS. You are going to put that tax on business?

Mr. KENASTON. It is, in my opinion, a tax on business—and I think it should be taxed, because this emergency never arises unless business is partially to blame. We overtrade, we overmanufacture, we do more than we ought to, and pretty soon there is a failure here and another one there, and everybody gets scared, and then comes your panic. All you need is to have currency enough to tide your good institutions over during the period of this ghost dancing among these people who get scared.

Senator WEEKS. You are not here to oppose any legislation, are you?

Mr. KENASTON. No, sir; I am not here to oppose any legislation.

Senator WEEKS. You are here to ask us to consider this thing with thoroughness, so that when legislation is finally put on the statute books it will be beneficial to the business interests of the country.

Mr. KENASTON. Beneficial to the business interests of the country; that is it exactly, Senator; and if I could have my way about it and if I did not feel it would be presumption on my part, I would say—well, I am going to offer the suggestion, anyhow.

Senator REED. Go ahead, you have got as much right as anybody else to have an idea.

Mr. KENASTON. If you gentlemen had all traveled the length and the breadth of this country, through the West and the Middle West, from North to South, you would all see the country and see the conditions and see the people. The people are all in sympathy with you. They want to do everything that is possible. There is nobody that is rabid. They all want the best that can be had, but we want it to come right, and we want to have the privilege of saying so to you when we think it is not right, and what we think is the matter with it.

Senator HITCHCOCK. Have there been any mass meetings out there for the purpose of asking Congress to do this thing in 15 minutes?

Mr. KENASTON. Oh, no, sir; no, sir; we people believe in making haste slowly, because this is a very important question, and if it is not adjusted right it is going to be very serious. It will bring a very serious trouble to the country.

Senator WEEKS. It is true, is it not, Mr. Kenaston, that this affects the manufacturer and the merchant and the farmer even more than it does the banks?

Mr. KENASTON. Yes; because the banker can call in his loans.

Senator WEEKS. Ordinarily, he can take care of himself?

Mr. KENASTON. Ordinarily, he can take care of himself; and the man who has built up his business, either as manufacturer or jobber, with the expectation of borrowing a certain sum of money every year to carry on his regular volume of business is the man who is going to suffer.

Senator WEEKS. Then, we ought to take into consideration all these commercial interests quite as largely as we do the interests which are directly affected?

Mr. KENASTON. Yes; I think that every interest should be considered together. Of course, there is a very close alliance between the banks in our section of the country and the business interests, for the reason that I stated a few moments ago. It is a big proposition with us right along.

Senator REED. What has been the extent of your banking experience; just briefly?

Mr. KENASTON. About 31 years.

Senator REED. And you are connected with some banks now?

Mr. KENASTON. Yes, sir.

Senator REED. What banks?

Mr. KENASTON. I am connected with banks at Breckenridge and Barnesville and Campbell, Minn., the old county where I used to live. Senator Nelson can give you the names of some of the banks.

Senator NELSON. They are all little country towns.

Senator REED. I am trying to put into the record these matters of interest and experience, because, of course, the greater experience a man has had, and the character of it, necessarily has some effect upon the judgment that he may form and the value of that judgment. That is all. I am not challenging you at all.

Senator NELSON. All of those towns that he named are towns that do not exceed 2,000 people, I think.

Mr. KENASTON. That is right.

Senator REED. Are you only slightly interested, or have you been considerably interested in banking?

Mr. KENASTON. I was considerably interested in those banks. They were my pets in early days.

Senator REED. And you are still interested in any other banks?

Mr. KENASTON. Oh, yes; I have bank stock in a number of banks.

Senator REED. In large banks?

Mr. KENASTON. Yes.

Senator REED. Where are they located?

Mr. KENASTON. Minneapolis.

Senator REED. Are you slightly or considerably interested?

Mr. KENASTON. Well, I suppose it would be considered slightly interested.

Senator REED. Are you a director in any of those banks?

Mr. KENASTON. Yes, sir; I am a director in one of them.

Senator REED. Which bank is that?

Mr. KENASTON. The Northwestern National.

Senator REED. Have the officers of your banks, or any of them, had any consultations in regard to this bill and talked it over with you and the other officers?

Mr. KENASTON. I have never had any consultations with them at all.

Senator REED. Have you talked it over?

Mr. KENASTON. I have heard them pass their opinions of it, and I have passed my opinion; but we have never had any consultations.

Senator REED. Are any of these gentlemen who have come down here with you in this delegation interested in banks?

Mr. KENASTON. Yes; I think they own stock in pretty much all of the banks up there; that is, some of them do—a little stock. Our bank stock is pretty well owned at home.

Senator REED. Have there been some consultations up there among the bankers about this delegation coming here?

Mr. KENASTON. Oh, I do not think so.

Senator REED. How did you all come to get together at one time?

Mr. KENASTON. Well, these gentlemen here are Mr. Mosher, who is secretary of the Citizens' League of Minnesota, which I understand to be an association looking to currency reform. I am not a member of it; but I understand that those are its functions. Mr. Mosher called me over the phone and asked me if I would not come down here with some gentlemen that he was trying to get to come down—some business men to look over the situation; and that is the reason I am here.

Senator REED. That is the way it was brought about?

Mr. KENASTON. Yes.

Senator REED. I am not in any way criticizing the fact that you came in that way or in any other way. As far as I am concerned I am very glad you did come. I am very glad to have you express your views and I am interested in it. I do not care how citizens come, only I wanted to know just how it happened.

I want to enlarge just a little bit upon one point that you brought out. When the panic of 1907 came, you say that the banks, and business generally, were prosperous in Minneapolis and St. Paul?

Mr. KENASTON. Yes, sir.

Senator REED. That was true of the entire State of Minnesota, was it not?

Mr. KENASTON. Yes.

Senator REED. With your experience and business knowledge, perhaps, you can answer this question, whether that was not true of the great agricultural belt of what I will call the Central West, embracing Minnesota, North and South Dakota, Missouri, Kansas, Iowa, Nebraska, Illinois, and that great rich country in which we raise the wheat and corn, largely, of this country?

Mr. KENASTON. The Mississippi Valley?

Senator REED. Yes; the Missouri and Mississippi Valleys.

Mr. KENASTON. Yes.

Senator REED. That was true?

Mr. KENASTON. I think it was.

Senator REED. Was there more money in the banks than there ordinarily was?

Mr. KENASTON. I believe at that time there was more money in the banks than usual.

Senator REED. And people were actually able to pay their debts, if business was uninterrupted, with as great facility as at any time, almost within your recollection, were they not?

Mr. KENASTON. Yes, sir.

Senator REED. The granaries and elevators were full of grain; the cars were standing loaded on the tracks, and moving by, and you could not get cars to haul the great crops of that year. That is the fact, is it not?

Mr. KENASTON. Yes, sir.

Senator REED. The first evil portent that you noticed was the fact that down in New York interest rates on call loans had gone up to abnormal heights, was it not?

Mr. KENASTON. I did not pay much attention to that.

Senator REED. You did not notice that?

Mr. KENASTON. I did not pay particular attention to interest rates, although I think, since you recall it, that interest rates did go up very high, something like 20 per cent, or somewhere along there.

Senator REED. If the banks in Minneapolis and St. Paul—I speak of them now because you are familiar with them—could have obtained their money which they had deposited in various banks in the East——

Senator O'GORMAN. Are you including Chicago in your question?

Senator REED. Yes; the banks east of you, which would include, of course, Chicago and any of the greater banks that lie toward the east—if they could have obtained their money that they actually had, they would not have had a bit of trouble, would they?

Mr. KENASTON. If we could have obtained our money from our reserve agents in the East, as we wanted to, and as we usually did, there would not have been any trouble.

Senator O'GORMAN. Where was most of your money; in what reserve agencies?

Mr. KENASTON. I do not recall, sir.

Senator O'GORMAN. I think one of the preceding witnesses said a large part was in Chicago.

Senator NELSON. No; not to-day.

Senator SHAFROTH. Then, he refers to——

Senator REED. Regardless of just what banks it was, they had deposited not only reserves, but balances in various banks, some of which were of course in New York City. The New York City bank, having failed or having reached the point of exhaustion where it could go no further, sent word to your banks that it could not permit or was unable to comply with the withdrawal of money?

Mr. KENASTON. Could not furnish currency; it could furnish credit.

Senator REED. Do you remember what it was that finally brought that period of suspension of payments to a close? Do you remember that Mr. Morgan obtained from the Federal Treasury a large sum of money?

Senator O'GORMAN. About $40,000,000.

Senator REED. About $40,000,000, and took it down to New York, and that that day the banks were able to resume payment?

Senator NELSON. They did not resume until a long time after that.

Senator REED. They began to resume, I mean.

Senator NELSON. No; not right away.

Mr. KENASTON. I think that had a tendency to stop it.

Senator O'GORMAN. It did stop it.

Mr. KENASTON. But the payments of currency did not begin until later on.

Senator REED. I have heard so.

Senator NELSON. The suspension was over two months.

Mr. KENASTON. About six weeks.

Senator REED. That was the first relief they obtained. If that sum of money could have been made twice as much, the probabilities are that the banks would have been able to have opened at once, would they not?

Mr. KENASTON. Yes, sir; of course if you get a large enough volume of money into a bank on which there is a run, it is simply a question of time until the run will stop and the bank will begin to build up again.

Senator REED. If there had been a machinery created at that time by which banks could have taken Government bonds, State bonds, prime municipal bonds—by which I mean bonds of municipalities that were undoubtedly good—farm mortgages that were undoubtedly good and commercial paper that was undoubtedly good, and not only went to a dozen banks, if necessary, having indorsed and guaranteed all of it and put a man on the cars and sent him over here to Washington with that and obtained from the Government Treasury gold or gold certificates or silver certificates or greenbacks, bank notes, that paper issued by the Government upon its faith and its credit, there would have been no trouble at all, would there?

Mr. KENASTON. No; I do not think so. I think that that would have cured all the trouble.

Senator REED. It would have given instant relief by applying the remedy to one point in the country, to wit, New York City?

Mr. KENASTON. Yes, sir.

Senator REED. Because New York City could have instantly relieved Chicago and St. Louis, and that would have relieved the entire chain of banks all over the United States. That is true, in your opinion?

Mr. KENASTON. Yes, sir.

Senator REED. Then the matter of giving relief at that time to banks—in the time of emergency—is not after all so complicated a thing, is it?

Mr. KENASTON. I do not think it is complicated at all. The chairman of our committee, Senator, will have the pleasure of addressing you on that same subject later, and I believe you will be glad to listen to him.

Senator REED. I shall be glad to listen to him. You have studied, Mr. Kenaston, this bill, you say, with some care. I want to ask you if under this bill there is a single new dollar added to bank capital except that which the Government may add?

Mr. KENASTON. I do not see any——

Senator REED. Of course, to follow that out for a moment——

Mr. KENASTON. If I understand your question rightly.

Senator REED. I will ask it a little more in detail. If you go to organize a regional bank, the capital it has subscribed is not new money, but it is taken from the deposits of the member banks; is not that true?

Mr. KENASTON. Yes, sir.

Senator REED. The reserves which the various banks deposit with it are taken out of the coffers or vaults of the banks and simply transferred from the vaults of a member bank over to one common center?

Mr. KENASTON. Yes, sir.

Senator REED. There is no new capital there. The bank has no power to issue money under the law, but it can take its assets and go up to the Federal Treasury, or go to the Federal reserve agent, and can have money that has been printed by the Government of the United States; so the first addition it gets of new money—or currency, if anyone objects to the term "money" being misused—comes from the Federal Government, does it not?

Mr. KENASTON. Well, the discounting bank—that is, the bank that goes with the notes to the Government bank—simply goes there and trades a note against Van Dusen, Herrington & Co. for a note of the United States, which, perhaps, he would rather have than Mr. Herrington's note.

Senator REED. But that thing of value, whether we call it money or an exchange or credit, whether we call it currency, or whatever it is, is a thing of value in the hour of stress?

Mr. KENASTON. Yes.

Senator REED. And that comes from the Federal Government?

Mr. KENASTON. Yes.

Senator REED. The Federal Government takes its money out of the Treasury, and under the terms of this bill may take practically every dollar out of the Federal Treasury that it has now and every dollar that it may hereafter get, and deposit it with these banks, whether it wants to do it or does not want to do it. It is a willy-nilly proposition; and when the Government does that and puts its money in there are new assets added to the banks, but, of course, a debt of the banks.

Mr. KENASTON. No new money added; it is new money put in circulation.

Senator REED. Yes. So there is not, under this whole system, a means provided for adding one additional dollar of value to the banking capital of the United States, is there?

Mr. KENASTON. No; there is no increased money.

Senator REED. And no credit and no money can be obtained in the hour of necessity in addition to that which we now have, except what is furnished by the Federal Government. That is the situation, is it not?

Mr. KENASTON. Yes, sir.

Senator REED. I want to ask you if you do not think it is entirely possible to devise a plan by which the independent bankers of the country, each acting upon his own initiative, can, in case they desire help, go to the Federal Government direct for that help instead of being obliged to go to get whatever help they may desire through a machinery such as is contemplated by this bill?

Mr. KENASTON. Unquestionably that should be done.

Senator REED. Well, is it not desirable that it should be done in that way, instead of through an elaborate machinery of this kind?

Mr. KENASTON. Well, if you will let me qualify my answer a little——

Senator REED. Certainly.

Mr. KENASTON. I believe it will be a very easy matter to devise a method by which the country could be relieved in the stress of an emergency by a very little machinery, and by a very short bill. But I believe that I would so arrange it that the clearing-house banks, or perhaps a group of the larger country banks, might be included, who should examine, pass upon, and approve, under their official stamp, the securities that would be brought down here to Washington to get money.

Senator REED. That is because you want a local institution?

Mr. KENASTON. Yes.

Senator REED. And local guaranty?

Mr. KENASTON. We want a local guaranty; we want to make the Government absolutely safe, so that there could not be any criticism—no losses and consequent criticism—and let these larger banks take care of the wants of the smaller ones, which they are always willing to do. That would reduce the number of banks with which you would have to do this kind of business, and at the same time serve all of them.

Senator REED. Now, I want to get your opinion on this, whether it is desirable to take the local banking capital away from local points, and center it at some given bank or point that may be many miles away—even hundreds of miles away.

Mr. KENASTON. There may be times when a bank located in a certain locality may have an excess of funds that it can not loan in that locality, and in order to make reasonable earnings for its institution it has got to seek an outlet.

Senator REED. Well, I was speaking not of that, which is merely a business transaction.

Mr. KENASTON. Yes.

Senator REED. But I am speaking about a plan which compels the banks, the small banks of Minnesota, whether they want to do so or not, to take 20 per cent of their capital and 5 per cent of their deposits and put them over in a reserve bank, which is established at some distant point—whether that would injure the local business?

Mr. KENASTON. I think it would injure the local business, and I do not think it would work out well at all. I think that a little bit of the number of banks that would be required to fill up the capital necessary to organize, for instance, a Federal reserve bank in the city of Minneapolis—and you have got to take in a pretty big territory, gentlemen, you have got to go clear around into Montana and Washington, and you have got to get money from those people to bring down there; and it is a long way from home. They do not care anything about it. They would not do any business with a Federal reserve bank in 100 years, because their business is all centered together in those extreme western places.

Senator REED. Do their currents of trade naturally run to Minneapolis?

Mr. KENASTON. Oh, they do business—you could go out there almost anywhere in Montana and the greatest amount of their deposits are kept at Helena. Helena does the business for Montana; that is, the Helena banks. Now, the Helena banks, in turn, keep their reserves, we will say, in Minneapolis, St. Paul, and eastern cities.

Mr. WELLS. And in Omaha, St. Louis, Kansas City, and Denver.

Mr. KENASTON. Yes; in all those cities.

Senator REED. Then, in that section of the country, I take it, that if you establish this reserve bank at St. Paul and compelled the bank at Helena to put in 20 per cent of its capital and 5 per cent of its assets into that bank—and did the same thing, now, with all the other national banks out in that section of the country, you would force them to make this contribution all to St. Paul or Minneapolis, although a large portion of their business traveling along the natural currents of commerce would go to Chicago?

Mr. KENASTON. Certainly, and go to Helena, Omaha, St. Louis, and points——

Senator REED (interposing). Omaha and St. Louis——

Mr. KENASTON (continuing). And points where they naturally do their business, their trading.

Senator REED. So that is another difficulty, at least to be considered; is it not?

Mr. KENASTON. Yes.

Senator REED. Now, the Federal Government has already established reserve banks, and has some 40 or more?

Senator WEEKS. Forty-eight.

Senator NELSON. Forty cities.

Senator SHAFROTH. Forty-seven.

Senator NELSON. Forty-seven cities, and three central reserve cities; but there are many banks in these cities.

Senator REED. Well, that is what I meant to say. I meant to say cities instead of banks. That system has been gradually extended.

Mr. KENASTON. It has grown up with the country.

Senator REED. And it seems to be a necessary thing to have that money in these reserve cities in order to properly distribute——

Mr. KENASTON. Well, it is a matter of convenience.

Senator REED. Yes.

Mr. KENASTON. And the speedy handling of business.

Senator REED. Now, it is proposed to practically wipe out that system, as I understand it, and bring it to 12, and some bankers want it brought down to 5, and then some other bankers want it brought to one city. Do you think that would be a wise thing in this country?

Mr. KENASTON. Do you mean to eliminate the reserve cities and handle all that business through the proposed Federal banks?

Senator REED. Twelve banks.

Mr. KENASTON. No; I do not think it would be a good plan. In the first place, it would take too long to convert the exchanges of the country into real money. These large bankers tell me that they have in their transit account, traveling back and forth over the country, in process of collection, millions upon millions of checks, drafts, and exchange of that sort that is constantly out, on which they get nothing at all. Now, the farther that stuff has to go, the longer it takes to get them returned.

Now, the district of country that you have just been speaking about—Mr. Harrington gives me the information that the district in the Northwest is 1,700 miles east and west and 400 miles north and south.

Senator POMERENE. What district are you speaking of?

Mr. KENASTON. Speaking of the district west of the Mississippi.

Mr. WELLS. Excuse me—the district which the Federal reserve bank located at Minneapolis would have to cover in order to provide the capital required in this bill to organize a Federal reserve bank.

Senator REED. What is the size of that, again?

Mr. WELLS. Seventeen hundred miles by four hundred miles.

Mr. KENASTON. Seventeen hundred miles east and west and four hundred miles north and south.

Senator REED. Can you gentlemen not readily see that in a little district like that, personal inspection and personal knowledge would be easily acquired? [Laughter.]

Mr. KENASTON. Well, we are all honest out there; do not have to be inspected. [Laughter.]

Senator REED. I do not think I want to ask any more questions.

Senator HITCHCOCK. Senator Pomerene, have you any questions to ask?

Senator POMERENE. No. I did not have the pleasure of hearing the witness's statement.

Senator HITCHCOCK. Senator Shafroth, have you any?

Senator SHAFROTH. Yes. Mr. Kenaston, you said that your paper was six months' paper?

Mr. KENASTON. Yes.

Senator SHAFROTH. And nearly all the paper of the manufacturers and of the merchants was six months' paper?

Mr. KENASTON. Yes.

Senator SHAFROTH. And you therefore fear that the banks would not have enough paper of the kind prescribed in the bill to get relief from the Federal reserve banks?

Mr. KENASTON. Yes.

Senator SHAFROTH. Do you not overlook one thing, and that is that at least half of this paper would, on the average, be available under the bill?

Mr. KENASTON. Why?

Senator SHAFROTH. Because 90 days would have expired, and then it is perfectly legal for the bank to use that paper for the purpose of getting relief from the Federal reserve bank under the bill.

Mr. KENASTON. Yes; but they have not got any.

I go into a bank some day and I want $200,000. I have got to pay for a cargo of steel and iron coming through the Lakes. I say I go to a bank and want $200,000 very often—not so very often, but I have done it when I needed it to make a payment on a purchase of material. They say to me, "How soon can you pay that?" I say, "Well, I can pay you that"—we will say it is in April; navigation is open then. We will say it is the middle of April. I say, "I can pay you that money back one-half of it in October and one-half in November." That is beyond six months.

Now, I can borrow in that way under the present conditions. Now, if you will tell me how I can do it under this proposed system, I will be very glad to have you do it.

Senator SHAFROTH. Oh, you can just keep on doing it the same way you do now. But those notes become available to take to the Federal reserve banks and get the relief which they desire after such a length of time as has expired as to make it 90-day paper.

Mr. KENASTON. Yes.

Senator SHAFROTH. Now, if the Minneapolis bank had to discount all this paper, then there might be some very serious objection. But when you consider that it is a very little amount of money that is necessary to relieve the situation, it becomes a different problem. You take, for instance, the questions that were suggested by Senator Reed, in which he said that $40,000,000 deposited by the United States Treasury in the New York banks stopped the banks, but that $40,000,000 more would have permitted the payment of moneys in the usual and ordinary times.

Now, comparing that $80,000,000 with the total amount of credits that are outstanding, and you have a contrast of $80,000,000 with $20,000,000,000, and consequently there is very little money needed in this bank or any bank that has to be taken to the reserve bank in order to relieve the situation.

Do you not think that the Minneapolis banks would have of the paper that was available under this at least 10 or 5 per cent that would be such that they could discount it without any question?

Mr. KENASTON. Senator Shafroth, you have got right down to the point now, as to how business is done on credit. There is very little money to do business, because it can all be done on credit. But the moment you begin to shorten the term of your credits you restrict them. The credit becomes shortened——

Senator REED (interposing). You said, if I understood you correctly, that the moment you limit the use of credit you made your——

Mr. KENASTON (interposing). The moment you reduce the length of credit—that is, you shorten it up—then you reduce credit itself, because credit, like everything else, has to be placed in accordance with its abilities to take care of itself. Do you gather what I mean?

Senator SHAFROTH. Yes, Mr. Kenaston. Now, you take in a section of country like ours, where our credits have all run for a great many years on a six months' limit, and sometimes a little longer, but no shorter than six months. Do you not see that when you come to contract that credit to three months you are cutting down the abilities of the people who utter this paper to make good when it comes due?

Senator SHAFROTH. But there is no——

Mr. KENASTON (interposing). And you are putting yourselves and your banks in a hole in attempting to——

Senator SHAFROTH. But there is no requirement that this money—that this credit that the Minneapolis bank extends to you—should be within 90 days. Now, let me illustrate my point——

Mr. KENASTON (interposing). Yes; I know your point. Now, if you will just let me go a step further. If you will remember, I said that our section of country up there was a seasonable country?

Senator SHAFROTH. Yes.

Mr. KENASTON. We can only collect money once a year, and that is during the marketing season in the fall, when the crops are being sold and money paid off, and people mean to have their settlements completed about the 1st day of January.

Senator SHAFROTH. Yes.

Mr. KENASTON. Now, the borrowings begin, we will say, at that time, and everybody wants to borrow in the same way. Well, what are you going to do? We will say that the banks up there have got in the neighborhood of $60,000,000 of loans.

Senator NELSON. More than that. There are three big banks that have that amount.

Mr. KENASTON. I am speaking of the three big banks. They may have to-day $70,000,000 of loans. And I will guarantee that the great bulk of that stuff—$60,000,000 of it—is six months' paper.

Senator McLEAN. Does not most of it become due either in October, November, or December?

Mr. KENASTON. Yes.

Senator McLEAN. Then, you have in the spring——

Mr. KENASTON. Yes; but I am saying now when that paper was taken.

Senator McLEAN. Yes; I know——

Mr. KENASTON (continuing). I will guarantee you that there is $60,000,000 of it that went into the banks as six months' paper.

Senator McLEAN. Well, a large per cent of it would then be 90-day, and so available for that currency just when you want it.

Mr. KENASTON. I will qualify that statement as to the amount by saying that it is about $60,000,000.

Senator NELSON. How much?

Mr. KENASTON. About $60,000,000 in the three banks.

Senator NELSON. $60,000,000; yes. I think that is right.

Mr. KENASTON. I will say that when that paper went in there there was $50,000,000 of it that went in as six months' paper.

Senator McLEAN. In the spring the demand for credit is at a low ebb—that is, for cash—is it not?

Mr. KENASTON. In the spring?

Senator NELSON. No; it is plentiful then.

Senator McLEAN. The demand for currency is great, then, is it not?

Mr. KENASTON. No; you are mistaken as to that in our country. That is true in some places, but in our country it is different.

Senator McLEAN. You want your credit in the spring; but your demand or the press for currency is in the fall, to move your crop, is it not?

Mr. KENASTON. Well, that is when it requires so much currency——

Senator McLEAN (interposing). And would not a large percentage of this paper, if it goes out in December and January, be at that time 90-day paper, so that it would be available?

Mr. KENASTON. No; the grain people can handle their cash grain on very little money; that is, very little borrowing. It is the stored wheat that they are carrying over until May and June that they want to borrow money on. That is why they borrow money for six months.

Senator McLEAN. Yes; you want to get your credit then; to sell your notes then. But the point I wanted to inquire about is whether it would not automatically, this system as is proposed in this bill, provide a large amount of paper, which at that time would have less than 90 days to run—just at the time when the press for currency is greatest, so that it could be used?

Mr. KENASTON. You could do that very conveniently by shutting off sufficient of your customers and telling them "We have taken on all this six months' paper now. If you will wait six months, we will let you have that money that you want"—by fixing the amounts that they would take during this three months' period and being very careful in their mathematical calculations respecting that they could undoubtedly do it.

Senator REED. Well, let me inject at that point the statement that that would be putting your banks in a position where they could occasionally and at intervals get advancements from the reserve bank.

Mr. KENASTON. Yes.

Senator REED. Whereas in the country where they did business—where they did business on short time—and did it as a matter of choice, as for instance, New York City, they would have a constant flow of this paper into their vaults, and they could have the advantage of this bill all the year around. You would get it occasionally.

Well, now, that is just in consonance with what we have been experiencing in most legislation of this country for about 40 years, is it not, that the big fellow down East was fixed up to suit him, and you people up in Minneapolis——

Mr. KENASTON (interposing). Well, you are trying to reform us just now, are you not?

Senator REED. I am just asking you whether you ought to be satisfied if you get a "look-in" somewhere around the corner?

Mr. KENASTON. We are very well satisfied, so far as that is concerned.

Senator HITCHCOCK. Senator Shafroth, would you prefer to continue your questions this afternoon, or to resume to-morrow morning?

Senator SHAFROTH. I would like to finish this afternoon, if I can.

Senator HITCHCOCK. When Senator Shafroth has finished, we will take a recess until to-morrow morning.

Senator SHAFROTH. Now, your idea is that this paper for these loans all falls due about the same time?

Mr. KENASTON. Not all the same time.

Senator SHAFROTH. But nearly all falls due about the same time?

Mr. KENASTON. Because they will perhaps be coming in all the seasons of the year, but they are six-months paper.

Senator SHAFROTH. Well, then, half of the paper will be eligible to go to the reserve banks and be used all the time under the bill.

Mr. KENASTON. But we can never tell whether that is so or not. There will be some of it——

Senator SHAFROTH (interposing). Well, unless it is all due at certain times that would seem to be the case.

Mr. KENASTON. But you have established a maximum time of maturity under the bill.

Senator SHAFROTH. Yes.

Mr. KENASTON. Beyond which you can not take any of this paper to the reserve bank.

Senator SHAFROTH. But every 6-months paper gets to be 90-day paper, at some time, does it not?

Mr. KENASTON. You are guessing altogether too much, it seems to me, because you can not depend upon the conversion of six months' paper into three months' paper by any way you can figure it, and at the same time accommodate your customers in the way you want to.

Senator SHAFROTH. If the bank wants to take paper out for 6 months, at the end of 90 days, it can use it. Now, I want to call your attention to this, that these loans fall due in January, and that there was an excess of loans——

Mr. KENASTON (interposing). But we were talking about the country banks.

Senator SHAFROTH. Well, take the country banks—I understood you to say the Minneapolis bank. But here is a report of the Comptroller of the Currency for the fiscal year ending June 30, 1912. Take all the Minnesota banks, together, outside of the city of Minneapolis, and you have loans and discounts:

Dec. 5, 1911	$82,000,000
On Feb. 20, 1912	81,000,000
On Apr. 18, 1912	84,000,000
On June 14, 1912	85,000,000
On Sept. 4, 1912	86,000,000

Now, there is hardly any variation; there is not a variation of more than 3 or 4 per cent at any time.

Mr. KENASTON. I suppose you are aware of the fact that the banks, when they have a surplus of money that they do not want to tie up on long-time loans—for instance, in January, they will want this money in February or March; they hunt up some man that is willing to borrow a little money of the bank for 30 days. That all goes in as "loans and discounts" just the same. You can not count that as local loans.

Senator SHAFROTH. Well, I do not think there is much paper of that kind floating around. They generally put it in reserve banks or in their corresponding banks.

Mr. KENASTON. There is a great deal of that.

Senator SHAFROTH. Now, I notice here, "Due from national banks," "Due from State banks," and "Due from reserve agents," and they vary a little; but they do not vary as much as 3 per cent during those dates.

Then you take the Minneapolis banks, and the amount which they had in loans and discounts was, on—

Dec. 5, 1911, was	$53,000,000
Feb. 20, 1912	52,000,000
Apr. 18, 1912	52,000,000
June 14, 1912	53,000,000
Sept. 4, 1912	57,000,000

Now, there is very little variation in that.

And then, "Due from national banks," and "Due from State banks," and "Due from reserve banks," which, tabulated, make a change of not more than 3 per cent at any time.

Now, that being the case, shows, does it not, conclusively, that there is paper in that bank, to a large extent at least—I will say 10 per cent of its paper that at all times would be available to carry to the reserve banks?

Mr. KENASTON. Ten per cent of its paper?

Senator SHAFROTH. Yes.

Mr. KENASTON. Very likely.

Senator SHAFROTH. Well, does it not show——

Mr. KENASTON (interposing). Wait just a moment, please. Very likely that is true, 10 per cent of it.

Senator SHAFROTH. Yes.

Mr. KENASTON. But you will notice from the very levels under which those reports are made there that those banks are carrying—that whenever they accumulate a little more cash than they need they invest it in something that will be payable in a short time, 30 days or 60 days, at a low rate of interest.

Senator SHAFROTH. Well, that 30 or 60 days is good for this very thing, is it not, under the proposed bill?

Mr. KENASTON. That is done so that they can rely upon getting it when the money is needed for some purpose. That is why they remain upon such an even level.

Senator SHAFROTH. That is the very reason there would be so much more that could go to the reserve banks and furnish the basis for getting the money.

Now, I want to call your attention to the fact that there never will be a demand for 10 per cent of the loans of the banks on the reserve bank, and I will tell you why. The total credits of the country are $20,000,000,000. Ten per cent of that would be $2,000,000,000. Nobody will say that any emergency on earth could not be stopped for $200,000,000, and consequently you will never have occasion to take from the reserve bank more than 1 per cent of the loans and discounts of a bank, and consequently there are ample loans to obtain the required amount.

Mr. KENASTON. Well, I do not know. That is problematical.

Senator NELSON. You are assuming there that the condition of the banks all over the country is the same.

Senator SHAFROTH. Well, you will take one bank and it will relieve another. A New York City bank, as Senator Reed has shown distinctly, will relieve the entire situation.

Senator REED. But, Senator Shafroth, are you not overlooking this? You establish your reserve bank. The banks in Minneapolis carry down their 10 per cent of their capital and put that in. That shortens them up that much. They take down 5 per cent of their deposits and put that in.

Now, they want to get it out. It is recognized here on every hand that the banks will almost immediately borrow back from the central reserve bank the moneys they have put in. Now, when they go to borrow that money back they have to incur either their own direct obligation or they have to put up paper, or both, which meets the requirements of this law; and they have got to put up either their own paper, which is short-time paper, or they have got to put up the notes of other people that is short-time paper.

Now, if they put up their own notes, which are short-time paper, and then their money in the course of business up there is long-time paper, you have crippled that bank in its ability under that system to meet its obligations. I do not say it is impossible to meet them.

Now, compare the condition of that bank with a bank down East, where they do business on short-time paper, where it is all on that basis, and you can manifestly see how this system would be unjust to the bank at Minneapolis in comparison with the bank of New York or Boston or Kansas City or St. Louis.

Do you think we ought to be making a system of banking that interferes with the course of trade?

Senator SHAFROTH. The difficulty with your proposition is, you are assuming it is going to be large amounts, enormous amounts, and it is going to cripple the banker. It does not cripple the banker any more under this new system than it does under the old system. The country gets the amount of loan reserves reduced from 15 to 12 per cent, and from 9 to 5 per cent in other banks. You will find it is a very insignificant amount. It does not have it put out of its reach. It does not have as much money under this new system as it does under the system now.

Consequently, that being even, say, you then come to the question whether or not you have enough notes, mortgages, and discounts in your bank, coming back in time of stress, to borrow money on—and it will not take over 1 per cent to do it in order to relieve the situation. One per cent would make it at least $200,000,000, and $200,000,000 of currency put into this Nation at one time, or within a period of a month, would relieve any stringency on earth, and if it were 5 per cent it would be a billion dollars of currency thrust into the Nation.

Senator NELSON. But you must remember, Senator, this scheme involves the elimination of the national-bank notes, and you must have some currency in place of it.

Senator SHAFROTH. Of course you know my position on the national-bank notes. I hope it will be taken care of in full, legal-tender United States notes.

Senator REED. Let me show you where I think your argument fails. You contend that if the bank already has 10 per cent of paper that is short enough in its time so that it could be used, that is all it needs. Now, one bank has got 10 per cent of that kind of paper and here is another bank that has 100 per cent, and you make a system for the 100 per cent bank.

Senator SHAFROTH. No; you do not. Either bank can come in and demand the amount of currency it wants.

Senator REED. Exactly; but you make a system one bank can comply with and the other can not—that is, one has got all of its assets for emergency use and the other only has 10 per cent it could use.

Senator SHAFROTH. If it is all there when you need it, it has.

Senator REED. It has not been developed that this 10 per cent is, any part of it, prime commercial paper of the character that is attempted to be described in this bill. I do not think it has described anything, but they have attempted to put a limitation upon paper by limitations. One is the time it runs; the other is that it shall be prime commercial paper, which some witnesses have undertaken to say is an acceptance, should be limited to an acceptance, representing an actual shipment or purchase of goods, and others have widened that description and said that it can represent, perhaps, something outside of that. But you have your prime commercial paper.

Senator SHAFROTH. Yes; but the gentleman's very statement in regard to his borrowing 200—or going in and saying he wants to make a purchase of $200,000 worth of goods, or worth of lumber, or whatever it is, shows his transaction comes directly within the definition of prime commercial paper.

Senator REED. No; it does not. I do not think you can take that illustration which was used to assert a particular idea and say that means the paper in the bank is of that kind. I take it the paper in the bank may represent a farmer's note. Is not that true?

Mr. KENASTON. Very often.

Senator REED. It may represent the note of a man that is building a business block or putting up a factory or engaged in any one of the thousand things you engage in.

Mr. KENASTON. Yes.

Senator REED. So it does not follow your 10 per cent of paper that is within 40 days or 90 days is commercial paper.

Senator SHAFROTH. Don't you think of a million dollars of loans and discounts there would be at least 10 per cent that would be available?

Senator REED. Decidedly; but I think that you are creating a system—you are a banker and I am a banker, and you create a system which I can use every day in the year with all of my paper, because I have that paper to the amount of 100 per cent, and you only have 10 per cent you can use that way, and I will skin you to death.

Senator SHAFROTH. No you won't, because you will only use this in case of an emergency.

Senator HITCHCOCK. If Senator Shafroth is through with Mr. Kenaston we will take a recess until 10 to-morrow morning.

[Proceedings of Wednesday, Sept. 24, 1913.]

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

The committee assembled at 10 o'clock a. m.

Present: Senators Hitchcock (acting chairman), Reed, Shafroth, Pomerene, Harris, Nelson, Bristow, McLean, and Weeks.

Senator HITCHCOCK. Mr. Kenaston, Senator Bristow has a few questions he would like to ask you.

Senator BRISTOW. I was interested, Mr. Kenaston, in a suggestion that Senator Reed made last night, and your response to it, in regard to individual banks, or groups of banks, in the various sections of the country going direct to the Treasury and getting this currency upon their assets, the same as the regional banks would go and get it; and in that way avoid the general tariff on the banking and credit system which the creation of this new organization would bring about.

Some of us have felt that if we could have the banks vested with a certain legal right to hypothecate certain kinds of securities for currency in time of need, and have them taxed, so that when the pressure of business were over the currency would automatically retire itself, it would be far better than to create this—what we regard artificial and unnecessary—machinery.

The criticism has been made that the plan suggested would not be practicable, because it would not be practicable for the Comptroller of the Currency to deal with so many units—these banking units. And your suggestion that groups of banks might be organized within the States, or within certain territories, so as to give an added security—all of them assuming responsibility with each other for this currency—I should like to ask you about that. About what sized groups do you think would be necessary, from your business experience, if such a plan as that should be worked out?

FURTHER STATEMENT OF F. E. KENASTON, OF MINNEAPOLIS, MINN.

Mr. KENASTON. Well, in the Northwestern States they have associations of banks, group associations, that meet occasionally to discuss their own affairs; and offhand I would suggest that these banks be grouped in much the same manner.

There could be the bank in one congressional district, perhaps, where the bankers would get acquainted with each other, and that acquaintance naturally would bring a certain degree of confidence between them, and they would work together, perhaps, more comfortably, more satisfactorily for that reason.

Of course, the western country is a country of large distances, and I should think that these groups ought to be placed so that they would be located conveniently together, as much so as possible. I think the banks might be classified as to their size, their capital stock, so that each group would be practically on the same plan of interest.

Senator BRISTOW. How many groups are there in the State of Minnesota in these bankers associations?

Mr. KENASTON. I do not remember the number of groups, Senator Bristow; but there are quite a number of them—I think there are nine.

Senator BRISTOW. Nine groups?

Mr. KENASTON. Yes; nine groups.

Senator BRISTOW. That is practically one for each congressional district?

Mr. KENASTON. Practically so; yes.

Senator BRISTOW. I think we have four out in Kansas; that is, one for every two congressional districts.

Mr. KENASTON. Yes.

Senator BRISTOW. These bankers meet once or twice a year, or periodically, at least, and discuss conditions in their section of the country.

Mr. KENASTON. In their immediate section; yes, sir. And they are usually grouped together with reference to the same class of business. For instance, the banks in a mining section of country would perhaps naturally be drawn together, and those in a grain-raising section of country would be drawn together.

Senator BRISTOW. Senator Reed, I want to invite your attention to this.

Senator REED. I am listening.

Senator BRISTOW. The suggestion of Mr. Kenaston is very interesting to me about forming these voluntary groups. Now, State and national bankers meet together there, do they?

Mr. KENASTON. Yes; State and National bankers meet together.

Senator BRISTOW. If the congressional district was made the unit, then it would be, of course, comparatively easy for the Comptroller of the Currency to deal with such an organization as that?

Mr. KENASTON. Yes. But, of course, there might be reasons for its division through congressional districts, and by reason of the different kinds of business that these banks had to take care of.

Senator BRISTOW. Yes.

Mr. KENASTON. The different class of securities.

Senator BRISTOW. Well, if these banks, then, as I understand you, have means by which, when there is a stress because of any business condition that is unusual, such as the moving of a heavy crop or something like that—if they have means by which they can get relief that was determined upon the same character of security that is proposed under any system, it would remove a great many objections from the bill, would it not?

Mr. KENASTON. I think it would.

Senator BRISTOW. Then you made another suggestion last night, during Senator Reed's interrogatories, that interested me very much, and that was in describing the area of the region of which St. Paul would be the center if a regional bank was established at St. Paul, stating that it would reach the Pacific Ocean and be 400 miles wide and 1,700 miles long.

Mr. KENASTON. Yes.

Senator BRISTOW. And that would be apt to give some of our eastern friends here a notion of what kind of a country we have got out there.

Senator NELSON. It is 1,700 miles east and west and 400 miles north and south?

Mr. WINSTON. I will say, for the information of the committee, that Mr. Mosher went over this thing very carefully last night in order to group these banks so as to give the necessary amount of capital. His statement shows that in the group which he has arbitrarily made which would probably be the group tributary to the twin cities as a center. I think it is about 1,400 miles long east and west, practically, and about 600 miles wide north and south. And in that group he has been able to find, if all the banks entered the system, about $6,000,000—if all the national banks entered.

Now, that is probably as close a group as you could make, in view of the fact that some banks might not come in, and that if the State banks did come in, they would reserve their right to come in, but only enter the association when they saw fair weather ahead.

Senator BRISTOW. That would make the territory, then 600 miles wide and 1,400 miles long, a still larger area than the one suggested of 400 miles wide and 1,700 miles long?

Mr. WINSTON. Yes.

Senator BRISTOW. If a regional bank was established then, at the twin cities, it would have to come far enough to the south to take in the State of Nebraska?

Mr. WINSTON. No; it would go to Iowa.

Senator BRISTOW. It would take in Iowa, and the line would run west——

Mr. WINSTON (interposing). Iowa and South Dakota——

Senator BRISTOW. Then it would run west?

Mr. WINSTON. It would run west, taking in Montana and a part of Wisconsin also, I think.

Senator REED. Well, when we are speaking of that, Iowa is not financially tributary to your country, but to Chicago, is it not?

Mr. WINSTON. If it takes in the whole of Iowa, it would make a fraction over $600,000,000 capital for the group, the 10 per cent as cash asset.

Senator REED. In order to take Iowa into this district, you would have to take it out of that territory where it now does its business. It does nearly all of its business with Chicago.

Mr. WINSTON. According to Mr. Mosher, who has been with the Citizens' League——

Senator NELSON (interposing). This was on the theory of making Minneapolis and St. Paul the center.

Mr. WINSTON. The northern half of Iowa is tributary to the Twin Cities; the southern half might not be; it might be tributary to Kansas City or to Chicago.

Senator REED. It is principally Chicago, as a matter of fact.

Mr. WINSTON. Yes; principally, I think.

Senator BRISTOW. Mr. Untermyer, of New York, who is very ardently in favor of the bill, has spoken of one of its strong points being the possibility of enabling the nine directors of the regional bank to become familiar with the financial responsibilities of the various banks within the region, by personal knowledge.

If the same area was required for a regional bank located at Boston, the western line of that region would take in Minneapolis and St. Paul, and come farther south, or as far south as Philadelphia. So that if you transferred that region, in area, which would have to be created in order to give a regional bank at Minneapolis and St. Paul, each, and located it at Boston or New York, that area would take in Minneapolis and St. Paul, Philadelphia, New York, and Boston.

Senator NELSON. That is, in the matter of land.

Senator BRISTOW. In the matter of area.

Senator NELSON. Yes.

Senator BRISTOW. If Mr. Untermyer was here, I think we would get a little better construction than he seems to have of the magnitude of the United States and the utter inability of any nine men to become familiar with the local condition in an area of that size.

Mr. KENASTON. Senator Bristow, that brings up the suggestion that I made last evening, which I would like to read you again, that this committee visit the West. They can see for themselves very much better, and, I think, with more satisfaction than any of us could be able to tell them what the conditions are.

Senator REED. Now, you must except from that a few of us who live out in that country. But I think it ought to be made obligatory upon a man who has been born and raised in New York to go out there.

Senator BRISTOW. That is a very interesting suggestion to me. I have lived west of the Missouri River for 40 years. I have traveled and visited every State in the Union, and I think I am a reasonable observer of conditions——

Senator REED (interposing). Have you made the Chatauqua circuit, Senator Bristow?

Senator BRISTOW. Well, I have not made any speeches on it.

Senator NELSON. Well, I have lived 40 years in a country that would have been composed entirely of Frenchmen if it had not been for Thomas Jefferson. [Laughter.]

Senator BRISTOW. Now, your delegation yesterday afternoon, Mr. Kenaston, told me things about your methods of business within 600 or 700 miles of my home, where I have lived for 40 years, in a State that I have visited a number of times, that I have never heard of before—this seasonal-market period.

Mr. KENASTON. Yes.

Senator BRISTOW. And I do not believe, outside of Senator Nelson, that there is a member of this committee that knew anything about the industrial and commercial and financial habits that those people have there. And your knowledge of that fact has led you to make this suggestion, that the committee ought to visit that country?

Mr. KENASTON. Yes.

Senator BRISTOW. What advantage do you think the committee would obtain from a visit that it can not get from delegations coming here, just as you gentlemen have done?

Mr. KENASTON. I think, Senator Bristow, if the fact were advertised that this committee and a subcommittee from this committee was to visit the cities of St. Paul, Minneapolis, Duluth, or Fargo, N. Dak., or Billings or Helena, Mont., and a general invitation was sent out to the business men, farmers, and the bankers, I think you would have very large delegations coming to see you. And from those delegations you would be able to glean information with reference to the needs and requirements of the different sections of country which I believe would be of great value to you in framing the bill.

Senator REED. Do you think a bill of this importance can be framed without a close study of the commercial conditions in various parts of the country—that it can be safely framed?

Mr. KENASTON. I do not.

Senator BRISTOW. Well, is it your idea that a committee, either this committee or a subcommittee of it, if it visited Helena, for instance, should have a hearing there for a day or two?

Mr. KENASTON. Yes.

Senator BRISTOW. And let citizens of the community that were interested in the subject, or that might be selected by the Senators, or the Members of Congress representing the district, appear before the committee?

Mr. KENASTON. Yes.

Senator BRISTOW. And outline to the committee the conditions that exist and their opinion as to how this legislation will affect their territory?

Mr. KENASTON. Yes.

Senator REED. Senator Bristow, may I ask a question at this point?

Senator BRISTOW. Yes.

Senator REED. Do you believe that there is 1 man out of 1,000 in your community—your part of the country—who understands even the naked outlines of this bill?

Mr. KENASTON. Well, not——

Senator REED (interposing). Has it been discussed; has it been thoroughly discussed by the people in any way, in public meetings?

Mr. KENASTON. No; this bill——

Senator REED (interposing). In the press, or in any other way—thoroughly discussed?

Mr. KENASTON. No; this bill, I do not think, has been discussed. Mr. Mosher just tells me that this bill, during the last 19 months—or this proposed legislation—has been discussed in 56 different towns and commercial clubs.

Senator NELSON. In Minnesota.

Mr. KENASTON. In the State of Minnesota.

Senator REED. Well, this bill could not have been discussed for 19 months.

Mr. KENASTON. This proposed legislation.

Senator REED. Because nobody knew what it was 19 months ago. Of course, the subject of currency reform may have been discussed that long ago.

Mr. KENASTON. Well, the discussion originally was on the report of the Monetary Commission.

Senator REED. Oh, yes.

Mr. KENASTON. And that has led up, I suppose, to suggestions and proposals for new legislation. But this bill, as it stands to-day, I do not suppose has been discussed very much—except, perhaps, by people who are intensely interested in having good banking opportunities and in having currency, or money, that could be borrowed as it was needed.

Senator REED. There has been no general public discussion of this bill or any other bill nearly enough like it so that we can say that it is a similar bill?

Mr. KENASTON. No; I do not think so; I do not think there has been.

Senator BRISTOW. Well, do you not think it would be possible, if it should not be convenient for the committee to visit your section—I am very much interested in your suggestions; indeed, I would like to have some of the gentlemen who have appeared before us and talked so wisely about currency legislation go out into that country and come into contact with the people and discuss with them some of their ideas. I think it would be very educational to some gentlemen who are very learned now, so far as theories go. But if that should not be practicable, could we not get a fair notion of the conditions and the necessities of the national banks by having delegations, such as yours, come here to represent these communities?

Mr. KENASTON. Yes; you could undoubtedly get a fair idea of what the people want from every community by a delegation of its people coming here to you; but I still believe that you would get very much closer to the people if you visited their section of the country. The information which we might give you here to-day would be corroborated by a personal visit to our section of the country.

Senator BRISTOW. Do you think that we could get a more accurate impression of the conditions there by personal contact with a larger number of people and by observation than by hearing them here?

Mr. KENASTON. I think you would be better satisfied with the evidence, and it would impress you more by a personal visit; and I think if it was known that you were going to visit the different sections of the country for the purpose of having hearings on this bill, the general public would become interested in it and acquaint themselves with the bill and the different features of it.

Senator BRISTOW. Well, that impresses me very much.

Mr. WELLS. May I interrupt you, Senator, for one moment?

Senator BRISTOW. Yes; certainly.

Mr. WELLS. Assuming for the moment that your committee may not find it practicable to visit all sections of the country, if it were well known that you would welcome information from business men not inspired by the bankers—strictly business men, as distinguished from the banking fraternity—I believe that you would have visits volunteered from representative business men from all the States in the Union. There has been a general feeling that the committee was not prepared, was not ready, to receive such delegations, either from lack of time or from lack of disposition. In fact, we thought that we ourselves had a very hard task to perform to get you to permit us to come here and be heard. And that is the impression that is general throughout the country.

Senator REED. That idea of yours has been dissipated, has it not?

Mr. KENASTON. No, sir.

Senator REED. I say that the idea that you were not welcome here has been dissipated since your arrival, has it not?

Mr. WELLS. Oh, yes. We feel that we have had the most hospitable and generous treatment. And I have no doubt that the visit which this delegation has made and the welcome that it has received at your hands will result in a constant movement throughout the country, if the business men feel that time is going to be given to receive delegations here and afford them a fair opportunity to present their views, and I think you will find that they will be coming, at any rate; but with that knowledge that they will be welcomed, I am sure you will get an immense amount of information that you never would get from New York attorneys or bankers.

Senator SHAFROTH. How long do you think it would take this committee to visit all sections of the United States?

Mr. WELLS. Too long for you to do it. I have no doubt of that.

Senator BRISTOW. Well, now, I hope the time has not come when legislation affecting every community in the United States can be rushed through and the people not be given an opportunity to say how it affects them in their vital commercial and industrial relations. If we have reached that point in legislation, so that we can not take a few weeks' time to learn how the bill that is proposed to be passed will affect the country we are legislating for, I think we have reached a queer stage in American legislation myself.

Senator POMERENE. We are taking that time now, are we not?

Senator SHAFROTH. Do you not realize that we have had this same discussion going on ever since the Monetary Commission began, more than four years ago?

Senator BRISTOW. I do not think so at all. I think the Monetary Commission's bill is different; and I am just as much against that as I am against this, so far as that is concerned.

Senator HITCHCOCK. Gentlemen, we have two or three witnesses who desire to be heard. Are there any more questions to be asked of Mr. Kenaston?

Senator NELSON. I would like to ask a few, Mr. Chairman. Mr. Kenaston, is not the pressing defect of our monetary system lack of elasticity?

Mr. KENASTON. Well, that is one of the objections.

Senator NELSON. It is too rigid, based on bond circulation, and is not considered responsive to the wants.

Well, now the proposed bill—it is conceded here before the committee that the proposed bill is really an asset-currency bill—that is, is is based upon the commercial assets of the banks, backed by a gold reserve of 33⅓ per cent.

Now, suppose we give the Federal national banks that privilege: Instead of having a bond circulation allow them to issue a circulation, with a gold reserve, based upon their commercial assets, the same as it is proposed to do under this plan.

Would that not cover the situation if, in addition to that, we provided for a system of emergency currency?

Mr. KENASTON. That will retire itself?

Senator NELSON. Yes.

Mr. KENASTON. Yes; I think so.

Senator NELSON. In other words, give the national banks authority to eliminate their present form of circulation, allow them to have a circulation on the same plan as this bill, based upon commercial assets, backed by a gold reserve of 33⅓ per cent. Give the national banks individually, separately, that privilege, and then couple that with a provision by which they could issue emergency currency that could be retired when the emergency ceased to exist for its issue. Would not that solve or be one of the plans that might solve, the difficulties?

Mr. KENASTON. That would be one plan, I should say, to solve them.

Senator NELSON. Would not that be a simpler plan than this?

Mr. KENASTON. I think it would be very much simpler—less machinery, less complication, less expense.

Senator NELSON. That is all, Mr. Chairman.

Senator HITCHCOCK. Gentlemen, the next witness in the regular order would be another member of this delegation from Minnesota. But Senator Reed has had here for several days a banker from St. Louis, Mr. Breckinridge Jones, and I want to ask the members of the Minnesota delegation whether they would be willing to delay a little and allow Mr. Jones to intervene at this point?

Mr. KENASTON. Mr. Chairman, we have three members yet who desire to be heard.

But we are at the service of this committee. We came here at your invitation, generously granted to us. And we are willing to stay as long as you deem necessary if it takes a week. We would like, of course, to get away as soon as we can, but we are at your disposal.

Senator REED. It would be a personal favor to me if you would allow Mr. Jones to be heard now.

Mr. KENASTON. Our delegation is perfectly willing to conform its movements to your wishes.

Senator REED. I made the mistake of wiring to Mr. Jones that he could be heard here on Monday. I did it without knowing that your delegation was coming. So he came in response to that telegram, and I rather feel obliged to let him be heard now if practicable.

Senator HITCHCOCK. Mr. Jones, will you please take the stand and give your full name, business, and residence for the record?

STATEMENT OF BRECKINRIDGE JONES, PRESIDENT OF THE MISSISSIPPI VALLEY TRUST CO., ST. LOUIS, MO.

Senator HITCHCOCK. Would you like to make your statement in your own way, without interruption——

Senator REED. Just let me put one thing further in: What is the capital of your company?

Mr. JONES. $3,000,000 capital and about $5,500,000 surplus.

Senator REED. And what about your deposits?

Mr. JONES. Practically $16,000,000.

Senator REED. How long has the Mississippi Valley Trust Co. been in existence?

Mr. JONES. Since 1890.

Senator REED. You are a trust company organized under the laws of the State of Missouri?

Mr. JONES. We are.

Senator REED. What general lines of business do you conduct?

Mr. JONES. The general lines that are usual among trust companies in the large cities of the country.

Senator REED. You have various departments?

Mr. JONES. Yes; we have a savings department of about 20,000 depositors. We have current accounts of about 9,000.

Senator NELSON. You have commercial deposits, too?

Mr. JONES. We have what we call current deposits, upon which we pay interest. We pay interest upon all deposits subject to check.

We also have a real estate department that looks after the real estate that is connected with the trusts that are committed to us, we acting as executor and in the various trust relations, and in that way we have charge of a great deal of real estate; and we have a department that looks after that.

Senator NELSON. You loan on real estate mortgages?

Mr. JONES. We do.

Senator NELSON. Farm mortgages and all properties?

Mr. JONES. All kinds of real estate; also on collateral, and we buy commercial papers. We have, in round numbers, 40,000 customers.

Senator REED. That is all.

Senator HITCHCOCK. Now, would you like to make your statement in your own way, and would you like to be interrupted, or would you like to make your statement without interruption?

Mr. JONES. The main points I want to raise are very few. To run over them will take but a few minutes, and then I would be glad to go into any other questions.

Senator HITCHCOCK. Very well.

Mr. JONES. I appear, in the main, to discuss the question of the relation of State banks and trust companies under this bill. The bill as now drafted, under section 10, provides for the admission of State banks, banking institutions, and trust companies. Those three terms are used, I presume, because they represent three different businesses. But throughout the bill there is rather a confusion of terms, I think, and the suggestion that I want to make as to the use of those words is merely to make the bill plain as to what is the apparent intention. The views I have on that question are these: Section 10 provides that applications for stock in reserve banks by State "banks, banking associations, and trust companies," and afterwards, in that section, that the reserve board shall permit "such applying bank" to become a stockholder, apparently including a banking association and trust company under the term "bank." Elsewhere, all throughout the bill, apparently it is intended that a trust company, if a stockholder, shall be included in the term "member bank."

If throughout the bill instead of the words "member bank" the word "stockholder" had been used, there would be no reason for doubt. The right of becoming stockholders and the right to discount are of such paramount importance to trust companies that such rights should not be left to construction but should be specially mentioned. I mention this because once in my State, years ago, when our city charter provided for bidding on city deposits by banks and banking institutions, the city counselor, on technical grounds, held that a trust company was not included in those terms, and the trust companies were then not permitted to bid. The defect could be remedied by saying somewhere in the bill that "the words 'bank' or 'member bank' wherever used in this act shall be construed to include 'trust company.'" I mentioned that because—it may not be exactly the way to reach it—in several places in the bill the words "banks" or "banking associations" are used, and in some instances evidently are not intended to include trust companies.

Senator HITCHCOCK. The words "banking association" are generally used to include national banks, which are just technically designated as "national banking associations."

Mr. JONES. But in the provision where you find that State banks or banking institutions are especially permitted to nationalize the use of the word "bank" or "banking institutions," I take it, is intended not to apply to trust companies, and therefore that confusion arose until during the last few days in the bill in the House the word "stockholder" or "shareholder" and other general terms were used; and then in the general revision the term "member bank" was put all through. Now, if trust companies are included in "member banks," it is clear their rights will be defined.

Senator REED. That would all be covered by a line?

Mr. JONES. It is very simple.

Senator REED. It would be all right if you say "the term 'member bank' shall include any bank holding stock or trust company holding stock."

Mr. JONES. That will be entirely satisfactory. It is almost a clerical question I am raising; but I think there are some things in doubt from the trust company standpoint, and as I am interested in that feature all my views are taken from the standpoint of the trust company; and that is a simple suggestion to make the bill plain on what I think it means. Now, to add to the popularity of the bill and to make it a success, it is very desirable to open the door to trust companies the same as to State banks.

In section 20, page 37, line 5, country banks, whether national, State, or trust companies, would be required to keep reserves in a national bank; that is, during this 36-months period. It would be an undue and unnecessary hardship on the country State banks and trust companies wishing to join the system, having now their balances in other State banks or trust companies, to be forced to change such balances to national banks.

Senator REED. What section is that?

Mr. JONES. Section 20, page 37, line 5. I will read that part of it.

Senator NELSON. You are clearly right about that. That ought to be amended; otherwise they will have to transfer their balances—their reserves—from State banks to national banks.

Mr. JONES. Yes; I think that is just a detail that has not been worked out in the bill, and I only suggest what I think will make it mean what it intends to. Now, it would be an undue and unnecessary hardship on the country State banks and trust companies wishing to join the system and having now their balances in State banks and trust companies to be forced to change such balances to national banks, and it would also be unjust and unnecessary to force central reserve and reserve city State banks coming into such a system to lose such deposits. The words "national banks" there used should be changed to "member banks" or the defect otherwise remedied. In other words, anyone who comes into the system as a "member bank," keeping their reserve requirement subject to examination, should be a competent reserve agent for another banker.

Senator SHAFROTH. Is it your suggestion to strike out "national" in line 5, page 37, and insert the word "member"?

Mr. JONES. Yes; that is my suggestion. And the same idea, exactly, occurs in speaking of a different class, on page 38, line 4. It is just the same thing exactly. On page 38, line 4, "national bank" should be changed to "member bank."

Senator SHAFROTH. Now, will you give me, in your language, the suggestion that you made that trust companies shall be included in the words "member banks"? Give me the language you want to use.

Mr. JONES. The thing that I suggested—I do not know how material it is—is that the word "bank," or "member bank," wherever used in this act——

Senator SHAFROTH. Where would you want it to come in this bill?

Mr. JONES. The term "member bank" being used all the way through, I think it might possibly be put in at the end of section 10, which is the section that especially provides for State banks and trust companies coming into the system. It seems to me that would be the natural place for it.

Senator SHAFROTH. Now, will you give it to me, so that I can put it in here?

Mr. JONES. It will read after that section when finished:

The words "bank" or "member bank," wherever used in this act, shall be construed to include trust companies.

Senator NELSON. You use at the top of line 16 the term "applying banks." You had better carry your definition a little farther and say "member bank, applying bank, or trust company."

Mr. JONES. I take it when you take the word "bank," the word "applying," or any other adjective, would not change it. When you use the word "bank" that would be sufficient.

Senator SHAFROTH. Then, as I have it here, your suggestion is the words "bank" or "member bank," wherever used in this act, shall be construed to include trust companies.

Mr. JONES. Trust company.

Senator NELSON. And it would probably come in best at the end of the section.

Senator SHAFROTH. Yes; that is where I put it in.

Mr. JONES. I will come back to that section in a moment with another suggestion, but I want to finish this question of reserves.

In section 10, page 16, line 16, State bank and trust company members are required to comply with the reserve requirements applicable to national banks. That is all right if it refers only to amounts, but it might be construed that member State banks and trust companies should keep their reserves in national banks, which would be unfair to the State institution members. If you use the sweeping language that "the reserve requirements applying to national banks should be applicable to trust companies" it might be construed that not only the amounts, but the places where they should be kept, would be similar. I think you have removed that objection.

Senator REED. What page is that?

Mr. JONES. That is on page 16, line 16.

Senator REED. What is your suggestion there?

Mr. JONES. To meet the views I have, it would mean that the reserve requirements as to amounts.

Senator SHAFROTH. You know the reserve requirements are no longer as to national banks. They are to be deposited in the Federal reserve banks.

Senator NELSON. But it takes 36 months before you complete the system. There is a transitory period, and I think your contention is fully justified.

Mr. JONES. Yes; I think it is the purpose of the bill.

Senator NELSON. After 36 months the objection will be eliminated.

Senator SHAFROTH. Will you dictate your language in the place where it is to be inserted?

Mr. JONES. I should insert it after the word "requirements."

Senator NELSON. "As to amounts"?

Mr. JONES. Yes. On page 16, line 16, add the words "as to amounts."

Senator NELSON. Yes; that would cover it. It would read then

> to comply with the reserve requirements as to amounts and submit to the inspection and regulations provided for, etc.

Mr. JONES. That makes the bill consistent, I think, with what it is intended to be.

Senator NELSON. It is intended to cover this transitory period of 36 months?

Mr. JONES. Yes.

Senator NELSON. Because after that there will be no occasion for it.

Mr. JONES. Now, in section 27, page 44, savings departments of national banks are required to keep only 5 per cent reserve in their savings deposits, whereas under the bill member State banks and trust companies are required to keep the full reserve on all their deposits. This bill does not pretend, at least does not in these provisions, to provide for State banks and trust companies keeping a savings department. They have that right and can do that under their State charters, and if they become members they would have to keep the full reserve as set out in the other parts. You provide that a national bank can have a savings department, and as against those savings deposits, it would only keep a 5 per cent reserve; whereas, in our institution, for instance, where we have 20,000 savings depositors as against those savings deposits I would have to keep, being in a central reserve city, 18 per cent reserve; but a national bank, just across the street, if it had a savings department against its saving deposits would only have to keep 5 per cent reserve.

Senator NELSON. Where is the particular phraseology of the bill that refers to the 5 per cent?

Senator REED. What is the particular part?

Senator NELSON. It is in section 27.

Senator REED. What is the amendment suggested?

Mr. JONES. Just a moment; let me answer Senator Nelson. It is on page 48, line 21. Beginning in line 17, it reads:

> It shall be the duty of every national bank to maintain, with respect to all deposits liabilities of its savings department, a reserve in money which may under existing law be counted as reserve, equal to not less than five per centum of the total deposit liabilities.

Senator NELSON. What lines?

Mr. JONES. Line 21, page 48.

Senator REED. Could that be covered, Mr. Jones, by saying it shall be the duty of every national bank, State bank or trust company, to maintain—or member bank——

Senator SHAFROTH. Why not strike out the word "national," and put in "member bank"—it would be the duty of every member bank?

Mr. JONES. I think it would better be covered by the suggestion I made, that there should be added a provision giving to State banks and trust companies a right to keep only 5 per cent reserve against their savings deposits, provided they comply with the requirements made of national banks as to savings departments. Or, in other words, we may desire to have a savings deposit in our institution and not comply with those requirements. The nature of the business of our community may be such that we would not want to be held down to the close lines of the savings department of a national bank. If it is preferred to come under and keep our savings department and meet the general requirements, all right; let us do it; but if we want to get the benefit and to be placed on the same plane as the national bank, we ought to have only 5 per cent against our savings deposits. That is, I think it ought to be required to meet the same restrictions as national banks.

Senator SHAFROTH. This amendment you propose ought to come in there at the end of that paragraph?

Mr. JONES. I should think at the end of that paragraph.

Senator SHAFROTH. Now, will you read it to me, please?

Mr. JONES. If any member State bank or trust company shall comply with the requirements made of national banks, as to its savings deposits, the reserve requirement——

Senator NELSON. Shall be the same as in the case of national banks?

Mr. JONES. That is better.

Senator NELSON. That would cover it, I think.

Mr. JONES. I think that would cover it.

Senator HITCHCOCK. Mr. Jones, suppose your trust company elected not to comply with the national bank requirements? Would your savings bank be outside of the system?

Mr. JONES. Oh, no. Our trust company is one institution. If we choose to keep 18 per cent against our savings deposits, I do not think anybody can complain because we do that. We may find that to accommodate our community, to meet the needs, that we want in our savings department the kind of investments which our State laws would permit. They might be more liberal than the restrictions you place upon a national bank. If we do want to do that, we have to be examined to see that we are safe and our business is properly conducted, and then if we were to become members we would have to keep 18 per cent reserve against our deposits.

Senator HITCHCOCK. You could then make investments which a national bank would not be allowed to make?

Mr. JONES. Certainly, because we are keeping an 18 per cent reserve as against their 5; and we ought to be allowed to do that.

Senator NELSON. In other words, he means if they want to conduct their savings department under the State law, as they do now, they should have the privilege to do so; but if they want to come in under the national law and conduct a department on that plan they should not be required to keep more than 5 per cent.

Senator REED. If they continue as they do now, they would have to put up 18 per cent?

Mr. JONES. Yes; which would be a hardship; and I do not see how you could remedy that very well. In our State we have no mutual savings banks as in other States. That business is done by the trust companies for the very simple reason that a trust company with the large capital and surplus affords more protection to the savings depositor than would a mutual savings bank with no capital.

Senator HITCHCOCK. Under that provision, could a national bank across the street from you maintain a savings department on the same terms you would by keeping 18 per cent reserve?

Mr. JONES. Under the national-bank act, as it stands now, I do not think they could, because the national bank is not permitted to lend on real estate and do the various things we are permitted to do. The national bank is a commercial institution and was never intended to do that kind of business.

Senator REED. But Senator Hitchcock, I think, means whether under this bill this situation would not be developed: A trust company would have the option to proceed under its present system, putting up 18 per cent, or conforming to the terms of this bill with reference to national banks and putting up 5 per cent; whereas the national bank across the street would not have that option, but would be obliged to conform to the terms of this bill, putting up 5 per cent.

Mr. JONES. Most assuredly.

Senator REED. That condition would result?

Mr. JONES. There is a fundamental difference between the national bank and State bank or trust company that always has existed and I think always should exist. It was never intended by the national-bank act that a national bank should be as broad in its provisions as the State institutions.

Senator NELSON. You see the justice in this arises from the fact that these State institutions have the right to carry on a savings department. The national banks have not that right now, and this bill confers that right upon them for the first time—to carry a savings department.

Senator POMERENE. Many of them do conduct a savings department?

Senator NELSON. Yes; but they do it in a roundabout way. They loan on real estate in a roundabout way, but can not do it legitimately now, as I understand.

Mr. JONES. Oh, they do many other things that are not provided for by their charters.

Senator REED. As I understand you, you are not commenting, but just trying to draw out the fact?

Senator NELSON. Yes.

Senator REED. And, as a matter of fact, if the suggestion made by Mr. Jones was carried out, this would be the result: The national bank could establish a savings department, but it would be one of limited power?

Senator NELSON. Limited by this act.

Senator REED. Limited by this act; and they would put up 5 per cent. Now, you come to a trust company; they could do exactly what the national bank did, if they saw fit, putting up 5 per cent. But the trust company would have a further right or option which the national bank would not have, namely, it could go on under this present system and transact business that the national bank could not do at all, but in that event it would have to put up the larger reserve of 18 per cent. It would seem to give the trust company in that case a little advantage.

Mr. JONES. Most assuredly. It has a wider power. I am making this suggestion merely to meet the bill as it stands. Personally, I think the argument can be made convincing. I think this whole savings-bank provision in this bill should be stricken out, that national banks ought not to have any savings-bank provision at all. But I am not attacking that; I am only taking the bill as it stands and trying to make it harmonious and then leave the question of the merits of the bill on those provisions to come up in their natural way. But if the bill is passed in the general form as we have it here I want to make it harmonize so that the provision will apply alike to State banks and trust companies as to national banks as to these reserve questions. It is a separate question as to whether that clause should be in there at all or not. I want to make a suggestion or two here further as to one or two specific questions in the bill, and then I should be very glad, if the committee desires, to discuss the relative position of the State banks and trust companies as to national banks.

Senator NELSON. It seems to me that we should endeavor to hold out inducements to get trust companies and State banks to join the Federal reserve system, because they have broad powers now. State banks and trust companies can loan on farm mortgages and on real estate, and it is not likely that they would relinquish that power and come in here if we hampered them; and this is simply to make it an inducement for such banks and companies to join. That is your theory, is it not?

Mr. JONES. That is exactly the point. I would like to feel that if this bill passes that trust companies would have the opportunity to come in, and I want to make it attractive to them so they can, and I hope very much that the bill will be so perfected and made such that State banks and trust companies can and will come in. I think it ought to, and I hope that it will be made so my institution can become a member, and I am making these suggestions in the light of putting it where it will be possible for us to come in without being at a disadvantage.

Senator REED. Of course, Senator Nelson, I make this suggestion because I think we must think of it.

Senator NELSON. It is very important.

Senator REED. If we have a system in which the State banks and trust companies can have every right under the law which national banks have and many more, the question would then arise, What will happen to the national banks? Will the national banks not surrender their national charters and organize under a State law as either a State bank or a trust company? Will that not be the inevitable result? I do not know.

Senator NELSON. But we must look at it from the other standpoint.

Senator REED. I do.

Senator NELSON. And that is the standpoint of the public. They have certain benefits and advantages under these trust companies and State banks that they ought not to be deprived of.

Senator REED. Do not misunderstand me. I am not trying to keep them out. In my State I understand, from the conversation I had with Mr. Jones, although I knew it in a general way before, that there are only about 14 national banks and over 1,200 State banks and trust companies.

Mr. JONES. Let me finish the few minor points I have here and I will be glad to take up these questions with you.

There is a minor amendment that I think should be added at the end of section 10, page 17.

Senator SHAFROTH. You already have suggested one amendment there.

Mr. JONES. Yes; but this is an amendment that relates to the immediate language at the end of that paragraph, beginning with line 11:

> * * * The Federal reserve board be required to suspend said banking association or trust company from further privileges of membership and shall, within 30 days of such notice, cancel and retire its stock and make payment therefor in the manner herein provided.

That would mean that there is a dead line. Under the law, if the board says, "You have violated this law," the law would then make it peremptory that at the end of three months they should put them out. During that three months' time they may have removed the delinquency and the bank may have placed itself in good standing. When something has been done and there is a penalty, and the penalty has been fixed, I think the board should be given the right to remedy it. If the Federal reserve board found, under the strict language of this bill, that a bank had done a certain thing, they would give that bank notice, but there would be no power in the Federal reserve board to remit the penalty. I would suggest adding:

> But said Federal reserve board may, in its discretion, recall such notice.

Now, as to the importance of State banks and trust companies being invited into this, and the bill being made attractive for them. I would like to draw your attention to the relative importance of State banks and trust companies in the country at large.

Senator HITCHCOCK. Before you leave that, Mr. Jones, as you have called attention to this fact, I should like to ask you a question in connection with it. I refer to this power of suspension given to the reserve board. That applies not only when a bank is found to have violated the law, but when it is found to have violated the regulations of the Federal reserve board. Do you believe the law ought to give to any tribunal, as it is in this bill, such absolute power?

Mr. JONES. I think it is very extreme. I think that is extreme; but you have such power now, practically, with the Comptroller of the Currency, over a national bank. He may make regulations and enforce them so that he could put any bank out of business almost.

Senator REED. It sometimes has been very greatly abused, too, I think.

Mr. JONES. As a general proposition I think the tendency has been decidedly the other way. I do not think very much of that as a practical question. I think when you get in there a practical Federal reserve board they would have no point in trying to put a bank out on some fallacious pretense any more than the Comptroller of the Currency would put out a national bank by any fallacious pretense.

Senator NELSON. They could have shut up every bank in New York City in 1907.

Mr. JONES. I think we have to deal with this bill on the assumption that it is to be administered by men—not demagogues or supermen. These are practical things that will have to be handled in that way with common human agencies. We give enormous power to the President of the United States. That power has to be lodged somewhere. It has to be administered by a man, and so, in this bill, we must take it that every man that comes up to a position of prominence and is made a member of that reserve board has been educated by his associations, and that he has been educated to come up to the spirit of the business requirements at large. In the banking business to-day the stockholders elect officers and directors of a bank, and power and discretion has to be put into their hands; and there is no other way in which the affairs of the bank can be managed.

Senator BRISTOW. Mr. Jones, of course that is true to a certain extent; but this incident came to my attention not long since: A number of gentlemen wanted to organize a national bank in a town with which I am more or less familiar. They applied for the charter, and the charter was denied because the comptroller did not think there were any more banking facilities needed in that vicinity. I would like to know what business that is of his. The people there had the money; they complied with the law; they were willing to invest their capital in that business. What right does the comptroller have to deny a charter of that kind? He afterwards granted it—after political influence had been brought to force it. Don't you think that is a pretty high-handed step?

Mr. JONES. I do.

Senator BRISTOW. That has been done in other instances, undoubtedly.

Mr. JONES. Of course, I think that one of the prime causes of the marvelous development, the unparalleled development, which has taken place in the United States has been our free banking system, where the people in every community have the opportunity of organizing their own banks, officered by people of their own community and in sympathy with that community.

Senator NELSON. They have mobilized their reserves in each community.

Mr. JONES. They have; and I think that is one of the prime causes for our wonderful development, as much as any other given cause, or anything that may have been done by legislation.

Senator HITCHCOCK. In your judgment, what will be the effect upon free banking in the United States if this bill is passed in its present form?

Mr. JONES. If you will make it attractive to the State banks and trust companies, I believe it will add to the success of them all.

Senator HITCHCOCK. Will their independence remain?

Mr. JONES. I think so. I think they will be even more independent.

Senator HITCHCOCK. Will a bank be able to exist outside of the system?

Mr. JONES. I think so. All financial institutions are dependent upon the character of their patronage and the character of the business they do for what they want to do. When we came to organize a trust company the national-bank act was open; we could have incorporated a national bank if we wished to, but we did not want to do the kind of business that a national bank did. We thought that that particular field was largely occupied by national banks in our community, and we felt that there was a demand to meet the varied needs of a diverse community there that was not met by a national bank and ought not to have been met by a national bank and never should have been met by a national bank, and that that would be open to a State bank. Therefore we incorporated a trust company.

Now, so, you may take a small bank—to illustrate, say a bank down in the Ozarks of Missouri, a small bank. Its business is intimately connected with the interests of the particular community in which it is located. It may make loans on ginseng or coon skins, and they may be just as good security in their community as the city banks can get in their own community. That bank does not come in such contact with the commercial currents of the country that it might find it necessary to come into this system. It would not need the lines of discount, because it does not do that kind of business. It is not a commercial community; it is not in a community where its products go out, except in a way that it could reasonably take care of them. It could reasonably live as it is and should not be forced into this system, and that community ought to be left to have that kind of a bank if it wants it, and no national legislation should be enacted that would compel that bank to be at such a disadvantage if the people of the community would be deprived of the right of having an institution of that kind if they wanted it.

Senator Nelson. And is it not a fact that a banking institution in a small town like that has to do all three kinds of banking business? In a small town of that character they can not have the three different kinds of banks—the commercial bank, the savings bank, and the trust company. In these little towns the one bank must do all that business to accommodate the people. Is not that true?

Mr. Jones. Senator, that is true in one sense but not in another. Now, we have gotten into that line—when a community first starts, a lot of people go out and pioneer and settle up the country. At first they do not need a bank. As soon as there comes to be a small community there the first thing that comes is a private banker. He starts a private bank. As soon as that business gets to be large enough so that the community would be inconvenienced by the death of that man, when his estate would have to go through the probate court to settle his affairs, then the development of the community calls for a corporate bank. That small community, as it is so far developed, has no use for a trust company. When some man dies his partner or his brother-in-law or his cousin or somebody in the family can act as administrator or executor, etc. The demands of business are such that members of that community have ample time to attend to their own as well as the affairs of others.

Senator Nelson. I referred to the other feature, of loaning on real estate and of savings deposits of banks.

Mr. Jones. That is done by a State bank, and should be left to suit the varied needs of that community. It, the State bank, should not be restricted as a national bank. When that community gets larger and the development is sufficient for the commercial needs of that community, where they would need a strictly commercial bank, it might be as well to have a national bank under our present system. When the community gets still larger and the population grows dense there is an aggregation of wealth and the diverse needs of a large community, then there is need for a trust company. When business gets big, and the demands of business are so imperative that the successful man in the community has no time to look after the affairs of others, then we find that the demand springs up for a corporate entity to do those things. It does not get sick; it is there all the time. It must have to the highest extent the respect of the people of the community. It is then that trust companies appear. You can not have, and you never should have, in any financial center of the United States but one class of institutions. Nothing could be more unfortunate for the development of this country than to drive all the institutions into the Federal system.

Senator NELSON. You will excuse me for breaking in on you, but the questions occurred to me in line with what you were stating. We have now under the law a large number, I think upward of 2,000 small national banks, with a capital of $25,000 in the small towns. Those banks can only exist in towns with a population of not over, say, 2,000 people.

Mr. JONES. They never ought to have existed at all, and it has been an unfortunate development of the national-bank law.

Senator NELSON. Well, it has worked very well in our State.

Mr. JONES. The State bank would have worked just as well and it would have been more elastic to the demands of the community.

Senator NELSON. We have State banks of $10,000, $15,000, and $20,000 capital, and they all work very well.

Mr. JONES. The State banks could have done just as well as the national banks. As to the relative importance of them, we have now in this country, according to the latest reports, about 28,995 banking institutions——

Senator NELSON. Including trust companies?

Mr. JONES. Including State banks, national banks, and trust companies. Of that number there are about 3,600 that do not report to the Comptroller of the Currency, and his figures would not show as to them. Therefore the report of the banks here should show that there are something over 25,000. Of these 28,995—of course, all the nonreporting banks are not national banks—there are only 7,372 national banks. The capital of the national banks is 49.67 per cent of the total, so that a majority of the banking capital of the United States is now outside of the national-bank system. The individual deposits of national banks are only 33.3 per cent of the total individual deposits, so that two-thirds of the individual deposits of the United States are outside of the national-bank system. The State banks that report—or at least as figured out here—number 17,823; but they have over 50 per cent of the capital and over 66 per cent of the deposits. To show how that would affect the bank in Missouri——

Senator NELSON. How many?

Mr. JONES. The number is 1,364. There are only 133 national banks, and 1,231 State banks and trust companies.

Senator HITCHCOCK. How does it happen that the number of national banks is so low in Missouri?

Mr. JONES. I think it is a perfectly reasonable thing that there is no philosophical reason for the national bank in the rural districts.

Senator HITCHCOCK. My State of Nebraska, which is much smaller than Missouri, has 300 national banks.

Mr. JONES. I just looked it over here the other day when we had the report, and in Kansas——

Senator REED. Can you give us the capital of the banks in Missouri?

Mr. JONES. In Missouri, for instance, there are 1,364 banking institutions; 133 national banks, with capital of $36,000,000; State banks, 1,231, with capital of $53,000,000, leaving off the odd amounts. The deposits of the national banks of Missouri are $152,000,000—that is the individual deposits, whereas the individual deposits in the State institutions are $298,000,000, nearly double.

Senator REED. Do you know whether the deposits include the whole bank deposits?

Mr. JONES. No; this is individual deposits. I did not put in the bank deposits, because that would be confusing. In Kansas there are 1,110——

Senator NELSON. Of all kinds?

Mr. JONES. State banks, national banks, and trust companies; 206 national banks and 904 State banks and trust companies. The national banks have a capital of $11,367,500; the State banks have a capital of $19,000,000; and the national banks have in deposits in Kansas $61,000,000, and the State banks have $99,000,000, showing the larger amount in capital and individual deposits.

In Minnesota there are 1.031 banks of all kinds; 272 national banks, with a capital of $32,800,000; and of State banks there are 759, with capital of $17,500,000. There the capital of State banks aggregate something less than that of the national banks.

Senator NELSON. Because they can organize there with $10,000.

Mr. JONES. In individual deposits the national banks have $175,000,000, and the State banks have $148,000,000.

I have not gone through the various other States. I have mentioned these merely because it would bring home to the gentlemen of this committee just what it is in your own State, and you can see that any legislation that is unfair to the State banks and trust companies would be unfair to your people.

Senator NELSON. Unless we got them to go into the system voluntarily, we would have less than half of the banking capital of the country?

Mr. JONES. Yes.

Senator NELSON. In this system—we could not have half.

Mr. JONES. And then if you do not make it so that they can come in, and you enlarge the powers of the national banks, as is proposed here, you will make it a great hardship upon the people of those States, and you will force them to get out of the State institutions.

Senator REED. Mr. Jones, do those figures of your embrace savings banks?

Mr. JONES. Yes; these are given of all the banking institutions of those States. These figures are taken practically from the comptroller's report.

Senator WEEKS. Those are all stock savings banks in those States, are they not?

Mr. JONES. I do not know how it is outside of Missouri. In Missouri we have no stock savings banks at all.

Senator WEEKS. I do not think there are in Missouri savings banks, nor in any of those States that you refer to.

Senator NELSON. We have just one in Minnesota.

Senator REED. Mr. Jones, you do not mean we have no savings banks in Missouri?

Mr. JONES. I mean no savings banks in the New England sense of the term—no mutual savings banks. The trust companies do that business in Missouri. I say we have over 20,000 depositors. In St. Louis the trust companies have over 100,000 depositors. We touch the people; we come in contact with the individual. For instance, I have more customers in number in the Mississippi Valley Trust Co. than any three national banks in St. Louis all put together. If the Simmons Hardware Co. wants to do business it usually goes to a national bank. If a vast number of its employees, as individuals, want to have accounts they go to the trust company. And that is perfectly philosophical—if I should go into that to show the reasons why. It has been because of public demand. These people come and do business with us not because they have to. They do not do business with us after the manner they do with the sheriff or public administrator—because of the law which forces them to do it—but only because as free American citizens they find it to their interest to do business with us. That is true all over the country, and the people have these State banks because they, as a rule, are more responsive, because of their broad powers, to the needs of those several communities.

Then, before I get off of it and forget it, I want to draw your attention, when we are talking about the enlargement of the national-bank system, to one clause in this savings-bank section of the bill, on page 47, line 17, and I would like to ask any of you gentlemen who are lawyers if you ever read any bill that permitted a corporation to be formed that did not enumerate the powers of the corporation and set them out. We have heard a great deal in the last few years in this country about restricting the corporation to its charter powers. There has been a great many prosecutions by the Attorney General because the railroads or others did not stick right down to their charter powers. We find a provision in this bill, line 17, page 47, reading:

> 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.

I challenge any man to show a parallel for that in legislation of any State in the Union. As to these savings departments, every restriction of the national-bank act as to classes and kinds of business can be removed.

Senator REED. You think that is putting a large amount of power in individuals that ought to be reposed in the law?

Mr. JONES. Why, I do not think that any State or any legislative body ever gave a corporation any such powers—any corporation, anywhere—to form a corporation and then say every restriction upon the kinds and classes of business are removed.

Senator REED. May be removed by some individual?

Mr. JONES. All may be removed. I do not know what the reasons are for that provision in this act; I do not know why that should be in there.

Senator SHAFROTH. What section is that?

Mr. JONES. Page 47, line 17.

Senator NELSON. Your criticism is evidently fully justified.

Senator SHAFROTH. What amendment do you suggest?

Mr. JONES. I suggest striking it out.

Senator SHAFROTH. Striking out from line 17 down to where—24?

Mr. JONES. I should strike out from the beginning of the sentence to the end of the third word in line 21, leaving it:

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.

Senator HITCHCOCK. Then you do believe there should be some restriction upon the discretionary power of this board, Mr. Jones?

Mr. JONES. Why, certainly. Certainly, I should not advocate any other thing than restriction upon the discretionary power of the board.

Senator HITCHCOCK. In answer to my other question you rather thought that they should be allowed to make regulations without any limit?

Mr. JONES. Oh, no; those regulations I think plainly would have to be in line with the powers——

Senator NELSON. They would have to be within the pale of the law?

Mr. JONES. When you form a corporation and give it specific powers, and then give somebody power to make rules and regulations to carry it out, it means rules and regulations under those powers as set out.

Senator BRISTOW. To carry out the specific, definite authority that is conferred?

Mr. JONES. Yes.

Senator POMERENE. My understanding of it was that the real purpose of this provision was to permit them to reduce the amount of reserves as far as it applied to savings accounts and to permit them to loan on mortgages, etc.

Mr. JONES. Whatever powers you are going to give them, it ought like every other act to enumerate the powers.

Senator NELSON. By a part of the section you permit them to keep only 5 per cent reserves in their savings deposit, so there is no necessity for that?

Senator POMERENE. I think that is entirely too broad.

Mr. JONES. Do not take the bridle off; do not form this corporation and then take the bridle off and turn it loose. I understand in many New England States there is a tax on savings deposits that the savings banks have to pay.

Senator HOLLIS. That is put on to take the place of ordinary taxes. There is no tax on the privilege of doing business. But, for instance, where the tax rate in my State is about 2 per cent, savings banks are taxed only three-quarters of 1 per cent; that is a benefit given to encourage mutual savings.

Mr. JONES. What would the national bank have to pay on its savings deposits?

Senator HOLLIS. I do not know. I was not informed about national banks.

Mr. JONES. The national bank would not have to pay any.

Senator HOLLIS. They would pay on their surplus?

Mr. JONES. Only on their capital and surplus?

Senator HOLLIS. Yes.

Mr. JONES. And they could have a bank with $1,000,000 capital and have $40,000,000 savings deposits and pay nothing on these deposits, whereas the savings bank just across the street which had $40,000,000 deposits would have to pay thereon 1 per cent or three-fourths of 1 per cent, and that would be very unfair. This whole savings business does not belong in the national bank.

I would just like to present——

Mr. WINSTON. Mr. Jones, may I just ask you one question?

Mr. JONES. With pleasure.

Mr. WINSTON. In our State, for instance, the national bank pays no Government tax upon its income and on its circulation to our community and to our city, and to our State we pay on our surplus and undivided profits—cash on the books—less real estate, which is taxed as real estate. I do not think that our mutual savings banks are taxed anything—that is, if there is money on deposit—assets; and a mutual savings bank in Minnesota is not taxed on its profits.

Senator NELSON. That is my impression, too.

Mr. WINSTON. That is my impression.

Senator REED. In that case, do they not require the man who has the money in the savings bank to return that with his assessment?

Mr. WINSTON. I do not know. I am inclined to think that he has to return it himself.

Senator NELSON. He has got to make it in his return and is assessed for it.

Senator REED. Where they have these laws, I am addressing the Senators here from New England, where they have a law in their States—New Hampshire, Massachusetts—providing for the taxing of mutual deposits, when that is done, is not an individual allowed to deduct the amount of his deposit in the mutual bank from his tax return?

Senator HOLLIS. He does not return any savings bank deposits at all; it is taxed by the State.

Mr. WINSTON. As I understand, Mr. Jones, there is a tax of 75 cents on the dollar.

Mr. JONES. In Missouri the national banks and State banks are taxed exactly alike. We pay on capital and surplus, and we have no mutual savings banks. The reason the mutual savings bank is not taxed is because it is not a money-making institution and has not any capital and surplus, and it is run for the wage earners of the community—a sort of eleemosynary institution, and the law does not tax that.

I do not want to get off into that question, but I would like to present this view to you on the question of the enlargement of the national bank in the savings department. Under the Constitution there is no special provision authorizing the incorporation of any bank, and a Federal bank is permitted only under an implied power. The whole thing was the subject of decision of the Supreme Court of the United States by Chief Justice Marshall in the case of McCullough *v.* Maryland, and the bank was justified on the ground that the Government might need a currency, might need a fiscal agent, and might need to facilitate commerce between the States. It was under that construction of implied power, which under that decision was limited to banking—I will show you a reason in a moment why I emphasize that word—that is, all the courts have held that there was an implied power to create a bank to do banking business. Now, after all the old troubles which were had with the old United States banks, and they were out of existence, when the present national bank act was passed, it was not even called a "banking act." The title of the act was "An act relating to currency," and the prime cause in incorporating a national bank then was that it should make a uniform currency and that they should have some institution to buy Government bonds and help the Government to finance itself. They were very particular in that act to specify that after it was organized it should then begin "the business of banking," and that it should do banking in these specific ways set out in the act. It did not have any general powers; there was not any bridle taken off and everything was very strictly put in. It was permitted to loan on personal property.

The power to loan on real estate was not given. Real estate could not become a subject of interstate commerce. There was no reason for it to step in there; that was left to the States. And you have had 20 times, I suppose, or many times, bills here in Congress to permit national banks to loan on real estate, and it has always been voted down. The Democratic Party has been throughout its history opposed to the enlargement of the national banking system, predicated largely upon the fact that in all lines of business the States can take care of themselves and inaugurate the means of doing business, and the only excuse for a national bank was that it do something of a Federal nature which could not be done by the State, which was to provide the currency and to buy the bonds. We find a situation here wherein you are taking away from the national bank the right to provide the currency and you are taking away from it the duty of purchasing Government bonds, destroying the reasons for its existence, and yet enormously enlarging its powers. What for? I have heard a good deal of discussion here in the last two or three days, and the whole sentiment seems to be that you mean to protect the national bank; that this was only a national bank question. Why? Why, I ask you, gentlemen? If you destroy the Federal reason for the existence of a national bank, what is the purpose of encouraging the multiplication of national banks? As long as you have banks, largely under one system, and all the banks in that system, the traces will all stretch at the crack of one whip; and if you make such legislation here now as is going to drive all the State banks and trust companies into the national banks, you will centralize the money power in a way that will put it where it will have to control politics to protect itself, and the minute the public understands that you are doing that, then the public are all on one side and the banks on the other, and we will not live long enough, any of us, to see the banks out of politics. I do not think that is necessary under this bill.

I think the general propositions in this bill can be carried out and carried out to meet these objections, and I think there is a perfectly consistent way to do it. Speaking to Democrats and men who are of the dominant party, I think there is a perfectly consistent way for this legislation to take place that is in harmony with the history and traditions of the Democratic Party. The fact that you mention "Democratic Party" does not mean that without that party in the various States State rights are to be ignored, because nobody in recent years has made with respect to State rights a more excellent exposition of that doctrine than Senator Root.

I see no reason why you should specially enlarge the national banks under this bill, especially when you are taking away the Federal reason for their existence. You say they ought to do interstate commerce. Well, if that is the only reason you have, then we might as well say we need a national milling company, that we need a national tobacco company, a national steel company, and a national insurance company, none of which were contemplated by the constitution, and the only reason for a Federal bank under an implied power was that it was necessary to do something that could not be done by the States. We did need a national bank—a national bank organized to provide a uniform currency. You are doing that by creating these regional banks. Having done that, I see no reason why the State banks can not come in and subscribe for that stock and do business with it just as well as a national bank. I do think there should be a Federal standard of excellence fixed. If the State institutions are going to come in and subscribe for this stock, there should be a Federal standard of excellence fixed so as to preserve and protect the regional bank. You have provided for that in this bill by saying that we shall keep the reserves, and that we shall be subject to examination—that is, examination to see that we are safe, that we comply with the laws of our being, and you do not have to restrict it to this particular kind of business or to any other kind of business.

The trust companies, with broad powers in the various States in the Union—I say that, and I say it assuredly as one familiar with the facts, that there are no classes of financial institutions in America, not even the savings banks, that have protected so well their obligations as the trust companies. There have been fewer failures, less losses, than in any other system than any other class of banks—State banks, savings banks, or national banks—and the fact that they do accomplish that result when they have powers outside in various other kinds of business shows that these outside powers are not at all inconsistent with the other obligations that they have.

Senator HITCHCOCK. Mr. Jones, would the trust companies have been able to pass through periods of stress with their small reserves and their large demand obligations if it had not been for the fact that in those cases they were able to lean upon the national banks?

Mr. JONES. In the great stock banks of London they keep no reserves, practically.

Senator HITCHCOCK. I realize that, but the obligations are different.

Mr. JONES. I will answer your question if you will just let me give you the facts. They keep no reserves, because they have a reservoir to which they can go.

Senator NELSON. They can go to the Bank of England?

Mr. JONES. They can go to the Bank of England. One of the defects of our system here has been the reserve system of the national banks. It has tied up a lot of money and put it absolutely out of use. I have got to keep 25 per cent in my national bank, and the minute I get down to that 25 per cent reserve I can not touch it. That money is of no use. If I go under my reserve and receive deposits while I am under my reserve and my bank should fail, there is not a jury in the country that could not send me to the penitentiary because I received deposits when in a failing condition. A man is in a very hazardous position who attempts to meet the necessities of his customers under that national-bank act, because he can not go under that reserve; and the reserve does not perform the real functions of a reserve.

One thing that led to the incorporation of trust companies and State banks was to get away from that. They could not get the bonds—enough of them—to make the circulation, and they went into trust companies, and the trust companies did just like the joint-stock banks in England—did not keep large reserves, but kept their reserves not with one reservoir, like the Bank of England, but with divers reservoirs, namely, the national and large State banks, and therefore they do have to have some place to go, and that is what this regional-bank system will provide. It will make a reservoir to which we all can go, and with far better assurance of being taken care of than to have to depend upon the accommodation—Senator Bristow objects to the word—but the accommodation of the big banks in the cities, to whom we might have to go if we needed to raise money.

Take it in New York before 1907, when trust companies had over one thousand millions of deposits and small amounts of reserves. Nobody had ever lost a dollar of deposits; no depositor had ever lost a dollar under the trust-company act in the State of New York. But they came in and made them keep reserves, put it up to 15 per cent, and when the trust companies began to take out of circulation that reserve and put it down in their vaults it made them retire practically $150,000,000 and contract the currency to that extent. I do not know how correct it was, but I have always felt that was one of the prime causes of the panic of 1907. Our reserve system has not been scientific at all, but there was a public furore in favor of it. We had it in our State. We ran our company just like the English joint-stock banks, and we did not keep this large amount of reserve, but one of our people got the idea that there was something wrong and went up to the legislature, and we are now required by State law to keep the same reserve as State banks, and this also according to clearing-house requirements. The money we put down in our vault is of no use to us and does not perform any function at all.

Senator Hitchcock. You did not quite answer the question, whether trust companies with their small reserves would have been able to go through periods of distress if it had not been for the dependence that they had and with the privilege they had to have of leaning upon national banks with their larger reserves.

Mr. Jones. No more with national banks than with State banks. The question of reserve does not depend upon the amount of deposits; it depends upon the nature of the deposits. There is a perfectly philosophical difference between the lines of discount of the national bank and the trust company. If I had an opportunity to go into that I could make it perfectly plain. A national bank has its commercial deposits and lines of discount and the obligation to distribute its loans among its customers, emphasized by the fact that it can not loan over 10 per cent of its capital to any one man. For the first 20 years of the existence of the national banks nobody thought they had the right to receive any except demand deposits. They have to keep a large reserve. But with the trust company—which has what we call trust depositors, in contradistinction to bank depositors—the individuals who do not need a line of credit, we do not need the same reserves as a national bank, because the nature of our business is different.

If we may emphasize this: Take the savings banks up in New England. As a matter of fact they do not average having 5 per cent reserves, and you are recognizing in here that this amount of reserves is affected by the nature of the deposits in the provision of the savings department of the national bank when you have them keep only 5 per cent reserves. We, as trust companies, should not keep large reserves; we do not need them. We do not have the same amount of demand depositors, and the demand depositors that we have are from a class of people who are not doing the business in the way that the depositors of commercial banks do. Does that answer that?

Senator HITCHCOCK. It is not a very important matter, but I thought and it has always seemed to me that the trust companies would not be able to exist with their style of doing business if it had not been for the fact that they also had the other banks, which are really the resource in times of stress.

Mr. JONES. Of course, if all of them keep money tied up there in their vaults there is very little left for circulation to meet the demands of the community.

Senator HITCHCOCK. I think perhaps you had better go on with your statement.

Senator WEEKS. Mr. Jones, I think you are quite right in saying that the nature of the deposits and the character of the business done should determine the amount of reserve by a bank, and, referring to the New England savings banks, you must remember that they have the right to give 30 days' notice to their depositors, and that is a sufficient reason why it is not necessary for them to carry large amounts of reserve.

Mr. JONES. Exactly—the nature of their deposits.

Senator WEEKS. And they carry their balances, except what they need for daily use, with the local national bank, and they depend upon the local national bank to furnish them with circulation they need.

Mr. JONES. Not altogether with the local national banks, because I doubt not but that a great many have accounts with the Old Colony Trust Co., and under the law of your State the savings banks can deposit with State institutions as well as national banks.

Senator WEEKS. That is true; but generally speaking, they are kept with national banks.

Mr. JONES. I am only saying the law permits otherwise, so that, Senator Hitchcock, it is not reliance purely on the national banks. A great many of the savings banks in New York keep their accounts with the Farmers' Loan & Trust Co. and are not any more dependent on the national banks than they are on the trust company.

Senator WEEKS. Trust companies in Massachusetts have deposits of that character. I think they carry a reserve which is similar to the reserve required of national banks.

Mr. JONES. Certainly, whenever the nature of their business requires it in order for them to be safe.

I just want to direct attention to one other matter.

Senator SHAFROTH. Is it your theory, then, that the national bank should not be accorded the privilege of having a deposit——

Mr. JONES. Savings deposit?

Senator SHAFROTH. Savings deposits.

Mr. JONES. I think they should not. I think the national bank, if it continues to exist now, with the fundamental reasons having departed—currency and Government bonds—it should be limited to the question of handling stuff subject to interstate commerce.

Senator SHAFROTH. Then you think the savings deposit companies should be prevented from having commercial accounts?

Mr. JONES. I think not. You certainly would not take away from the States and the people in the States the right to create any institutions to handle their business that they wanted to. It is not necessary. The national bank was built up and it had been running 20 years before anybody ever thought it had a right to do anything but receive demand deposits, and I have been told that the Comptroller of the Currency—I can not say that officially—but I think it is true that Comptrollers of the Currency have ruled that they had no right to receive anything but demand deposits, and if you will allow me, I will just take the last report of the Comptroller of the Currency, on page 11. It says:

Deposits in commercial banks are presumed to be subject to demand, but whether such institutions have the right to enter into different arrangement with their customers is a matter for determination by the courts.

That says a "matter for determination by the courts." The Government never in the history of the national bank act has gone into the courts to see what their powers were, not in a single instance; and yet they have been permitted to have over $800,000,000 time certificates of deposit and over $700,000,000 of savings, with the comptroller himself saying in the last report here that it was so much a matter of doubt that that is a "matter for determination by the courts" whether they had the power to do it or not.

Senator SHAFROTH. Mr. Jones, if you were to limit the national banks to simply receiving commercial accounts, and then give to the trust companies the power not only to receive commercial accounts but also to receive the savings accounts, you would give more power and it would be more desirable for a savings-deposit institution or trust company to become a part of this system than it would for a national bank?

Mr. JONES. I think so; but I would not have a Federal institution when there was not a Federal reason for it.

Senator SHAFROTH. Then would not all the national banks dissolve and go into trust companies?

Mr. JONES. Those that wanted to continue doing business as great commercial banks, as many do, would continue as national banks as they are in many of the cities. But if there is no Federal reason for their existence, why should the Federal institutions be encouraged? I am not seeking a fight on the national bank. I think they are all right. Let them go along and have the business, and when it comes to enlarging the powers in the way it is put in here, I do not see any reason for it, and I believe that the tendency should be to elevate the standard of the State institutions; I believe it is more consistent with the theory of our Government. If you have them under 48 different jurisdictions no one whip can ever make their traces stretch together.

Then they come in as members; let your national banks go along as they are; and those that want to do a national-banking business for commercial purposes, if the demands of the community are such, let them be incorporated. If the people of the several States want to have their own institutions responsive to particular needs, let them have it so, but do not drive them all into Federal institutions. That has been the purpose. Secretary MacVeagh in various speeches in the last campaign said there ought to be only one system and that the Federal. Old Hugh McCullough, in an official report in a year after the national-bank act came into existence, said that it required no prophet to say which system would survive.

Senator SHAFROTH. Would they be driven into the Federal system if you are going to give preferences to the savings-deposit institutions?

Mr. JONES. The national banks never had any right to do the savings-bank business, and never did it until the last 20 years. There were over 5,000 of them, and they had been successful. By reason of the fact they did not do a savings-bank business the savings banks in the various States had grown up and become successful.

Senator SHAFROTH. If you are forming one system and trying to get them all to come into it, it seems to me you ought to treat them all alike and give all the same powers.

Mr. JONES. You should treat them all alike by allowing everyone to come in under its charter as it is. If my charter makes me a trust company, with certain trust-company powers, and I am safe by your examination, let me come in with my charter power as it is; and if a State bank comes in with different charter powers, and it is safe, let it come in; if a national bank is safe, let it come in with its charter powers. I should say that this bill is no place to enlarge the powers of the national banks. If you want to enlarge those powers, when you pass this bill you can not keep the Missouri Legislature from changing the powers of State banks and trust companies there, and the States can not keep you from amending the national-bank laws to suit yourselves; but if you want to make this bill a success and make it popular, my theory is let the institutions as they are come into it. We can not deprive Congress of its right, and if you want to amend the national-bank act and its powers, amend the national-bank act and bring that particular amendment up on its merit, where it is not involved in all this other system. But treat all alike, fixing their standard of excellence to see that they are safe.

Senator SHAFROTH. The result of that would be that all of the national banks would be State institutions or trust companies?

Mr. JONES. They did not do that during the time when they built up, and the State institutions had all these powers and the national banks had these restrictive powers.

Senator SHAFROTH. The trust companies have been growing with their powers, have they not?

Mr. JONES. So have the national banks. If you look into the percentage of the deposits which the national banks had in 1890, it is about the same which they have now—the two classes of institutions have been going on together.

Senator HITCHCOCK. I think we ought to make some progress. Other witnesses are coming on who desire to be heard.

Mr. JONES. I beg your pardon, gentlemen.

Senator HOLLIS. I find this most informing, and I would like to ask the witness, if I may, Mr. Chairman, what is the advantage that the national banks have now, aside from issuing currency? How can they compete with trust companies at present?

Mr. JONES. They have the prestige, in the first place, of being Federal institutions, and a great many corporations, as a matter of principle, will not do business except with a national bank. Take the Pennsylvania Railroad, for instance. That company will not keep an account except with a national bank. I merely instance that as one of those concerns who feel that way. The national bank wants that prestige. They have had certain profits that they got from circulation, and they have been free from the domination of State control. Those are the main things. Then they have had a third privilege of jumping over the bars and paying very little respect to their charter powers and violating them at will.

Senator REED. I want to ask you about that.

Senator HOLLIS. Do you think they have violated their powers any more than the State institutions have their restrictions?

Mr. JONES. I think they have.

Senator HOLLIS. Is it not a further matter that a national bank——

Mr. JONES. I could show it to you, if you want to look at the figures.

Senator HOLLIS. Is it not a further matter that national banks have that, some of them, and through those reserves have had the advantage of Government deposits at various times?

Mr. JONES. Oh, yes; that has been an advantage.

Senator HOLLIS. But you would put the prestige of being a national institution at the front of the advantages of national banks?

Mr. JONES. Yes; I think that has been at the front of it.

Senator REED. Mr. Jones, since the matter has been suggested, if it will not interrupt the thread of your discourse—you speak about these banks violating their charter powers. I wish you would give the committee the benefit of your views on that, telling them where and how.

Mr. JONES. Well, if I may do that without being put in a position of making an attack on the national banks, which I do not desire to do, because I do not know but we may have to have one to get along under this system pretty soon; but just take this, for instance: They were given the powers to do a banking business only. Logan County, Ky., on one occasion issued some railroad-aid bonds, and a national bank made a contract to buy some of them but refused to carry out the contract. The bank plead ultra vires and the court said it was too plain for argument, and that it was not within their power and relieved them from their contract.

The courts have over and over again decided they had no right to act as a broker for bonds or to buy and sell them. I am not giving an opinion. I am just telling what the courts have over and over again decided. You hardly pick up a financial paper, however, but what you will read of a national bank running a bond department, and if you will look into the comptroller's figures here you will find they have got some $400,000,000 of railroad bonds and some $300,000,000 or $400,000,000 of other public-service bonds, all ultra vires, but nobody except the Government can raise the question of ultra vires except the bank when it wants to get out of its contract; and in the history of the national bank act the Government has never raised it to see what it is. National banks act as registrars and transfer agents for millions and hundreds of millions of securities, and incur liabilities on that account, I think, in express violation of an express provision in the national bank act. Nobody has ever raised the question that it can not do it. They have kept safe deposit vaults, with the liabilities that go with that, outside of their charter powers to do it. They have gone into all of this question of savings department. After the comptroller has let them get in $700,000,000 or $800,000,000 of this he says it is still a matter with the court whether they have such powers; that nobody but the Government can raise the question. If the national bank does things that are wrong, the comptroller under the regulations is given the power to have them dissolved, and never in the history of the act has he gone into court for such a result. They have been allowed to do a good many of these things. They can not loan on real estate, under the law, and yet they could do it, for the courts have decided that nobody but the Government can raise the issue. They do take mortgages and foreclose them, and when they have made those loans they are protected.

Senator HITCHCOCK. All this time the comptroller has had the power to restrain them from violating the law?

Mr. JONES. Yes; and the fact that he has not done it is what makes me have the impression, as a citizen not as a banker, whose children are going to live in this country long enough after I pass out of the banking business that I should not want to see all the institutions driven into Federal control, and where it may be left in such shape that nobody can raise the question but the Government, and then you have got to fight the Government or fight the whole system. If you drive the 17,000 State banks into this, they nor anybody else will dare to stand up against the political institution, and you will have the same old condition that existed under Andrew Jackson.

Senator HITCHCOCK. Under this provision the Federal board may commit some violation and there is practically no way to remedy it?

Mr. JONES. There would be a much easier way. I would prefer to attack the Federal board when I had my Senators and others to assist me in raising the question than to have to let the Government make those loans, and when I wanted to attack it have to attack the Government itself. I would be far better protected.

Senator HITCHCOCK. Could you not do that under the comptroller now through your Senator, if you desired?

Mr. JONES. Yes.

Senator HITCHCOCK. The same path has been open to the comptroller that will be now open to the Federal board?

Mr. JONES. If it had been so, and if the State banks and the trust companies had not grown so much, it would have been corrected and those things remedied.

Senator HITCHCOCK. What reason have you for thinking that the Federal board would observe the law any more carefully than the comptroller, who is sworn to do so?

Mr. JONES. I think if you have three Cabinet officers and four men selected with the approval of the Senate that we could find it very much harder to get seven men to follow a policy of nonobservance of the law or lax recognition of it here than you could with one man.

Senator Reed. Let me call to your attention, Mr. Jones, that the Cabinet, of course, would be the same as at present, and very likely the majority of the Senate would be of the same political faith. Now, you have a board the Cabinet members of which are selected by the President and the other members of which are nominated by the President and confirmed by the Senate, and the majority of which is likely to be of the same political faith. Now, would that constitute a safeguard under all conditions?

I am free to say that if I had to put the business of the country under the control of a few great bankers or under the control of the Government, I would take the Government. But if it be true that, with the almost absolutely arbitrary powers now possessed by the Comptroller of the Currency, for 50 years banks have been violating their charter rights and have pursued that course until it has become a system recognized in the business world without interference—if that be true, is there not danger under this proposed system of the same dereliction on the part of Government officials?

Mr. Jones. It is always possible for a man to go wrong. The stockholders of every bank elect their own officers and give them power to do things, and the depositors put their money in their power. In every State we elect our officers and trust them. We elect our Federal officers here, and all of my liberties and rights of person and property I submit to the power of the men elected by the people. And if I were afraid of the power that would be exercised by the President and a majority of the Senate of the United States, of whatever party, I should want to change this form of Government. I think we come as near getting protection in that way as under any system where we have human beings elected to do these things.

If I can trust the people for my liberty and my property and give them the power to legislate on all my rights, I believe I can trust that same power, under the wisest restrictions we can make, to administer this matter properly, because the men would be governed by public sentiment. We all recognize the protection of the law. We can travel all over this country without any weapons of defense, trusting to public sentiment and the will of the people to protect us. Now, the President has to select these men and the Senate must concur, and they must respect public sentiment.

It is possible, of course, to go wrong. It is possible for my right hand to take up a pistol and kill somebody, but you do not, because I can do that, want to cut off the right hands of all the people of the country.

Senator Reed. Mr. Jones, I do not want to get into an argument with you, but I want to call your attention now to an essential difference, and see if there is not something that could be done to this bill that would make it safer. I want to submit it to you. You say your liberties are in the hands of the Senate and of Congress and the governor of your State. I deny that utterly.

Mr. Jones. Under the law.

Senator Reed. Your liberties are in the law—in the courts—and the protection consists in the fact that you yourself, as an individual, under the law can make your individual appeal and demand your trial by the law, and in most cases by a jury of your peers; and you have the power of initiation.

Now, here is a system to be set up in which the right of regulation is vested in a board in a similar way to the right of regulation that is now vested in the comptroller. The law has been violated all these years, as you say, and no check placed upon it, because the law could only be invoked by the comptroller. But suppose that the right were vested in any interested citizen to appeal to the law and to the courts to stop a violation. Would not that be a safeguard?

Mr. JONES. That might be. I think there ought to be some such way.

Senator REED. I think if we added that to this regulation—I mean put that thought in proper form so that in the event there was a denial of right there would be some place for an adjudication——

Senator POMERENE. What rights?

Senator REED. The rights that are prescribed by the bill. If you have prescribed rights and privileges in the bill, instead of leaving it to human discretion, we should get a better bill.

Senator POMERENE. You would have all the discretionary powers of this body subject to revision on appeal?

Senator REED. No; I mean that in the working out of this system there must at some point be left discretionary powers, but they ought to be as limited as possible, and the rights ought to be absolutely prescribed as far as possible, and if a prescribed right is denied there ought to be some way by which the individual who suffers can have a right of appeal to some tribunal.

Mr. JONES. At the same time, Senator Reed, nothing could be more dangerous than to try to make hard and fast lines on a lot of questions that must be responsive to public influence. You have to have discretion somewhere; you have to leave it open somewhere. Fix somewhere, if you please, the right to raise objections to that, but you have to have a discretion, and you can not make hard and fast lines on everything. This is a government of men, and we have to have men to administer it.

Senator REED. No; it is a government of law.

Senator HITCHCOCK. That is our point; we think this should be a government of law——

Mr. JONES. A government of law administered by men.

Senator REED. That is correct; and if men do not administer it properly there is nearly always somewhere a way to make them do so.

Senator BRISTOW. Mr. Jones, you spoke of the exercise of the powers by the officers, and you referred to the illustration of a pistol; you said you might kill a man, but you would not. As a parallel case to the exercise of the powers of this board by the comptroller, if you kill a man, the law takes hold of you and deals with you in a very serious way. That is forbidden by law. The comptroller, according to your statement, has permitted the law to be violated, and nobody calls him to account for permitting such violation or calls to account the institution that violates it.

Mr. JONES. In the early days out in Kansas many men killed other men with pistols, and they were not called to account for it.

Senator BRISTOW. That was in the days before civilization had extended its protecting arm there, and we hope that period has ceased to exist with regard to financial institutions as well as with regard to men.

Mr. JONES. I think it has.

Senator REED. Applying that illustration, if a man shoots another, you take him up and hang him; but if you make it discretionary—vest the power in him—he would believe that he did it in his discretion.

Senator POMERENE. With the power of the President to remove, and with these delegations coming on here to Washington, I think you would be pretty well protected.

Mr. JONES. I believe you are protected under this bill. As a banker, I feel that you are.

Senator BRISTOW. Now, with respect to the question of determining the amount of currency which we should have as a circulating medium, do you believe that ought to be left to the discretion of a board?

Mr. JONES. I think the system as proposed here, that was suggested by the bankers' currency commission, of having a 50 per cent reserve, and a graduated tax, is much better than the system outlined in this bill. I do not like that system, and I think you would likely have to amend that. I think the system proposed by the bankers of a 50 per cent gold reserve—there is the limit of expansion. If we have a 50 per cent gold reserve and then have a graduated tax when the reserve board gets down below that, the plan suggested by the bankers, I think, is quite intelligent and an improvement on the bill.

Senator BRISTOW. Do you not think the law ought to prescribe such conditions as those?

Mr. JONES. That is exactly what the bankers suggested—prescribing the conditions and making the law act automatically according to the reserves that are there.

Senator SHAFROTH. Did not the bankers recommend a 40 per cent reserve?

Mr. JONES. Fifty per cent, I think.

Senator SHAFROTH. At the Chicago conference?

Mr. JONES. No; I do not mean the Chicago conference; the original monetary commission.

Senator SHAFROTH. The bankers that met at Chicago recommended raising that from 33⅓ to 40 per cent.

Mr. JONES. I think the bankers did realize that 33⅓ was too low and that there ought to be a graduation there some way. I was not a member of that conference, but, as I see it, I believe it is a much wiser provision.

Senator BRISTOW. Mr. Jones, that is one of the strong objections which many of us have to the measure—that it permits a board of men to determine the volume of the currency absolutely.

Mr. JONES. The bankers suggested that we make conditions determine it.

Senator BRISTOW. I am not talking about what the bankers suggested, but the provisions of the bill which is before us. You spoke of the necessity for the banks and trust companies—these banking institutions—to have a place to go in times of emergency to get currency, to rediscount their paper, to take care of a troublesome situation, and said you thought the regional bank was a provision for such a remedy. Now, suppose that an individual bank, or group of banks, as has been suggested here this morning, could go direct to the Comptroller of the Currency and get the relief instead of going through the regional-reserve association, so as to make them independent of any combination of any kind—what would you think of that system?

Mr. JONES. I am very glad you raised that question, Senator, because I have heard it discussed here, and I should like to say a word about it. Under the Aldrich-Vreeland bill it has never been used, because it was known that the minute our banks in St. Louis would come in here and try to do something under that bill everybody would think there was a panic. You do not want something that is to be used only as a last resort.

The discount system in this bill is, I think, one of the prime features in it. If you will allow me to suggest, if you will take the little pamphlet of the Monetary Commission on "The Discount System in Europe"—the most illuminating article on that subject that I have read—I believe you would be greatly entertained, and I think it would facilitate your discussion here, because there that subject is epitomized in a masterful way. It is written by Mr. Paul Warburg, of New York—one of Kuhn, Loeb & Co.'s partners.

We want a place to go as a regular thing. Under the system you suggest of using it only in emergency, the minute a bank went to use that everybody would think it was broke. It would not be of any service to us.

Senator HITCHCOCK. Haven't you a subtreasury at St. Louis?

Mr. JONES. Yes.

Senator HITCHCOCK. And do you not do business with the subtreasury at St. Louis?

Mr. JONES. We do not, because we are not a national bank.

Senator HITCHCOCK. Would everybody in St. Louis know when anybody did business with the subtreasury?

Mr. JONES. Well, I think they would.

Senator HITCHCOCK. Not necessarily.

Mr. JONES. Not necessarily, but practically.

Senator HITCHCOCK. It would depend how the law was drawn.

Senator POMERENE. Haven't you had some experience with executive sessions of the Senate? [Laughter.]

Senator HITCHCOCK. Suppose, Mr. Jones, the law provided that the bank could go to the subtreasury, just as a bank could go to the reserve board of its district. Would there be any more reason for publicity?

Mr. JONES. Not so much reason for publicity, but I believe it would be far better——

Senator HITCHCOCK. I wish you would answer that question, because I have heard the argument made and I have not been able to see the force of it. Is there any more reason why the public should know if a national bank goes to one of the 50 subtreasuries than there would be if it went to the reserve board?

Mr. JONES. There is not any difference, provided your system is something that makes the discounting an every-day business; but under the system that Senator Bristow spoke of it is only used in an emergency.

Senator HITCHCOCK. Suppose the law provided it should be used not as a matter of emergency but as a matter of right, based upon the capital of the bank and the securities that it deposited.

Mr. JONES. The subtreasury would not have the depositors—I do not think it would be wise to have the Government engage purely in the banking business and that I should have to go to them and borrow money of them. I would much prefer——

Senator HITCHCOCK. You have abandoned the idea that the publicity would destroy the usefulness of it?

Mr. JONES. No; on the contrary, I say if you make it something that is done every day, nobody will bother about it; but if it is only used as a last resort, as it is under the Aldrich-Vreeland measure——

Senator HITCHCOCK. Senator Bristow is not suggesting a case of last resort or desperation, but a matter of right for a bank to go to one of the 48 or 50 subtreasuries to secure the currency.

Mr. JONES. If you do that, you certainly would not make the subtreasury a discounting reservoir and have it do all the routine banking business.

Senator HITCHCOCK. Not routine banking business except to furnish currency.

Mr. JONES. I believe that if you will just study it from a banker's standpoint you will see it does not meet the case.

Senator SHAFROTH. It would require banking machinery at each subtreasury?

Mr. JONES. If you will just read that article that I referred to——

Senator HITCHCOCK. I have had the pleasure of reading that literature already, but I have never had any banker explain to me why, if the Congress established 50 subtreasuries, with a bank examiner in each one, the national banks or the privileged banks could not go to the subtreasury with their notes and secure the currency just as easily as they could go to the reserve bank and secure the currency.

Senator NELSON. The Government would have to be a depository of all that commercial paper and have to collect it.

Mr. JONES. Yes, sir; and that business could not be done without a bank. You have to have all the machinery of a bank, with depositors——

Senator HITCHCOCK. No; it requires no depositors at all. It takes these pounds, impounds them, furnishes the currency, and when the notes are paid——

Mr. JONES. They would have to have a system of redemption.

Senator REED. The bank has to redeem them or quit paying interest on them?

Mr. JONES. You can not make a hard and fast line as to when you are going to have them retired.

Senator BRISTOW. You are overlooking the fact that this regional bank has got to do with the Government exactly what you are complaining of the group of banks doing with the Government. The regional bank is a group of banks. They have to go to this board and get the currency and deposit their collateral. We are inquiring whether, instead of combining those banks into 12 parts, they can not be scattered and made more democratic by permitting the region in a smaller way to meet its own necessities without being compelled to go to the large region and be subject to its decision.

Mr. JONES. I would much prefer to go to that board of nine directors of the regional bank and have them pass on my collateral than to go to the subtreasury.

Senator HITCHCOCK. Suppose you were running a national bank at the present time. You would be inspected several times a year by one of the examiners of the Treasury Department?

Mr. JONES. Yes.

Senator HITCHCOCK. Now, if the Treasury Department is now inspecting your bank for the purpose of seeing whether it is solvent, why can not the same official pass upon that paper?

Mr. JONES. He might.

Senator HITCHCOCK. He is actually doing it; the machinery is in existence.

Mr. JONES. But then you would have a board of people instead of a political officer to pass upon it. I understood you gentlemen were talking about the danger of having political control and the possibilities of what might be done, and yet you are now talking about taking it away from nine selected men——

Senator NELSON. Twelve times nine.

Senator HITCHCOCK. I am not suggesting this in any but a tentative way, to get the views of witnesses. But in the case I have presumed—this hypothetical case—the bank, if it desired, could still deal with its present correspondents; it would still have the resources that it has at present and in addition, as a separate resource, would be able to go to the subtreasury and get additional currency. Would it not be in a stronger position than it is now? Would it not be more independent than if it had only one place to go?

Mr. JONES. It has practically only one now, because it goes to the bank it deposits with; elsewhere it has no standing. Let me say, as a practical matter, that I, as a banker, feel that I can go to my correspondents if I want them to lend me some money, and I may be entitled to it. I would much prefer to have a system that is recognized so that I can go to the regional reserve bank.

In France every banker knows he can take his portfolio and go right to the bank and get money on his bills as a matter of right. I would feel much safer under this system than at the present time, very much safer.

Senator NELSON. Here is this further fact: If the Government had to take this commercial paper and issue currency on it they would have first to examine that paper and then attend to the collection of it, and we would need an army of employees as great as we have under the meat-inspection law and under the pure-food law.

Senator BRISTOW. That never has been suggested, that the Government collect this money.

Senator NELSON. Who would collect it?

Senator BRISTOW. The banks would collect it. When the regional bank gets currency from the Government the Government has to take that collateral——

Senator NELSON. But the money must be paid to the regional bank.

Senator BRISTOW. Now, the government is doing business with different regional banks in exactly the same way in which you are now favoring the group of banks doing. The group of banks do nothing whatever that it is not provided the regional banks shall do. The Government is taking the collateral just the same for the regional banks as we suggest it be permitted to do——

Senator NELSON. No; the regional banks do the collecting.

Senator SHAFROTH. Generally the owner of the security does the collecting, however.

Senator HITCHCOCK. I want to say that there are some further questions that Senators desire to ask of Mr. Jones, and after that it is a question of precedence. Mr. Hurlburt is here from Chicago by appointment. We have here a delegation half of whose members have been heard. Can not you wait until the others are heard, Mr. Hurlburt?

Mr. Hurlburt. I shall be here to-day and part of to-morrow.

Senator Hitchcock. Then I think we shall hear the rest of the Minnesota delegation.

(Thereupon, at 1.05 o'clock p. m., a recess was taken until 2.30 o'clock p. m.)

AFTER RECESS.

Senator Hitchcock. Will you please continue, Mr. Jones? I believe Senator Bristow has some questions he desires to ask you.

Senator Bristow. No; I believe I was about through.

Mr. Jones. I understood that some member of the committee desired to ask me some further questions.

Senator Bristow. It was Senator Weeks.

Senator Hitchcock. Mr. Winston, have you any estimate you can give us as to the time necessary for your delegation to finish?

Mr. Winston. We will make it just as short as we can. I can not tell you; but if we can by any possibility get through this afternoon, we will do so.

Senator Hitchcock. We are in this predicament: We have got present Mr. D. G. Endy, and a number of gentlemen representing the National Association of Credit Men. They were to have had the right of way at 2.30 o'clock to-day, and they are under obligation to get through this afternoon so as to get away.

Mr. Winston. Who is that, sir?

Senator Hitchcock. These representatives of the National Credit Men's Association. We have imposed upon your good nature already by asking you to defer some of your witnesses.

Senator Nelson. Can we not go on? There are only three more of the Minnesota delegation to be heard, and it will not take a long time.

Senator Hitchcock. Well, it will take the rest of the afternoon, and unless these representatives of the National Credit Men's Association can be heard this afternoon they can not be heard, possibly, for some time.

Mr. Jones. Let me suggest that if Senator Weeks wanted to ask me a question, and he is not present, I will be here and you can go on with the other witnesses.

Senator Nelson. Let us go on with them.

Senator Hitchcock. Then we will have to give these representatives of the Credit Men's Association an answer, because they want to leave on the 4 o'clock train.

Senator Bristow. They could not get away by 4 o'clock anyway if they were to make a statement to the committee. Why could not they come back at some other time?

Mr. Endy. It would be a great inconvenience to us. There is a meeting of our national board in St. Louis next week, and so we could not return in two weeks.

Senator Hitchcock. This was our schedule, to hear them to-day.

Mr. Endy. I might say that I do not think it will take us more than an hour, and it might not require but half an hour.

Senator HITCHCOCK. Well, if it would only require half an hour for you to present your case the committee can leave until a future time the presentation of questions to you, and we can recall you if necessary. I would like to ask Mr. Winston if that is agreeable to him?

Mr. WINSTON. In answer to that, Mr. Chairman, I simply want to say this: Suppose we do not get through with what we have got to say this afternoon, then where do we come in?

Can we not take up the Minnesota delegation to-morrow morning?

Senator HITCHCOCK. I am trying to recall what I said to Mr. Hurlburt. I think I said that we would hear him to-morrow afternoon.

Senator BRISTOW. That would still give us to-morrow morning to hear these gentlemen.

Senator HITCHCOCK. Well, Senator Weeks has now arrived. We have excused Mr. Jones, Senator Weeks, during your absence. Will you please take the chair, Mr. Jones?

Senator WEEKS. There seems to be a good deal of difference of opinion, Mr. Jones, as to whether this proposed legislation as it now stands is of sufficient advantage of banks to warrant their going into the system. Of course, it is not worth while for us to pass legislation unless a considerable proportion of the banks of the country are going into the new system, because we would have a bill without any results. Now, what is your opinion as to that question, in its present status?

Mr. JONES. As I see the thing, if I were running a national bank I should want to go in, and I am inclined to think that they will go in. And that is why I am so anxious to have the bill open the door so that trust companies can go in.

Senator WEEKS. Well, is the measure in shape now so that the trust companies can not afford to go in, in your opinion?

Mr. JONES. I think so.

Senator WEEKS. Of course, the matter would be referred to your stockholders; but would you recommend to your stockholders to go into the system if it were adopted as the present bill provides?

Mr. JONES. I do not know that I am quite in a position to answer that definitely; but as the bill will necessarily be amended as it goes through, I think the fundamental propositions in it are favorable; and I believe it would be to the advantage of the institutions to go in. I have figured it out from the standpoint of the different institutions; figured from the sandpoint of the country bank, and my belief is that they will go in; the national banks will go in.

Senator WEEKS. Do you have the deposits of many country banks in your section?

Mr. JONES. Not very many. We have not canvassed specially for that class of business, and we have comparatively few.

Senator WEEKS. I supposed you are consulted by country bankers from time to time about this and similar matters?

Mr. JONES. I had some talk the other day, we invited a number of them, and we got 8 or 10 of them together, and we had 9 State bankers and trust companies from different sections of the State come together; and we met at 4 o'clock and spent until 11 o'clock in going over this bill; and while none of them had made up their minds in advance, I think the sentiment was that it would be to the advantage of the country banks to go in, as we figured it out.

Senator WEEKS. And you were rather advising their doing it?

Mr. JONES. Yes.

Senator WEEKS. Well, did you reach that conclusion on account of the really fundamental reason that it enabled a bank to rediscount its paper so as to provide itself, in case of need, with additional circulation?

Mr. JONES. I think that is one of the fundamental propositions in the bill—fundamental advantages.

Senator WEEKS. Well, there is not much difference of opinion among bankers as to the advantage of that particular feature of the bill, is there?

Mr. JONES. I have never heard any difference of opinion; I have never heard any banker speak of it that did not feel that a proper discount system was very desirable.

Senator WEEKS. Which would you prefer, a circulation issued by the bank or banks or Treasury notes?

Mr. JONES. My theory of the matter is that it would be better to have it issued by a bank, rather than a direct obligation of the Government, which might, in times of need of the Government for its credit, have the Government imperiled or embarrassed.

Senator WEEKS. Well, do you think that is an important feature of the proposed legislation?

Mr. JONES. Well, I am not sufficiently posted on governmental finance to feel that my opinion would be entitled to any respect on that. It is only my first impression. I have never studied Government finance, and I do not know enough about the necessities of the Government to finance for itself to make my opinion of any value.

Senator WEEKS. You have expressed a different opinion from other witnesses about the desirability of making this bill so that all classes of banks would see their way to come in under one system and have a uniformity in our banking system. You think that is not necessarily important?

Mr. JONES. I think uniformity of opportunity to become members of the bank is important, yes; as to uniformity of practice, no. I think the various needs and diverse interests of the community requires different classes of institutions to respond to those needs. But all the institutions should have uniform opportunity to come in and be protected, as I have advocated, and to become stockholders under this bill.

Senator WEEKS. Then, you do not think that it is necessarily important that we provide that national banks shall have the privileges that State banks and trust companies have, to some extent?

Mr. JONES. I do not think it is necessary, nor do I think it is wise. And, if you wanted a broad statement, I do not think it is within your power. I do not see where Congress should have any power to give a national bank the right to act as trustee under a mortgage. It is not a banking proposition; it is not a banking privilege. I do not believe that Congress has the power to do that any more than it would have to incorporate insurance companies.

Senator WEEKS. I suppose it is pretty well agreed that the Government has the right to establish fiscal agencies, and that those agencies may do other forms of banking business than their principal business.

Mr. JONES. Well, the courts have only sustained it so far as to say that Congress has the right to establish a bank which will do a banking business. How much further the courts will go I do not know. They have not found it necessary to go any further than that so far.

Senator POMERENE. Mr. Chairman, I would like to ask Mr. Jones a question.

Senator HITCHCOCK. Certainly.

Senator POMERENE. Mr. Jones, just as I came in I heard you make the statement that from your figuring you believed it would be to the advantage of the country bankers to avail themselves of the provisions of this bill in the event that it was adopted. Now, have you got those figures at hand, so that you could incorporate them in your testimony?

Mr. JONES. I have.

Senator POMERENE. I wish you would give us the details.

Mr. JONES. Take, for example, a country national bank with $50,000 capital and $100,000 deposits.

I take that merely as an example——

Under the present national-bank law such a bank would have to keep in its own vaults 6 per cent of its deposits ($6,000), on which there are no earnings, and must keep with its reserve agent 9 per cent of its deposits ($9,000), on which it usually gets 2 per cent interest per annum.

Under the new law such a bank would have to—

First. Subscribe for $10,000 stock in the reserve bank and pay in $5,000, on which it would be entitled to receive 5 per cent dividends and its proportion of 40 per cent of the reserve bank's excess earnings.

Presuming that this $5,000 would now be loaned out at 8 per cent, there would be a loss of 3 per cent, or $150 (less its said proportion of said 40 per cent excess earnings, which is not estimated in amount because so uncertain).

Second. Keep in its own vaults 5 per cent of its deposits ($5,000), on which it would have no earnings, the same as under the present law, releasing 1 per cent ($1,000), on which say 8 per cent can be earned ($80).

Third. Keep with the reserve bank, without interest, 5 per cent of its deposits ($5,000), on which it now gets 2 per cent, making here a loss of $100.

As this country bank must now keep 9 per cent of its deposits ($9,000) with its reserve agents, under the new law, $2,000 of this could be released.

I am counting that there is 5 per cent in its own vaults, 5 per cent with the reserve bank, and the 2 per cent is optional; it is immaterial whether it keeps that in its own vaults or in the reserve bank, it loses interest.

Senator NELSON. It is idle money, anyhow?

Mr. JONES. It is idle money anyhow. So that if it heretofore had 9 per cent with its correspondent, at 2 per cent interest, now it would have 7 per cent or $7,000 of that money in its own vaults, on which it would lose that 2 per cent interest.

Senator NELSON. And 5 per cent with the reserve bank.

Mr. Jones. Well, I have counted that. It would have this $2,000 released, on which it would be making a gain—it now gets 2 per cent interest on it—it would then get 8 per cent on that, making a gain of $160, less 2 per cent now paid thereon, $60, making a net gain of $100.

Up to this point, making no allowance for any profit on circulation or Government bonds now owned, the bank under consideration would have a net loss of $70 per year.

But many banks find in practice that, in addition to the 9 per cent of their deposits that must be kept with reserve agents, most of the time they keep an additional 9 per cent either with their reserve agents or other correspondents.

Under the proposed bill, with the assured right of discount by the reserve bank, the country bank might with safety and prudence keep practically down to its reserve required by the law, and lend out this extra 9 per cent of its deposits ($9,000) at say 8 per cent, making an annual income therefrom of $720.

Deduct from this the 2 per cent it now gets, $180, and it would make a net profit here of $540.

Deduct from this the $70 loss above and, on the presumption above, the bank would annually have a net profit of $470.

Senator Nelson. That is on the theory that you loan the 9 per cent out?

Mr. Jones. Oh, of course, I am presuming that; but they do not loan the 9 per cent. If you did not lend out all that 9 per cent—which, of course, you could not do—it would be very easy to figure from this what that reduction would be. But you will certainly lend out, I should say, half of that anyhow. So that instead of that $540, it will be half of that, or $270, and still leave a profit to the bank on that basis.

The example above is of a bank where the deposits are double the capital. If the proportion of deposits to capital were larger, the advantages under the new system would be greater.

And I have figured out, taking it the same way, that if you had $50,000 capital and $200,000 deposits the profit would be $1,090. If you had $50,000 capital and $500,000 deposits the profits on this presumption would be $3,950 per year.

The above presumptions are given merely for example. Each banker could change to suit his individual case.

The above only illustrates the reserve requirements.

But some one says the country bank has not the kind of paper that will be subject to discount at the reserve bank. The answer is that the country bank will change its requirements in taking paper to meet the reserve bank's requirements for discount. I do not think there is any doubt about that.

There are other important features to be considered, among them the collection of items at par; and also whether the country bank can transacts its business without keeping a certain amount of extra reserves with its city correspondent.

Then there is the question of whether the result of this new sytem will not be to reduce the rate of interest on all paper of the kind that will be subject to rediscount at the reserve bank.

In any event, the above suggestions make a concrete basis for figuring by the country banks.

That is, I have figured out my own view of that situation; and as I figure it, if I were a country banker I would come in.

Senator POMERENE. Now, as I understand your deductions—and I do not bear all your papers in mind—but generally speaking, the profit to the bank would increase under this system in proportion to the deposits they had—that is, the ratio of profit would be greater to a bank of a given capital than had 10 times as much deposits as it had capital would be if the deposits were only twice what the capital was?

Mr. JONES. According to the figures on that estimate I have just made, if the bank has deposits of four times its capital, it has close to an even break, without counting in its profits which it would get from lending this part of its reserve. If it has deposits of less than four times its capital, it would have a loss. If it had more than four times the amount of its capital in deposits it would make the gain that much greater.

Senator POMERENE. Yes, I understand.

Senator NELSON. But it seems to me that you are figuring that wrong. You are figuring 9 per cent reserve. Now, reserve in their own vaults, and 5 per cent in the reserve bank, and there is 2 per cent more which they can keep either with themselves or with the reserve bank. But in any event there is 12 per cent that is idle money, in some form.

Mr. JONES. Yes.

Senator NELSON. Well, where do you get that extra 9 per cent that you spoke of?

Mr. JONES. Well, in addition to the 9 per cent which they are required now to keep with their reserve agent, they keep 5 per cent in their own vaults and 9 per cent with their reserve agents; but, for practical purposes, they actually keep another 9 per cent with their reserve agents, because they have no place of assured discount, and they have got to run a great deal stronger than they would have to do if they could go and get discount from their reserve bank under this bill.

Senator NELSON. You are assuming, then, that they keep 9 per cent more reserve than is required?

Mr. JONES. I am assuming what I think is ordinary practice among the banks.

Senator NELSON. That is, you are assuming that they will keep 9 per cent more in their banks than they can utilize?

Mr. JONES. No; I am assuming that they keep that 9 per cent there now as an extra reserve, for business purposes and exchange purposes, and because they can not run so close. If they had an assured place of discount, where they could go and discount their paper, they could run closer to their reserve and would not keep so much and I am assuming that they would lend out this extra 9 per cent. I had used 8 per cent interest on it merely as an example.

Senator SHAFROTH. Mr. Jones, Mr. Forgan, of the First National Bank of Chicago, testified that they built up credit to the extent of eight to one on their capital. Now, if the amount which was required to be held as reserve was reduced to country banks 3 per cent and to the other banks 7 per cent, it releases that much capital upon which they can build credit, does it not?

Mr. JONES. Assuredly.

Senator SHAFROTH. And instead of increasing at the same rate that the ordinary amount which the bank would get in for the loan of that money, it would be an increase of six or eight times that amount in credit, would it not?

Mr. JONES. I do not think it has ever been a question with the banks as to how much credit was possible with its capital and surplus, but as to how much it can get. Here is a bank that has 10 times its capital in surplus and deposits. Here is another bank that has only double its capital in surplus and deposits.

Senator SHAFROTH (interposing). Is not the average about about eight to one?

Mr. JONES. I have not figured that out.

Senator SHAFROTH. But whatever it is, it would be that much more of an advantage to the country bank or the city bank to get into this regional reserve scheme, would it not?

Mr. JONES. I do not think that is a question of its credit. A bank with its present capital, whether it can build up a credit of five, six, or eight times its capital, does not depend upon having a little bit more money loose, I think.

Senator SHAFROTH. But every little helps, does it not?

Mr. JONES. Yes.

Senator SHAFROTH. And the use of 3 per cent in the country bank and 7 per cent in the city bank would give that much more of a capital to them, upon which they could build up a superstructure of credit, would it not?

Mr. JONES. I have just figured out that they will be that much better off.

Senator SHAFROTH. But that does not go to the extent of permitting them to build up this credit? You have counted it only once.

Mr. JONES. Yes.

Senator SHAFROTH. The amount of money that would be released to the bank; but if they built up eight times that amount in the shape of credit, would not they build up on this advantage to the extent of eight times the amount?

Mr. JONES. You would, if the banks built up to their limit; but I do not think any bank has done that.

Senator SHAFROTH. Yes.

Senator HOLLIS. In talking to those national bankers, to whom you spoke, did you find that their chief consideration was the earning of dividends for their stockholders?

Mr. JONES. Well, I do not know that I got that from talking to them; but I think that is what they are all in the business for.

Senator HOLLIS. That is correct. That is all.

Senator WEEKS. Mr. Jones, there is one other question. I want to ask you about the number of reserve banks. What have you to say about the desirability of the number provided in this bill or a lesser number or a larger number?

Mr. JONES. In looking over the cities of the country where I thought the business was such—the commerce—that it would require—the very nature of the case—a bank of this kind, I do not see how it could be less than 10, and 12 would possibly make the bill more popular. I believe, theoretically, that it would be better if you did not have quite so many. I think it would make the banks stronger, and you may take the chance in having 12 of having some reserve bank that is weak unless it gets so attractive that the banks generally come into it. I think that is the danger of having the number definitely fixed at 12, but I think it certainly ought not to be any more; and if you would strengthen the system and make it right I think the tendency should be to have a less number than a larger number, because, as you have it now, those reserve banks could have branches in those other States, and the man would not be so far away from the facilities of the bank, because the bank in St. Louis would have a branch at Wichita, and that man would not be so far away from the facilities of the bank. I think the facilities he would have by letting them have branches will meet the needs of those men.

Senator WEEKS. What advantage would it be to have over five, for instance, except to satisfy the local pride of some cities that they have a reserve bank?

Mr. JONES. If you give a certain amount of money that is going into the bank and it goes into but five banks, of course they will be stronger than if it goes into 12; and the reserve banks ought to be large, because we have such large national and State banks and trust companies; and if it is to be a controlling factor, the dignity and power of the reserve bank ought to be as large as any of the other banks around it.

Senator WEEKS. Do you think five would have any advantage over one?

Mr. JONES. Oh, very much.

Senator WEEKS. What?

Mr. JONES. I should think it would be very unfortunate to have only one.

Senator WEEKS. Why?

Mr. JONES. In the first place it is much easier to get control and much easier to get it where it would be in wrong hands; and because they have only one in France, one in England, and one in Germany does not cover it, because you can put the territory of all those countries in one-half of the United States. I think our country is too big for that. To talk about San Francisco having to send to New York to deal with a bank would be absurd in my opinion. The nature of our country is such that you ought to distribute that power and the facilities furnished by the banks would come to the people. so that a man could get to the first heads very much better than if you put all in one bank.

Senator WEEKS. Of course, if you have 1, 5, or 10 you will have branches anyway?

Mr. JONES. Yes.

Senator WEEKS. So it would not be necessary at all for the people in San Francisco or any other place to go to any other source of supply than the branch located in that city?

Mr. JONES. The only difference in having a bank out there is you would have directors out there who understood his condition, and it would not be so well appreciated by the bankers down in New York, who did not understand his condition, and every man would rather deal with a principal than a substitute or a branch.

Senator WEEKS. Would you have separate directors for the local branch?

Mr. JONES. You might as well do that. You now have that; you have separate institutions. I think it would be more consistent with the public sentiment in the United States that you decentralize this power.

Senator WEEKS. Don't you think if you have five banks it would be more decentralized than if you centralize the money power in one bank?

Mr. JONES. I think there ought to be 12 to bring the facilities closer to the people in the country.

Senator WEEKS. Then why not make it 20?

Mr. JONES. Well, it would be a reduction ad absurdum. You might, if you say 20, why not 20,000? You have got to take into consideration the amount of capital and the resources these banks have. You can not have too many, and it gives them a chance of monopolizing the influences and power by having 1 or only 2 or 3.

Senator WEEKS. Don't you think they could monopolize the gold supply of the country with 12 just as well as they could with 5?

Mr. JONES. I think the tendency would be they could monopolize the gold supply better with a smaller number, because you could get a continuity of action somewhat better. I think 5 could do it as effectively as 1, and I think 12, practically, with a proper cooperation between them, can accomplish it.

Senator WEEKS. Do you not think this power of rediscount is absolutely going to decentralize the whole system?

Mr. JONES. I think it is practically so, and it ought to be.

Senator WEEKS. We now have central banks where, as a matter of fact, they are under private control, and it is to that source that the banks of the country have to go. Now, if we provide for this rediscounting, are we not decentralizing the whole system, whether you have 5 banks or 12?

Mr. JONES. You have central banks now because of the law relating to the keeping of reserves.

Senator WEEKS. Absolutely.

Mr. JONES. That has been made possible, the centralizing of this power, by the laws requiring the keeping of reserves in national banks. Now, when you take that away I do not mean to say New York is not and will not continue to be the financial center of this country—and I think it will be the financial center of the world—but as we grow and develop we will always have to have a national center, and I am not in sympathy with the idea of breaking New York's neck. I do not think it is the sentiment of the country that that should be done, but I do believe, in the long run, the other interests of this country will be as well subserved if not better subserved if you remove the law that now tends to accentuate the power of one reserve center or two or three.

Senator WEEKS. There is one item I wanted to ask your opinion about, and that is a provision which was inserted in the bill I think in the last days of its consideration in the House, which permits the reserve banks to go into the market and buy and sell bills.

Mr. JONES. I think it is in the bill they can do that with domestic as well as foreign customers. I think the reserve banks ought not to be put in competition with the member banks. I think, possibly, the argument has been made that the reserve banks may at times go in and buy paper in the exchange market. I think the language of the bill should be changed, but I am inclined to believe there should be power to acquire foreign exchange. I think it is necessary to some extent just as heretofore. I am not familiar enough with the foreign-exchange matters to make some suggestion, but there is some power that is necessary I think. But it ought to be limited in the bill as it now stands.

Senator WEEKS. Do you not think the foreign-exchange matter would be regulated by reason of the lowering of the foreign-discount rate?

Mr. JONES. In the main, yes.

Senator WEEKS. And that all the banks, acting in unison, that that would have the effect of checking the export of gold and bring about the importation of gold?

Mr. JONES. It may. I do not think I am sufficient of an expert to give an opinion that would be entitled to value as to whether that alone would do it. I would have no confidence in my own opinion on that subject.

Senator HITCHCOCK. The chairman of the Minnesota delegation has kindly consented to give way now, and I will ask to hear from you, Mr. Endy.

Senator POMERENE. I would like to ask just one or two questions of Mr. Jones, to get his opinion.

Senator HITCHCOCK. Yes, Senator.

Senator POMERENE. It has been suggested here at different times that the public should be permitted to become stockholders in these regional reserve banks. What is your judgment as to the propriety of such a course?

Mr. JONES. I think it would be a great mistake to permit that.

Senator POMERENE. For what reason?

Mr. JONES. Because under this system now we have developed 25,000 banks, and they are all in a position where they are responsible to the needs of their several communities, and I think the tendency of this legislation here to make reserve banks should be simply to legislate to facilitate the banks that already exist in meeting the demands of the public with right facilities, and I think it is necessary to have the banks as stockholders, because you need their deposits and the other things that come from them that an individual could not furnish so well.

Senator POMERENE. Some have suggested that probably a sufficient number of banks might not avail themselves of the privilege of this system in order to provide the necessary capital for these regional banks. In such a contingency as that, would it be wise or unwise to allow the public to subscribe?

Mr. JONES. No; it would be wiser to make the inducement greater so that the banks would come in.

Senator POMERENE. Just one other question: The reserves under this bill have been reduced to 12 per cent in country banks and 18 per cent for city banks. I have heard one opinion expressed to the effect that these reserves were too low, and another to the effect that they were too high, and it is evident it is somewhat problematical as to what the right amount should be. In your judgment, would it be wise to give to this board the power, with the approval of the President, to increase or to decrease the amount of these reserves in the event that future contingencies might suggest such a course?

Mr. JONES. I should think it better to leave that as a question to be acted on by Congress, which meets every year, rather than to any such pressure as that which might be brought to bear on the President or any board.

Senator SHAFROTH. Have not the banks remedied that by keeping in reserve now more money than the requirements of the law, and would there be any danger of the reserve being too low?

Mr. JONES. Of course, at 5 per cent in the reserve bank, it is in no sense a reserve against the deposits, because you can not use it. It is a misnomer to call it a reserve, because you put it out of reach, where you can not use it.

Senator NELSON. It is no reserve at all.

Mr. JONES. It is no reserve at all. But we have a system by which the banks are committed to reserves, and they are committed to them so much that they do not know how to get away from it. But it is unscientifically called a reserve, and then you can not use it in case you need it.

Senator NELSON. It is not responsive to the deposits of the bank, at all, and you can not use it in any event.

Senator SHAFROTH. But when the banks need money would they not use it?

Senator NELSON. It is not in any case, even in case of insolvency—it is not a reserve in any case.

Mr. JONES. There is where you want the rediscount paper. That is all; that remedies the whole business. That is the great feature in this bill, and I think will be a great thing for the business of this country.

Senator HITCHCOCK. Now, we will hear representatives of the National Credit Men's Association. Mr. Endy, whom will you introduce?

Mr. ENDY. I wish to thank Mr. Winston for his courtesy in allowing us to be heard, and I will ask Mr. Tregoe to read a brief of our statement, and if any questions are to be asked we will be pleased to answer them.

Senator HITCHCOCK. Please state, for the reporter, your name and place of residence and official connection with the association.

STATEMENT OF J. H. TREGOE, OF NEW YORK, N. Y., SECRETARY OF THE NATIONAL ASSOCIATION OF CREDIT MEN.

Mr. TREGOE. My name is J. H. Tregoe, secretary of the National Association of Credit Men.

Senator HITCHCOCK. Proceed.

Mr. TREGOE. Mr. Chairman and gentlemen, I would like to say that we have presented our arguments in the form of a brief and, speaking for the committee and the association, I believe if you should care to have us return at some later date and question us concerning these points we advance, I am sure we should be glad to do it. After the 5th of October, it would be convenient to do that.

I desire to state first that the association is devoted strictly to the consideration of credit. That is the viewpoint we have had in mind in considering this act. We could not consider the machinery of the banks nor any machinery, but simply as the act, in the judgment of the committee, would affect the credit of the country. We never depart as an association from that fundamental idea. The committee to whom was intrusted the work of considering the act in behalf of our association and, as some of you may know, represents the largest commercial organization in this country and perhaps in the world, embracing a large number of our banking and commercial houses.

In considering this act the committee was perfectly free from prejudice, perfectly free from any business selfishness, because we represent a large body of people, and we wanted to look at it in a perfectly patriotic way, and the arguments that we present represent that spirit.

Our commercial history shows that the waste attending financial crises falls heaviest upon business, and business men are therefore directly interested in the adoption of a banking and currency system that will meet the needs of a growing commerce and save them from the occasional heavy waste and the constant menace of an ineffectual system.

The banking and currency committee of the National Association of Credit Men have closely examined the proposed Federal reserve act to ascertain its powers as a regulative measure to provide for the Nation's banking and currency requirements and to save business from the depression and waste of financial crises.

The committee is convinced that the spirit of the proposed act is constructive. It believes, however, that the framers of the bill could not foresee all the situations that such a measure is designed to meet, and therefore Congress should receive in a friendly spirit the criticism which is directed by bankers and merchants against some of its provisions which, if not changed, may impair its efficiency as a governmental instrument of regulation. Such criticism should not be regarded as prejudice, but as coming in a spirit of helpfulness from those whose experience qualifies them to forecast the effect of the proposed law upon the business of the country.

The committee offers the objections hereafter set forth in the friendliest spirit. It is believed that the changes suggested are essential to win the confidence of the people and make the measure a safe and effective means of accomplishing the purpose for which it is intended. Other changes suggested by careful study of the measure, but which seem to be of minor importance now, can safely be left for consideration until after the bill has been enacted into law and its practical application has demonstrated the need and value of such changes.

The committee suggests and urges the following changes:

First, as to the number of Federal reserve banks. The minimum number of Federal reserve districts and Federal reserve banks required by the proposed act, namely, 12, should be materially reduced. The needs to be met and the benefits to be derived from an adequate reserve system are best assured through banking associations of large capital and resources. A smaller number of Federal reserve banks would be more efficient in consolidating and mobilizing reserves and protecting and conserving the Nation's supply of gold than the minimum number mentioned in the bill, and would concentrate and economize the supervisory work of the board of control. The needs of different sections of the country can be met by branches of Federal reserve banks just as effectually as that service may be performed by the parent banks.

Secondly, as to their control and management the Federal reserve board is to possess very great powers and is to perform a public function of far-reaching importance. Therefore its members should be above suspicion of inefficiency, prejudice, and political control. They should possess high qualifications, based on a profound knowledge of and a wide experience in the theory and practice of finance. We can see no menace in having the Federal reserve banks represented upon this board, but if the Federal reserve banks are denied representation upon the Federal reserve board then the powers of the advisory board should be increased. This board should be allowed to select its officers and two of such officers receive salaries, maintain an office where the office of the Federal reserve board is located, and attend the meetings of the Federal reserve board, but without a vote. The influence of these two members of the advisory board, supported by public sentiment, will be more effective than were they granted voting powers.

Third, as to Federal reserve notes. These notes should not be the obligation of nor should they be guaranteed by the Government, as there is no provision in the bill for the Treasury to acquire and maintain the gold reserve necessary for their redemption. They should be the direct obligation of the bank that issues them and redeemed by that bank in gold on demand. To make the Government guarantee the Federal reserve notes and compel the Treasury to redeem them on demand presupposes:

First, that the Government is to be a beneficiary in some way or receive a valuable consideration through the issue of said notes; and second, that the Treasury will have the means to acquire the gold required for redemption purposes.

As the Government will not receive a valuable consideration through the issue of these notes and all Government moneys will be deposited in the Federal reserve banks, under the provisions of this measure, leaving the Treasury powerless to acquire gold except by issuing bonds, it will be dangerous to the credit of the Government to impose upon it this redemption requirement.

As a direct and first lien upon the assets of the issuing bank and secured by prime commercial paper acceptances and other high-grade securities, acceptable for rediscount under the provisions of the proposed act, and a gold reserve of 33⅓ per cent, there need not be any doubt that such notes without any other security will circulate freely at par and perform their functions properly and adequately. The reserve of not less than 33⅓ per cent and not more than 40 per cent held by the issuing banks for the redemption of these notes should consist of gold exclusively. The words "lawful money" as applied to reserves for the redemption of notes should be stricken from the bill.

Fourth, as to interest on deposits. From an economic standpoint the Federal reserve banks should not pay interest on deposits therein, but if interest is to be paid on Government moneys the same rate should be paid to banks as an inducement to them to deposit that part of their reserve which the measure leaves optional with them to keep in their own vaults or on deposit with a Federal reserve bank. There should be no preferred depositors in Federal reserve banks.

Fifth, savings departments in national banks. That provision should be stricken out entirely. It is dangerous. A careful reading of that provision of the bill impels one to the belief that unless the Federal reserve board exercise very close scrutiny and establish very strict regulations very nearly all the functions performed by the commercial department of a bank could be exercised by the savings department upon a very small and inadequate reserve, thereby defeating the reserve requirements of the bill as applied to national banks and jeopardizing the security of the depositors.

We urge the limitations and changes suggested in these five objections as directly concerning essential parts of the proposed act, and without which its powers to do the work for which it is directly intended may be seriously questioned. The committee urges upon legislators, business and banking men in considering banking and currency legislation, that is in its judgment the greatest of our present national questions, a spirit of deep patriotism, so that the general and not special interests may be served.

As this brief states, we are friendly to the act, and with those changes which we consider essential we believe it is safe to try it. That covers our brief, Mr. Chairman.

Senator WEEKS. How many organizations are there in the Credit Men's Association?

Mr. TREGOE. We have in the National Association of Credit Men 92 local associations, making a total membership of banks and houses at the present time of about 17,200.

Senator WEEKS. Have you any idea how much capital is involved in those 17,200?

Mr. TREGOE. Senator, I never did take the time to calculate—to gather statistics—but it would be perfectly remarkable if we did take an account of the capitalization really represented in the membership of our association.

Senator WEEKS. Suppose the changes which you have suggested in your report were not made. Do you think it would be better to pass the bill as it now stands or to fail to pass the legislation?

Mr. TREGOE. Speaking now for the committee, if you will please, Senator, the committee suggests these changes as essential, and I think the word "essential" speaks for itself. They could not favor the bill as it stands in its present reading.

Senator NELSON. Without those changes?

Mr. TREGOE. Without those changes. They consider that makes it a workable act.

Senator WEEKS. You suggested a smaller number of reserve banks.

Mr. TREGOE. Yes.

Senator WEEKS. How many?

Mr. TREGOE. That is a right tender question, Senator. We did not take a census of our committee. Personally, speaking for myself, I should like the test to begin with three. That is my own conviction. It is just the same number as we have of central reserve cities to-day, three.

Senator POMERENE. What is the magic in the number three?

Mr. TREGOE. There is no magic at all, Senator; only if you will permit me to say (I would not like to speak for the committee in this), my own reading would lead me to differ somewhat from the speaker who preceded me. I believe from the standpoint of a political economy perhaps the one organization with branches in this country is theoretically right, you understand. That is the economical point of it. That is the conviction my own study leads me to discover; but in testing out this Federal reserve bank, personally I have toward it the friendliest attitude. And whether it is 3, 5, 6 or 7, whatever it may be, we believe that the number 12 should be materially reduced, leaving that reduction to the judgment of Congress after they have listened to the arguments and realized just exactly what is involved by having too large a number of Federal reserve banks.

Senator WEEKS. That is your personal opinion you are expressing now?

Mr. TREGOE. That is my personal opinion.

Senator WEEKS. Did the committee come to any conclusion as to the number of banks they thought should be adopted?

Mr. TREGOE. How is that? I beg your pardon?

Senator WEEKS. Did the committee come to any conclusion as to the number of banks?

Mr. TREGORE. I believe the wishes of the committee would be fully met if the number were reduced to 6—5 or 6—as the minimum for starting, you understand; not as the maximum, but the act says 12 as a minimum, and with $5,000,000 minimum capital for each bank; and the committee can understand, with about a billion banking capital now in the national banks, how difficult it might be to begin the operation of the act on a minimum of 12 with a minimum required capital of $5,000,000.

Senator HITCHCOCK. Senator Pomerene, have you any questions?

Senator POMERENE. You have just stated now your committee would be satisfied with 6?

Mr. TREGOE. I think so.

Senator POMERENE. The bill just passed by the House provides for 12. As between the two numbers, you do not think that there is a very essential difference, do you?

Mr. TREGOE. Between 6 and 12?

Senator POMERENE. Yes.

Mr. TREGOE. I should say yes; a most essential difference, Senator, between 6 and 12, in operating. You understand those Federal reserve banks should be banks of large resources and large capital in order to do their work, in order to perform their functions properly in this country. They would have to be banks of large resources, large capital, and the smaller the number at the beginning, at the testing of the plan—it is far better to have 6 than 12.

Senator POMERENE. Your ideal plan is one central bank?

Mr. TREGOE. My theoretical plan.

Senator POMERENE. How do you distinguish between the theoretical plan and the practical plan, now?

Mr. TREGOE. I would hesitate to call most any banking institution ideal in that sense. I am speaking now of the theory of economy, and I am speaking of the conclusions I reached in my study of the science of money.

Senator POMERENE. Would you, if it were within your power—would you provide one central bank here for the country?

Mr. TREGOE. No; not under this plan. Not under this plan, because you have a board of control in there which presupposes that there are at least two or three to control.

Senator POMERENE. What would you have in it?

Mr. TREGOE. Why, personally, you understand, Senator, you ask me the question.

Senator POMERENE. Certainly.

Mr. TREGOE. I would have the one bank approximating somewhat that suggested by the Monetary Commission. Not entirely that.

Senator POMERENE. With that general plan of control of the banks?

Mr. TREGOE. With that general plan of control of the banks—that general idea. That is theoretical, you understand. But do not lose sight of the fact that we are friendly to this—friendly to this act with the changes.

Senator POMERENE. Another matter: You have stated here the number of business houses that were connected with your association.

Mr. TREGOE. Yes.

Senator POMERENE. To what extent have you consulted or has your committee consulted these different members in presenting your conclusions here to this committee?

Mr. TREGOE. Last June, in the city of Cincinnati, was held our convention with about 1,200 representatives present, and the report of the committee presented them, which of course did not embrace these conclusions, which were reached since, was most enthusiastically received, and the message was sent expressing really the friendly attitude of the association toward the proposed legislation. I should say that the association would stand back of the conclusions reached by the committee, and which they have presented in this argument.

Senator POMERENE. That is, you say that without having consulted them at all?

Mr. TREGOE. No. I have not the written approval of the 17,000 members; no.

Senator POMERENE. And you do not know whether they would favor 1 or 5 or 6 or 12 banks?

Mr. TREGOE. Not the 17,000; no. Like all organizations, Senator, of that kind, they have delegated to this committee this specific department of its work.

Senator POMERENE. I am not making any criticism of what you have done.

Mr. TREGOE. Yes.

Senator POMERENE. But I am trying to ascertain whether or not the views represented here are in fact the views of the 17,000 houses that are connected with your association, or do they represent simply the consensus of opinion of your committee?

Mr. TREGOE. The committee would not act without having in mind some views expressed in convention, or some views that they have gathered. But if you will permit me to say, upon my own authority and as I know the membership very well, I believe that the large majority (I would not say all, but a large majority) of these houses, of the members of the organization, segregating the business houses, would favor a smaller number than 12.

Senator POMERENE. I think I understand your position about that. Another matter: Why did you assume that if this board is named by the President and confirmed by the Senate, that it will be composed in whole or in part of impractical, inefficient men?

Mr. TREGOE. We do not assume that.

Senator POMERENE. You express a fear and lack of confidence that that will be done.

Mr. TREGOE. No. We wanted the measure in such a way, Senator, that it will be beyond the shadow of a doubt.

Senator POMERENE. Do you doubt the good faith or ability of the President to name men who are leaders in the business world in a subject of this kind?

Mr. TREGOE. No. Answering that personally, I should say not, and I wish I had in other things as big a spirit as I have absolute patriotism both to the Government and the people who control it.

Senator POMERENE. I am very glad to hear you say that, and for that reason I do not understand the force of the criticism I have indicated.

Mr. TREGOE. I should not take the language to be a criticism. It simply says the members should be above suspicion.

Senator POMERENE. We all agree to that.

Mr. TREGOE. You anticipate certain situations by providing for them. There are many laws enacted to cover situations which you hope will never come to pass and which you would dislike dreadfully to have come to pass, but still you enact laws to meet those situations.

Senator POMERENE. Most surely, but it seems to me you start out on a wrong hypothesis—and when I say "you" I mean men who entertain the same view that you do. You assume that if there are bankers on this committee they will always do the right thing. You assume that if the President appoints them they will probably do the wrong thing. It seems to me that we ought to have faith enough in our Presidents to believe they would appoint the right kind of men on this board, just as we have faith they will appoint the right kind of men upon the Supreme Bench and upon the Interstate Commerce Commission.

Mr. TREGOE. Senator, won't you allow me to ask that you do not hold that opinion? We do not. And we do not believe either that if a banker were put on that Federal reserve board he would be above suspicion. Not at all. We simply want the measure framed in such a way that if the Federal reserve banks are not granted representation the powers of the advisory board shall be increased.

Now, the argument is made that there is no commission, no supervisory commission, that has representation upon it of the interest that it supervises. But I think that on a close analysis you will discover that the board of control provided by this act is really more than a supervisory body; it is a controlling body. It controls. Its powers are very large. You recognize, too, just at this time the divergence of views, and it was for that reason that our committee held these objections for some little time, but they withheld them from publicity in order that you gentlemen might get them first. They have never been announced in a newspaper or officially to our organization. We brought them to you first.

Senator POMERENE. I agree with you that these powers that are invested in this board of control, or reserve board, are very large, but they are no larger under the provisions of this bill than they would be if the board were composed wholly of bankers.

Mr. Tregoe. I will concede that there are two very strong arguments for the Federal reserve board as it is constituted and provided for in that act. You will notice, then, we do not say in our brief that you must have, or ought to have, representation upon it, but if they do not have representatives the powers of the advisory board should be increased to the extent of having two of its members sit without vote in its sessions.

Senator Pomerene. That is all I desire to ask the witness.

Senator Hitchcock. Senator Shafroth, have you some questions?

Senator Shafroth. Mr. Tregoe, would it not, in your judgment, add to the stability of the currency to have it a note of the Government, or guaranteed by the Government?

Mr. Tregoe. No; not this kind of currency. These Federal reserve notes do not require that the Government shall participate as an obligor or guarantor.

Mr. Tregoe. Yes. There is no reason why the Government should

Senator Shafroth. It could do no harm, could it?

participate in that. The history of other banking systems demonstrates that under the provisions of the act, with the security that is really held against those notes, they will circulate at par and be retired quickly, as notes of that description should be retired. We see nothing but a menace to the Government and the Treasury in providing that those notes should be guaranteed or be an obligation of the Government, and could be presented at the Treasury.

Senator Shafroth. You do not think it would add to their circulating ability?

Mr. Tregoe. Why, of course, in the minds of some people it would make them very much stronger. You know, we are a large Nation, and there are lots of people in this Nation who do not understand really the science of money—that money is a commodity, like any other commodity; it ebbs and flows like other commodities—and the Government's guaranty has in their eyes a superior value, and rightly so.

But these notes are for a specific purpose. They are to provide for certain situations in order that we may perform our credit functions properly. Credit must be redemptive. It is all right to speak of credit, but credit must have redemptive capacity. We are doing business in credit about 10 to 1 in comparison with the money we have in this country—even more than that. The bank credit is about that. Credit must be redemptive. There must be something there to redeem it. But there is a possibility of stretching out the credit until it becomes unsafe. That is when the crises come, when the contraction of credit comes, and the business man suffers.

Senator Shafroth. Do you think this currency that is to be issued by the Government would be improved by making the notes full legal-tender money?

Mr. Tregoe. Oh, no. We declare against making them legal tender.

Senator Shafroth. Why?

Mr. Tregoe. No obligation of that kind should be a legal tender.

Senator Shafroth. Would it not make an increased demand for the notes if they could discharge debts to the extent of $60,000,000 or $80,000,000?

Mr. TREGOE. Oh, it would be contrary, Senator, not only to theory, but, I believe, to practice, to make a note of that kind legal tender.

Senator SHAFROTH. We have had no inconvenience in making the $346,000,000 of United States notes legal tender, have we?

Mr. TREGOE. We did in 1896, didn't we?

Senator SHAFROTH. No; no more so than if it had been legal tender.

Mr. TREGOE. That is just a point on which we would differ—in a very kindly spirit, however.

Senator SHAFROTH. Yes; but it was the redemptive power, which, of course, has to be added to every legal-tender note.

Mr. TREGOE. History shows that one of the most dangerous things for a government to do is to issue paper money and declare it legal tender.

Senator SHAFROTH. The Government of France does it as to the note issue of the Bank of France, does it not? The notes of the Bank of England are made legal tender. The notes of the Reichsbank of Germany are made legal tender, and the Governments have nothing to do with those banks except that they act as depositories for the Governments. There is not nearly as close a relation between the Governments and those banks as there is between our Government and the banks created under this bill.

Mr. TREGOE. That would open up quite an argument.

Senator SHAFROTH. Let me ask you another thing. You say that these regional reserve banks should redeem this money, and that it should be made upon its face redeemable in gold, and not in lawful money.

Mr. TREGOE. Bear in mind—do not confuse the arguments at all—we ask that the reserve be in gold; that the notes may be demanded in gold. But those notes would circulate, you understand, Senator, and be cleared just as items are cleared to-day, and be redeemed in transit in what would be called lawful money and gold.

Senator SHAFROTH. Yes; but the party would have a right to demand payment in gold.

Mr. TREGOE. He would have a right to demand payment in gold.

Senator SHAFROTH. Now, as a matter of fact, don't you think by making these notes redeemable in gold or lawful money, at the option of the bank, that would have a tendency to preserve the gold reserve of the Nation instead of destroying it?

Mr. TREGOE. No; I should say just the contrary, because if those notes are paid in gold on demand, that necessitates that the Federal reserve banks shall provide sufficient gold.

Senator SHAFROTH. Then don't you have a competition immediately started between the National Government for gold for the redemption of its obligations, and the reserve banks for gold for the redemption of their obligations? Why is it not better really to make these all redeemable by the National Government? Don't you think fewer of them would be presented for redemption?

Now, these regional notes, as you may call them, are going to circulate in the district in which they are issued. In other words, whenever a regional reserve note gets out of that district it is required that the National Government, as soon as it comes into its Treasury, shall transmit that note to the particular district and have it take care of that note. In other words, the tendency is to keep these reserve notes in the districts where they are supposed to be issued.

If that is the case, you can readily see that the demand for gold would require 12 gold reserves kept in the United States. And, inasmuch as those reserves in some instances, it might be considered by some of the directors, should be very high, you would have 12 competing people trying to get as much gold as they can, and the blanket would not be broad enough to go around.

But if you make it redeemable in lawful money, then you come to the National Government and say, " Redeem this in gold "; and the result would be they could redeem it, and it would take far less gold to do the same thing. And does not making the bank reserve redeem these in gold weaken the chances of maintaining the gold reserve instead of increasing them?

Mr. Tregoe. Senator, let me say to you on that point, that we do not want any more of these Federal reserve notes issued than are absolutely necessary. That is the science of money. Money is a commodity, and we do want any more of it than is necessary.

Senator Shafroth. Then you regard it solely as a temporary currency?

Mr. Tregoe. We want the elasticity. We want an elastic currency. We want the notes to come out when they are needed. Any provision that would keep those notes in circulation beyond the time they are needed is simply inflating the currency, and, as a consequence, advancing prices, because the inflation of the currency has its effect on prices.

Senator Shafroth. Of course, there are many things that enter into the question of prices, and currency is one of them, but it is not the sole thing. The question of trusts, the question of combinations, the question—as it was explained here by a gentleman the other day—that as to farm commodities it is due to the fact that the increase of population in cities has been to the extent of 22 per cent, whereas in the country it has been 2 per cent—a relatively high increase of the consumer and a relative decrease of the producer—and that increased demand upon the same production would naturally produce a higher price.

But those are questions we can not go into now. I just suggest them to you because it is not only money that determines the question of prices. These prices are world prices. The amount of currency that each nation presents and throws into the commerce of the world has an effect—a very small effect compared to the demand of the entire world—upon these world commodities.

Now, I want to call your attention to this: This demand which is made by people for this money in the localities where the bank issues the money, if it is met in gold, will produce a constant demand by the people and the holders of the notes in each one, upon the treasurer of the reserve bank. And it seems to me that you are starting a competition in the struggle for gold right in our own country.

Mr. Tregoe. I could not agree with you on that, Senator. One of the prime necessities is to keep our currency elastic, to give us the notes when we need them for legitimate and sound business purposes, and retire them when they are not needed; and any feature that would keep those notes in circulation beyond the time they are needed is simply inflating the currency.

Senator SHAFROTH. Then you are in favor of the national-bank notes being retired in accordance with the provisions of this act?

Mr. TREGOE. Well, you know that bond-secured currency has come to that now. We have suffered very much because of the fact that the bank notes have not been elastic. They have not come out when we have needed them, and the supplying and retirement of them has been determined more by the price of bonds than by the absolute needs of business.

Senator SHAFROTH. And you prefer that the bank notes be retained rather than this currency should take its place?

Mr. TREGOE. That is a technical point I would not care to go into.

Senator SHAFROTH. Don't you think these national-bank notes should be retired; that they ought to be retired by a permanent currency, such as the United States notes?

Mr. TREGOE. We want an elastic currency, Senator—only enough money to do the business.

Senator SHAFROTH. But there is a certain amount which can be considered as permanent currency, and that is not necessary to fluctuate. If you add to that permanent currency this note issue provided in this bill, which will take effect only as to the elastic part of the currency, would not that offer a pretty ideal currency?

Mr. TREGOE. I would not care to concede that.

Senator HITCHCOCK. We want to hear the Minnesota delegation.

Mr. TREGOE. Mr. Chairman, here are some copies of this brief.

The CHAIRMAN. You may hand them to the stenographer.

Senator BRISTOW. I want to ask Mr. Jones one question.

Senator NELSON. He will be here later.

Mr. JONES. I will wait until these gentlemen have finished.

FURTHER STATEMENT OF BRECKINRIDGE JONES.

Senator BRISTOW. It will take only 5 or 10 minutes. The question was raised as to the advisability of groups of banks getting their currency from the Treasury direct—that is, from the Government direct—in the same manner as the regional banks get it. Your objection was that it was putting the Government into the banking business and making it collect these notes. I want to read the section of the bill to which I referred:

> Any Federal reserve bank may, upon vote of its directors, make application to the local Federal reserve agent for such amount of the Federal reserve notes hereinbefore provided for as it may deem best. Such application shall be accompanied with a tender to the local Federal reserve agent of collateral in amount equal to the sum of the Federal reserve notes thus applied for and issued pursuant to such application.

That is, the regional bank must deposit with the agent of the Government collateral in an amount equal to the sum of the notes that it applies for.

> The collateral security thus offered shall be notes and bills accepted for rediscount under the provisions of section 14 of this act.

That is, this 90-day paper. The reserve bank when it obtains currency must deposit with the agent of the Government this paper which it has rediscounted from the member banks, a sum equal to the amount of the currency which it calls for.

And the Federal reserve agent shall each day notify the Federal reserve board of issues and withdrawals of notes to and 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 Rederal reserve notes issued to it.

Now, the objection which you made with some earnestness against the groups of banks applying directly to the Government in the same way that the reserve bank applies was that it would put the Government in the banking business and compel it to collect the notes, etc. Now, that was not anticipated any more for the group of banks or for the individual bank than it is for the Federal reserve banks, and I can not see any difference between the two systems so far as the principle goes.

Mr. Jones. Of course, I am not an expert on all these things, and many of my answers to these questions must be immature. But I can see at once that if your group of banks asked for these notes and got them directly, in the first place you would not have the same security behind the note because the Federal reserve bank, say at St. Louis—that note is a first lien on all its assets. You have the money that has been put up by the banks for their stocks; you have their double liability on that; you have all the assets, and you have this Federal reserve bank securing that currency. I believe that if you had simply let my institution go to the subtreasury there and put up security those notes would not be as well secured as notes would be under this reserve bank system.

In the case of these groups of banks—I do not know what the organization may be for them to pass upon a security, but you have a Federal reserve board there to pass on them. I would much prefer to let my paper that I wanted to rediscount go before a board than to go before a subtreasurer or the examiner for that district.

Senator Bristow. Of course, the matter has been discussed a good deal, and while I should like very much to go into it further, having urged that I be permitted to ask this question, and that the Minnesota delegation wait, I won't take that up with you. However, I make this suggestion for your consideration: While you have the assets of the regional bank—its stock and the collateral it puts up with the Government—behind the notes it issues, provision can easily be made that all the assets of the group of banks, in addition to the collateral and the gold reserve, can be behind the currency which it issues to the banks. In that instance you would have the entire assets of the group of banks, while in the case of the Federal reserve bank you would have only its assets—its 10 per cent of the stock of the member banks, plus the 10 per cent which it may call, and all the assets of the member bank to which the currency is issued.

Mr. Jones. This just occurs to me, Senator. Under the system you suggest you have only covered the single question of rediscounts. These reserve banks are going to buy bullion; they are going to do various things that tend to equalize exchange the world over. Under your system you would have nobody to take care of those general matters which have to be done by a private bank.

Senator Bristow. I would let that be done just as it is now.

Mr. Jones. Just as it is now?

Senator NELSON. It is not done at all now.

Mr. JONES. That is one of the great disadvantages.

Senator BRISTOW. Why, they have their deposits and the reserves. This is simply a provision whereby a group of banks, when they need additional currency because of conditions, can go to the Government and get it. Now when a national bank wants to take out currency it buys bonds and presents the bonds, and the currency is issued to it under the forms of law. It has certain rights that it now exercises in that way, and that grows as the business develops. As the Nation has grown the banks have increased.

Mr. JONES. But when you need currency now you can not go and get it, because you have not the bonds.

Senator BRISTOW. That is true, but here is an addition to the provisions that are now made, simply to remedy that defect which is complained of.

Mr. JONES. I could hardly be expected just off the bat to give you an answer, but I should like to have the privilege of answering it later and sending my answer to you, which I would be glad to have you consider.

Senator POMERENE. To be incorporated in the record.

STATEMENT OF A. H. COMSTOCK, OF MARSHALL-WELLS HARDWARE CO., DULUTH, MINN.

Senator HITCHCOCK. Kindly state your name, residence, and business.

Mr. COMSTOCK. My name is Albert H. Comstock, and my residence Duluth, Minn. I am in the hardware business, as vice president of the Marshall-Wells Hardware Co. of that city.

Senator HITCHCOCK. Proceed with your statement, Mr. Comstock.

Mr. COMSTOCK. Mr. Chairman, I have not prepared any statement of my views, but I will give them to you briefly.

I commenced with my business experience in 1864, at a time when we had the old State banks, and the deplorable condition of things at that time made a great impression on my memory, and the advent of the new measure, the national-bank act, which was so far superior and gave relief to the country has remained with me ever since.

Under the old State bank laws the proportion of the currency which was paid out on discount was so large that it created great loss and was a continual annoyance. The bills of the eastern State banks were good mostly, and the bills of the western State banks were a great many of them poor and worthless, and all of them at a discount, by reason of their geographical location under those conditions which were different from what we have now. So that they used to say in those times that when anybody got any money that they paid it out to liquidate their debts, which was not a bad idea, but the principal reason was that they did not want to carry it over night. That was about the general situation with respect to money during those times.

I entered my business existence as a young man at the beginning of the national-bank act, and I have seen it in use for so many years, and I am satisfied that my liking for it has increased constantly. I have been through all the bad times that we have had during our lives and I have seen the advantage of that system. However, I do not think that all the banks should be national banks by any means, although the national banks may perform a great service. They did at that time perform a great service to the country's finance in the selling of bonds and all those things that we greatly needed and appreciated.

Then we came up to 1874, and we had a great deal of trouble. We tided over that and then the resumption of specie payments arrived and the banks all helped. Then the troubles of 1883 and 1887 and of 1893 to 1896, and on up to our last trouble in 1907. I have observed in all those times that the money was all right, and that the Government issues were good; the bank issues were just as good and everybody was pleased with it. But when it came to the time of trouble we lacked something, and we lack it to-day just in the same way, and we are likely to continue to do so until something else is provided.

In my opinion, what we lack is elasticity in the present currency. I do not think that we need more currency. There is nothing to show that. Our circulation, per capita, seems to be ample, and I think it is equal to that of any country, and with our modern system of credit we use less currency almost every day, notwithstanding the increase of population and the increase of wealth of the country. The increase in the quantity of gold that is produced and also of silver tends to show that there is money enough to do the business of the country because credit is so largely used, but it is at the time when we get into trouble that we need something else.

I have read this bill some, and I should say that what we lack is the asset currency, which would be temporary, that is named there in that bill. But I do not think that the reason why the business men of the country, as far as I know, are afraid of it, because the banks do not take kindly to it. I do not think that the national banks should be forced into it; or, perhaps, I might say by reason of its conditions that they might be forced out of it. That would be the difference.

I think that the connection of the banks with the national reserve bank should be voluntary on the part of the banks, and that all of the national banks, the State banks, and the trust companies should be members of this, if they choose, but that membership should be voluntary on their part. In other words, I should say that the conditions of the reserve banks should be made so attractive to the managers of banks that they would voluntarily want to be members of that reserve bank. I speak of "a reserve bank," but I do not think it would be necessary to have a large number of them. My idea would be that one reserve bank would be all that was necessary, with such branches as they thought best to establish.

We are considerable borrowers of money, with our large business, and it makes it necessary——

Senator Nelson. Yours is one of the largest wholesale hardware concerns in the country?

Mr. Comstock. We are credited with being one of the largest in the West.

Senator Nelson. Next to the St. Louis house?

Mr. Comstock. Our headquarters are in Duluth, and we have branches in Portland, Oreg., in Spokane, Wash., in Winnipeg, Manitoba, and in Edmonton, Alberta—widely separated.

Senator Nelson. Nine hundred miles from Winnipeg?

Mr. COMSTOCK. Nine hundred miles; yes.

So that the northwestern country, which is equal in territory to all of Europe, is covered by men from our house. Of course, that takes considerable money, and as we look at it, we are interested in the banks as borrowers, and when the banks are alarmed, of course, we feel that way. We do not want to see anything radical done. It takes plenty of time to do it right. You gentlemen have considered it a long time, but I just want to give my view of what would be best.

Senator NELSON. You looked into the details of the bill, Mr. Comstock?

Mr. COMSTOCK. I have read them. I could not say that I would be qualified as an expert on those things.

Senator NELSON. Have you any suggestions to make on them?

Mr. COMSTOCK. I would be glad to answer your questions as to anything I know.

Senator NELSON. Have you any suggestions about the provisions of the bill?

Mr. COMSTOCK. Oh, no; I think that the one reserve bank and the voluntary joining of the banks with that is of chief importance. I will speak on that subject. I think that if you make the central reserve bank attractive to the banks on business principles that they would be glad to join it.

Senator NELSON. What is your idea about issuing currency on commercial paper?

Mr. COMSTOCK. Only as a temporary measure.

Senator NELSON. With a gold reserve of $33\frac{1}{3}$ per cent?

Mr. COMSTOCK. Yes. The idea would be that the banks would deposit—they would have a smaller interest in it than this bill requires; they would be invited to deposit their reserves with this bank, at a low rate of interest, a rate of interest which is as much less than banks pay as would make it their choice.

Then, I think that the desire for banks to rediscount their paper is largely overestimated in some respects. I think that there are classes of banks—country banks—which would be very glad to do so, and some other banks, but I would not expect that the large city banks would use this measure of relief in ordinary times. It would be an unusual time when the large city banks would avail themselves of it, and those are the only times in my business life of 50 years, that I have ever seen the necessity for having an emergency currency.

Senator NELSON. Your idea then is, that if a system was provided so that commercial assets, commercial paper, could be available for currency, in emergencies, that our present system, supplemented in that way, would be ample?

Mr. COMSTOCK. Yes, sir.

I would say that a reserve bank could be built up which would be a great benefit to all the banks, and through them to all the business men. I think every business man would appreciate such a safeguard. That is what we lack. It is not present facilities, but it is the something that helps when we are in trouble.

You take these banks, and they would all—theoretically; I don't know that I could speak for all the banks, as they might have different views—but I am telling you the way it looks to us. The banks would all receive a small interest on their reserve kept in that reserve bank. The business of the bank would be only with banks or with the Government; they would have no other customers whatever, except the Government. The Government would keep its deposits there, and the banks would keep theirs by reason of its being desirable to keep it there.

Senator HITCHCOCK. You are not talking about the pending bill?

Mr. COMSTOCK. I am talking about the one I would have.

Senator HITCHCOCK. Your ideal bill?

Mr. COMSTOCK. The condition is that you have antagonized the banks by conditions of this bill apparently, as I understand it, and I would have one that I should think would attract them.

Now, then, excuse me for saying this just as I think it. I have not prepared any paper on the subject, but that is my idea.

The central reserve bank, from the bank's standpoint, would have these deposits at a less rate of interest than regular banks are paying. The object would be that the connection of the bank with the central reserve bank would be of great value to them in case something happened.

Now, what to do with that money, which would be considerable—I think it would be very large. Of course, it would take, in a measure, away from the present existing banks, the deposits of reserves, but would centralize them in another way in another place. As to the use of that money, this reserve bank would rediscount the paper just as this bill proposes, for banks which wanted it, on the deposit of paper securities, and protect the securities against collateral—grain collateral, and other things, that would make it absolutely and perfectly good. They would discount the paper at a reasonable rate of discount. I have in mind 5 per cent, or something like that, which would be attractive but would be good.

The other banks that I spoke of that probably would not want to rediscount their paper in that way might take advantage of it temporarily by depositing bonds, for instance, and getting these accommodations up to a certain amount, in proportion to capital, deposits, business, and credit. That would be about my idea of a central bank.

Senator HITCHCOCK. Is that your statement in chief?

Mr. COMSTOCK. Yes, sir.

Senator HITCHCOCK. Senator Nelson, have you finished?

Senator NELSON. Yes.

Senator HOLLIS. You have heard it stated here today that the chief consideration of the bankers is to make dividends for their stockholders?

Mr. COMSTOCK. Yes, sir.

Senator HOLLIS. You understand that is so?

Mr. COMSTOCK. Yes, sir.

Senator HOLLIS. Your chief interest is to avoid panics and tight money, and to be able to get money at a reasonable rate when you need it?

Mr. COMSTOCK. Yes.

Senator HOLLIS. Can you not conceive that a system might be admirable to you that the bankers would not like, because they would not make so much money out of it?

Mr. COMSTOCK. I do see wherein it would differ.

Senator HOLLIS. No. Can you not see that a system might give you currency at reasonable rates, when you need it, on good security, and at the same time be less profitable for the banks than the present system? Can you not conceive that to be so?

Mr. COMSTOCK. Gentlemen, I say that this is the bank for banks only.

Senator HOLLIS. Yes. I am not talking about the regional banks, now—the reserve banks. I am talking about the whole currency plan that this bill is intended to enforce. Can you not see that your interests, as a business man, might be quite different from the interests of the bankers who are in the business to make money for their stockholders?

Mr. COMSTOCK. The banker would have to look at it from his own standpoint, but we are affected through him.

Senator HOLLIS. Do you not think that considering this bill, the bankers' interests might not cause them to look at it from a patriotic standpoint or the standpoint that we legislators are inclined to look at it from?

Mr. COMSTOCK. The difference is this: This bill contemplates the gradual retirement of the national-bank notes, founded on United States bonds, and substituting for those bonds a currency founded on property—collateral assets?

Senator HOLLIS. Yes.

Mr. COMSTOCK. Asset currency?

Senator HOLLIS. Yes.

Mr. COMSTOCK. I do not think that the banks generally or the business men would look with favor on currency founded on Government bonds wholly being replaced with asset currency. I would have the issue of asset currency in the way that I spoke of as a temporary measure only. I should explain right there that up to that point the general trouble the Federal reserve bank would have doing the business of this country just as every bank just now, whether national or State banks, and all the business men, and it would be no real asset currency, up to the point where it would be necessary to be issued. There would be $500,000,000 probably to-day, which would be ample for any event, and in the event of need or trouble that would be issued by the banks just as provided for in the bill. To those who had been members, not new ones, but to those who had been members. There you make the bank or the banks to be connected with a Federal reserve bank of that kind; in fact, it is a safety valve.

Senator WEEKS. I was interested in what Senator Hollis was just asking you, about the possibility of a difference of interest between the business men and the banks. Does not the prosperity of the bank depend on the success of their customers?

Mr. COMSTOCK. Oh, undoubtedly.

Senator WEEKS. And your success to some extent depends on the capacity of the bank to supply your needs?

Mr. COMSTOCK. Oh, yes.

Senator WEEKS. So that the interests to that extent are mutual?

Mr. COMSTOCK. Oh, yes.

Senator WEEKS. I suppose that you are familiar with the fact that interest rates in foreign countries are very much lower than they are in the United States?

Mr. COMSTOCK. Yes.

Senator WEEKS. And they are largely due to the system which obtains there relating to rediscounts?

Mr. COMSTOCK. Yes, sir.

Senator WEEKS. Did you ever notice the profits that are made by joint-stock banks in European countries?

Mr. COMSTOCK. No; I could not say that I was familiar with that.

Senator WEEKS. It is a fact that while interest rates are very much lower in every European country than in the United States, at least average much lower, that the average return on the capital of joint-stock banks in Europe is higher than it is in the United States.

Mr. COMSTOCK. Very likely owing to the large volume of business that they do.

Senator WEEKS. Not entirely that, but it is due to the fact that they can make use of their reserves all the time.

Mr. COMSTOCK. They could only make the difference on the reserve being used; that is all.

Senator WEEKS. On the reserves and then the methods of exchange, etc.

Mr. COMSTOCK. Yes.

Senator WEEKS. In other words, what I want to bring out is that high interest rates do not necessarily mean greater profits to the banks; and, furthermore, that the interests of banks and business men are as nearly mutual as interests of dissimilar occupations can be. You agree to that, do you not?

Mr. COMSTOCK. The business of a banker and a merchant?

Senator WEEKS. Yes.

Mr. COMSTOCK. Oh, yes.

Senator HOLLIS. Then you think it is for the advantage of the bank, generally speaking, to get as high rates of interest as it safely can?

Mr. COMSTOCK. No; I would not want to say that.

Senator HOLLIS. Why not?

Mr. COMSTOCK. I think it is the policy of a bank to be liberal. I think that they represent the best sentiment in every community in the United States, large or small, and it is the policy of that bank to do business right and treat people right, to win business and keep it; and I think the rates of money are governed to-day by locality, and sometimes the development of the country makes a great deal of difference. I speak now of one place that I went to before I went to Duluth—Saginaw, Mich. When I went there the banks were paying 6 per cent on deposits, and they were asking 8 or 10 per cent on their discounts, but gradually, as the place became older and lumber disappeared, the rates got down until they are now as favorable as they are in any other section of the West, but at that time they were higher. That was in 1874.

Senator HOLLIS. And the reason rates were high then was because there was large business enterprises that required money, and therefore those that wanted money bid against each other for it?

Mr. COMSTOCK. In a measure.

Senator HOLLIS. What other reason could there be?

Mr. COMSTOCK. That was it—the development of the country, the lumber business, and the lack of capital in the State of Michigan, which does not exist now.

Senator HOLLIS. And when the demand for money ceased then the interest rates fell?

Mr. COMSTOCK. Oh, yes.

Senator HOLLIS. That is true?

Mr. COMSTOCK. Oh, yes.

Senator HOLLIS. Then the higher rates were the more the stockholders of the banks earned in the shape of dividends; was not that right?

Mr. COMSTOCK. Yes.

Senator HOLLIS. And the more the lumberman had to pay for the money the less they made in their business; is not that right?

Mr. COMSTOCK. Oh, yes.

Senator HOLLIS. Therefore the interest of the bank and the customers of the bank were diverse, so far as the rates of interest were concerned?

Mr. COMSTOCK. Yes.

Senator HOLLIS. Just the same as the railroad and the shipper; while their prosperity is linked together in a measure, when you come to getting any particular rate it is for the interest of the railroad company to get as high a rate as it can and the shipper to pay as little as he has to?

Mr. COMSTOCK. Oh, yes; that is natural.

Senator POMERENE. Mr. Comstock, in speaking of your ideal bank you referred to some of the objectionable features of the present bill, and stated that you would make the bill so attractive that all the bankers would like to come in. I wish you would name all the features of this bill that are objectionable from the bankers' standpoint, and give your reasons for it.

Mr. COMSTOCK. I could not say that I discussed all of it with bankers, but generally they object to being forced out of the national banking system if they do not do this. I think that the desire of banks generally to rediscount paper, in ordinary times, is largely overestimated; and for that reason they would not use those features of the bill. The capital would be taken away from the larger banks and put into this without their getting the use of it, because it is not needed in that case. It is very different with smaller banks. I think that the smaller banks would use it, and I do not think the larger banks would. Of course, I could not speak for them, but I would not think they would consider it good business to borrow money from the reserve bank to loan again. I do not think with the present volume of money and currency that it is necessary to any great extent.

Senator POMERENE. Have you made any calculations to indicate what would be the relative advantages and disadvantages to the larger banks under this system as compared with the present system?

Mr. COMSTOCK. No, sir; I have seen some, but I have not figured it that way, in the case of any individual bank whether it would be better or whether it would not.

Senator POMERENE. You speak of the compulsory feature of this bill, that is, compelling national banks to go into this system, or leaving to them the other alternative of incorporating under the State law?

Mr. COMSTOCK. To make it optional with all banks?

Senator POMERENE. Yes. It is to be assued—whether we succeed or not is another question—but it is to be assumed that if we pass a bill here it is going to be for the best interests of the country, and we ought not to go into a proposition of that kind, unless that is so to be.

Mr. COMSTOCK. Yes, I should hope so.

Senator POMERENE. Suppose it is the judgment of Congress that this bill which is to be passed is to be for the best interests of the country. Do you not think that under those circumstances the compulsory provisions ought to be contained in this bill, because without them enough banks might decide for one reason or another to stay out, and thereby defeat the very purposes of the bill?

Mr. COMSTOCK. You mean that you would appeal to the loyalty of the banks to stay in against their interests?

Senator POMERENE. Yes, and I should think after we have had the benefit of the judgment of all interests in this country, including the banking interests, that it might be assumed that Congress was going to do what was for the best interests of the country.

Mr. COMSTOCK. Oh, yes.

Senator POMERENE. Under those circumstances.

Mr. COMSTOCK. I think they would.

Senator POMERENE. The measure ought not to be defeated because certain of these institutions might say, "Well, we will not go in"?

Mr. COMSTOCK. Oh, no.

Senator POMERENE. And abitrarily refuse to go in.

Mr. COMSTOCK. We look at it from the standpoint that if the banks would not go in it would affect our business, and it would affect the business of every business man in the country. It does not seem in our northwestern section that the bankers and business men are any different from what they are in other parts of the country. As I go about I find that they are very much alike, and I find that they are all likely to look at those things from their own standpoint.

Personally, I think it would be a disadvantage to the banks and the business public to pass the present bill in its present form. I do not think you could do a greater favor to the business interests and the people in the country and to the banks than to have a bill that would be acceptable to the bankers. I think that the bankers are pretty good judges of those things and I think they should be consulted in many ways.

Senator POMERENE. Do you not know that a good many bankers throughout the country have approved of the principle of the present bill?

Mr. COMSTOCK. I did not know it.

Senator POMERENE. There is no doubt that some disapprove.

Mr. COMSTOCK. Undoubtedly; you will find them of different minds.

Senator SHAFROTH. If we were to make a bill satisfactory to the banks and let them write it, it would be a pretty good bill for the banks, but it might not be a good bill for anybody else.

Senator POMERENE. Have you come across sentiment to this effect, that there are a good many of these country bankers who say that they favor this measure, but they do not like to be publicly quoted against the reserve banks?

Mr. Comstock. Oh, no, sir. I have not met anybody of that view at all who have expressed their sentiment on it, and I think from what I have heard that the country banks would not favor it in that form perhaps, but what my idea was, and the only difference I would make, would be to have the bill attractive on its own merits rather than to force the banks into it.

Senator Pomerene. We all hope to have it attractive.

Mr. Comstock. Make it optional.

Senator Pomerene. And particularly attractive to the country generally.

That is all.

Senator Shafroth. When it is to the advantage of the banks in business, as it has been figured out here in several instances, is not that sufficient to attract them?

Mr. Comstock. To those banks, yes; but banks generally.

Senator Shafroth. And when you add to that the reduction of the amount of reserve required, releasing 3 per cent in country banks and 7 per cent in city banks, and knowing that all banks build up credits upon the amount of capital which they have of from four to eight times, it seems to me that it is a very attractive proposition to the banks. Do you not think so?

Mr. Comstock. No. But your bill contemplates the withdrawal of the present national bank system. You remember that that is where I started, with my admiration for that system, and I followed it through 50 years of business life. We do not want to see a radical step in changing that system. This changes it radically, withdrawing that currency and substituting for it entire asset currency.

Senator Shafroth. Then you want the present bank currency to remain?

Mr. Comstock. Oh, certainly. I should start with that. I should say that the present currency of our Government is ideal, and I say that the present banking system for those who voluntarily choose it in preference to State banks is ideal, and the currency they both furnish is ideal, and it is ample for all the business needs of this country, but I would supplement it with asset currency which would be retired after its use, for a third system, in conjunction with the two that we have got now.

Senator Hitchcock. I wanted to ask you whether under ordinary circumstances business men in the Northwest find banking facilities adequate?

Mr. Comstock. Adequate?

Senator Hitchcock. Yes, sir.

Mr. Comstock. Oh, entirely so.

Senator Hitchcock. And interest rates reasonable?

Mr. Comstock. Very reasonable.

Senator Hitchcock. And the depositaries safe?

Mr. Comstock. Perfectly.

Senator Hitchcock. And the currency perfectly good?

Mr. Comstock. Perfectly good.

Senator Hitchcock. Do you find any great urgency out there for a great change?

Mr. Comstock. No, sir.

Senator POMERENE. Have you money enough to move your crops?

Mr. COMSTOCK. Plenty. I understand that the Secretary of the Treasury offered it to a good many banks, and they said they did not need it. It is the offer that removed the necessity.

Senator HITCHCOCK. It was a good thing?

Mr. COMSTOCK. Yes. He is a good man. That is the very thing we are at now. When the time comes we want to have it. You may not take it, but you want the opportunity to get it.

Senator HITCHCOCK. We will call on Mr. Clark next.

Senator WEEKS. I hope that if there are any country bankers anywhere who are being coerced by reserve city bankers into opposing or favoring this bill that they appear before the committee so that they will have their testimony. We hear from time to time about bankers being coerced, and I would like to hear some of them.

STATEMENT OF HOVEY C. CLARK, LUMBER MERCHANT, MINNEAPOLIS, MINN.

The CHAIRMAN. State your name, residence, and business.

Mr. CLARK. My name is Hovey C. Clark, and my largest interest is in the lumber business. I have not been in active business for about two years.

Senator HITCHCOCK. Your address is Minneapolis?

Mr. CLARK. My address is Minneapolis.

I am not a banker. I have stayed on the outside of the counter for 30 years and have been a borrower. There is an intimate relationship between the grain people and the lumber people in this way that the lumbermen commence taking money from the bank during the winter months, when they are putting in their supply of logs, and repay it as soon as the crop commences to move in the fall. The grain people take their money in the fall to handle their grain and repay it when the crop has been moved, and then the ball rolls again and the lumberman takes it. So far we have had credit enough in both of these lines to take care of our business in good shape, except in times of panic, and I find now that our people are somewhat alarmed over a fear of a curtailment of that credit. We may be unnecessarily alarmed. I think I can go back safely to the Northwest and say that nothing is going to be done in a hurry; that we are going to take enough time to get a right bill. I feel a great deal better about it, I want to say, since I have been here. But there are some features of this bill which my conferees have touched, but the discussion of which they have left to my knowledge, and that is the segregation of the savings deposits in the national banks. The comptroller's report of June 4, 1912, states that those deposits were $829,000,000. The savings department of a national bank, as I understand it, differs very largely from a pure and simple savings bank, inasmuch as the regular customers in the commercial line of a national bank open these savings accounts for their wives, their children, or some special savings account, and the people who patronize and form a large proportion of the savings depositors of a national bank are in a very close measure allied to the commercial interests. These savings accounts are subject to check; in fact, they are simply certificates of deposit in a book shape. Of course if a man draws out his account between periods he loses his interest. He also loses his interest if he draws on a certificate of deposit, which is a demand deposit; that is, savings deposits.

There has been very little money lost to the depositors of the savings departments of national banks. I have not the figures, but I have in a general way the idea that the pure and simple savings banks have lost more money to their depositors than the savings department of the national banks.

Senator POMERENE. Have lost more, did you say?

Mr. CLARK. Very much more. I have not got the figures; I expected to have them, but I did not get them.

The question arises in my mind that if you segregate and permanently invest in bonds and mortgages and investments of a permanent nature these savings deposits of $829,000,000 you take that much from the credit for the commercial use in the banking world.

All I can add is, Why do you want to segregate it?

Senator HOLLIS. I might say this: Do I understand that you say that money that is put in savings banks we lose the use of?

Mr. CLARK. If they draw it out between periods.

Senator HOLLIS. Somebody is using that money, just the same.

Mr. CLARK. I say the depositors.

Senator HOLLIS. Oh, yes.

Senator BRISTOW. But did I understand that one of the objections you made to the savings-banks department was that those deposits could not be used under this bill for commercial purposes?

Mr. CLARK. They can not be used under the new bill; no, sir.

Senator BRISTOW. And that you are afraid that that will contract the amount of credit or currency that can be used for commercial purposes, by withdrawing that deposit which now can be used?

Mr. CLARK. Yes, sir.

Senator BRISTOW. That was the point that he made.

Senator HOLLIS. You understand, of course, that when money is put in savings banks it is invested in stocks, bonds, or loaned just the same. That is not withdrawn from the use of the commercial world in any sense?

Mr. CLARK. It is withdrawn from the use of the commercial world in the sense I use it—everyday sense—that when a business man wants to go and borrow money, that he can not borrow it from a savings bank.

Senator HOLLIS. It has to be invested in something, and when you buy stocks, bonds, or mortgages with it you release just so much more money that goes back into commercial channels; you do not lose the use of money in the savings banks.

Mr. CLARK. You do lose the use of the money.

Senator HOLLIS. I think you have got to consider that.

Mr. CLARK. If you consider that you will find that the use of that money is lost to the commercial world.

Senator NELSON. I might say from my observation in the West that while the national banks have, in substance, done what you call a savings-bank business, they have done it in the form not of bank books but of time certificates of deposit. They issue time certificates of deposit drawing interest payable in six or nine months or a year, with the condition that if the money is drawn out before the specified time they lose the interest. That is the way most of the little country national banks that I have observed have been carrying on a savings-deposit business, but the funds have been mixed with the other funds of the bank and utilized in the same way.

Senator Shafroth. I do not understand exactly your conclusion, because section 27 reads as follows:

That any national banking association may, subsequent to a date one year after the organization of the Federal reserve board, make application to the Comptroller of the Currency for permission to open a savings department.

Mr. Clark. Yes.

Senator Shafroth. If it can open a savings department and run a savings department as it is now I do not see that there is any change in that respect.

Mr. Clark. The change in that respect is that instead of the money going into the commercial use, as it says on page 47, line 10:

The savings department of each such national bank shall be authorized to accumulate and loan the funds of its depositors, to receive deposits of current funds, to purchase securities authorized by the Federal reserve board, to loan any funds in its possession upon real estate or other authorized security, and collect the same with interest, and to declare and pay dividends or interest upon its deposits——

Senator Nelson. There is the point, Senator.

Senator Shafroth. Wherein does that differ from their practice right now?

Mr. Clark. Because the money right now is put in with the other deposits of a national bank and loaned on commercial paper. You could not loan savings-bank money on commercial paper according to this.

Senator Shafroth. It says to purchase securities and loan any funds in its possession upon real estate and other authorized securities.

Mr. Clark. It means permanent investment, because it provides that there shall only be a 5 per cent reserve kept against those savings as against a larger percentage for the commercial funds.

Senator Pomerene. When you make that statement do you have in mind the provisions of this bill or some provision that may be peculiar to the Minnesota law?

Mr. Clark. No; the national law, just as every national bank is operating under to-day.

Senator Nelson. I think this brings us back to what this gentleman from Missouri said yesterday about how the banks have violated the laws, but it had been ignored. I think national banks really had no right to invest in this kind of securities—stocks and bonds. I think that was outside the purview of the law.

Mr. Clark. They do not do that now.

Senator Nelson. They have invested in some of them. It has been winked at and no attention has been paid to it, but I think if it had been tested the probabilities are that the courts would have ruled against it.

Senator Hollis. The courts are compelling the sale of stocks and bonds and telling them that stocks and bonds are not legitimate investments.

Senator Nelson. This provides they may lend on real estate.

Mr. Clark. It does make a change, because it authorizes them to loan those funds on certain securities.

Senator Shafroth. And they have been loaning them on those securities.

Mr. CLARK. They have not been loaning them on those securities. The national banks that have done it have violated the national-banking act, and there are very few that have done it.

Senator SHAFROTH. Then you think the power to loan on those securities is an impairment of the bill?

Mr. CLARK. No; but they have got to invest this money. It is not a loan; it is an investment. They have got to invest in a farm mortgage running 5 years, but not in this commercial note running 90 days.

Senator SHAFROTH. Do you not think, as a matter of fact, when these securities are placed in the bank on time that there should be additional caution exercised with relation to that money so that the depositor will be sure to get his money back?

Senator NELSON. Yes; but our theory is, Senator, that this short-time commercial paper, notes, or bills of exchange is the very best of security.

Senator SHAFROTH. Evidently some of the banks do not think so, because some of the banks are doing this very business now and have been complaining that they could not do it. It seems to me that when they complain that they can not do it—and in response to that complaint we put in this savings clause, giving them additional power—it should be an advantage to them, and it should be recognized as being a point in the bill to its advantage.

Senator NELSON. But you know the gravamen of his statement is this: That they diverge a certain proportion of the deposits from the ordinary commercial purposes into this form of permanent investment.

Senator SHAFROTH. I will warrant that if you ask any national bank if they would rather have that power in there or that power out of it, they will say leave it in; and if that is true, why is it not to the advantage of the bill instead of to its disadvantage?

Senator NELSON. That may be from the standpoint of the bank, but Mr. Clark speaks from the standpoint of the borrower—the business man who has to go and make his commercial loans.

Senator SHAFROTH. I understand that provision is put in there for the purpose of making more secure the money that is put into a bank as a savings account; and if that is true, and the banks have been hampered by reason of not having that power heretofore, it seems to me, from an entire view of the scope of the bill, that it would add to it instead of detract from it.

Mr. CLARK. Does any banker object to the savings departments as they are now?

Senator SHAFROTH. I understand that provision was put in there for the purpose of giving them enlarged power.

Senator HOLLIS. To make it more attractive?

Senator SHAFROTH. To make it more attractive.

Mr. CLARK. It would certainly take that much away from the loaning powers for active business. The investment in real estate ceases that same day. Investments in a 90-day note has got to be paid at the end of 90 days.

Senator HITCHCOCK. Mr. Clark, you came down here under the impression that this bill was to be hurried through?

Mr. CLARK. No, sir; I hope not.

Senator HITCHCOCK. I say, you came here with that impression?

Mr. CLARK. We thought it would only be a very short time before it would be passed in this form or some modified form. We wanted a chance to express our views.

Senator WEEKS. How did you acquire that impression?

Mr. CLARK. It is a general impression that has been spread through the country that the hearings would last but a week or two longer.

Senator HITCHCOCK. But what sort of a feeling did that create among business men in that section?

Mr. CLARK. We felt that we had not been properly heard or represented. I was asked by Mr. Winston, here, if I would come down, knowing my connection with the lumber business, and say what I thought about the bill as it would affect the borrower.

Senator HITCHCOCK. You thought that the country that was affected ought to be given an opportunity for hearing?

Mr. CLARK. Yes. Mr. Winston says that he had a telegram from Senator Owen saying that the hearings might be completed before we had had a chance to get here.

Senator HITCHCOCK. You spoke of the lumber business and the grain business working well together, for the reason that the lumbermen borrowed their money in the spring and that they did in the fall?

Mr. CLARK. Yes, sir.

Senator HITCHCOCK. And the grain men borrowed theirs about the time the lumbermen were paying theirs off? About what length of time does a lumberman borrow money for?

Mr. CLARK. From six to nine months.

Senator HITCHCOCK. And does he give a note for six or nine months?

Mr. CLARK. He gives a six month's note usually.

Senator HITCHCOCK. And that note, under the terms of this bill, would not be available for use at the reserve bank?

Mr. CLARK. Not for 90 days.

Senator HITCHCOCK. And for what length of time does a grain man borrow the money?

Mr. CLARK. A grain man commences to borrow in the fall for a long time toward spring and as soon as the elevators fill up he borrows on demand, so that if he sells his grain out of the elevators he can take up his paper.

Senator HITCHCOCK. Do you know about what the average length of note is?

Mr. CLARK. They generally give a six months' note.

Senator HITCHCOCK. In each of those cases the note is supposed to liquidate itself; that is, it is supposed to be paid out of the transaction for which it was given.

Mr. CLARK. I should say 75 per cent of it.

Senator HITCHCOCK. So that it is just as legitimate commercial paper as the 90 day paper given by the merchant?

Mr. CLARK. O, just exactly. A lumberman gives his note for six months, say, in February, and it comes due in six months from then. It may be that his collections have not been ample, and he will ask for may be a 30 day extension.

Senator HITCHCOCK. And that is true of a number of interests in the West, the cattle interest, for instance?

Mr. Clark. The cattle interests borrow in the fall to buy their cattle and to feed, and they do not pay up until the spring, until they get a good ready.

Senator Hitchcock. And then the sale of the cattle produces the money to pay the obligation, just as much as the sale of merchandise produces the money to pay the note the merchant gives for 90 days?

Mr. Clark. Exactly.

Senator Hitchcock. So that is just as legitimate a commercial transaction as this so-called "prime commercial paper"?

Mr. Clark. I think it is more so. We consider in our country that the "grain" paper—what we call "terminal" paper or "terminal receipts" is the very best collateral paper, and that better can not be had.

Senator Hitchcock. As western business men you think that paper should be taken into account and not altogether ignored as it has been in the present bill?

Mr. Clark. I certainly think it should be taken into account.

Senator Hitchcock. And you approve of the idea of the national bank having a savings department?

Mr. Clark. Yes, sir.

Senator Hitchcock. And you think that the deposits coming from savings accounts should be used in commercial loans?

Mr. Clark. Yes.

Senator Hitchcock. The same as time deposits?

Mr. Clark. Yes, sir.

Senator Hitchcock. Suppose that, as occasionally happens, the depositors in such a savings department of a national bank become alarmed and start a run on the bank. What resource would the bank have?

Mr. Clark. They would have only their reserve, which is 25 per cent now in our city.

Senator Hitchcock. They would have no other reserve; they would not be permitted to give the 30 day notice which ordinary savings banks give?

Mr. Clark. No; I do not know whether that pertains to our savings department or not.

Senator Hitchcock. Such a notice would not be of any use to them, would it?

Mr. Clark. I think to increase lack of confidence.

Senator Hitchcock. It would simply carry the alarm to the depositors or the main bank?

Mr. Clark. Yes, sir.

Senator Hitchcock. For that reason, do you not think it is a dangerous thing for a bank, having a great volume of demand liabilities, to have under the same roof a department of savings where are received the savings of people, many of whom are illiterate and many of them easily alarmed?

Mr. Clark. They do not have that class of depositors; that is what I made a point of.

Senator Hitchcock. In the savings banks?

Mr. Clark. Not the national banks. The national banks savings depositors are generally, as I say—a man opens an account for his wife, and says, "I will put so much money aside," or a man opens an account for his child, or something of that kind; and he is doing business with the commercial end of the bank.

Senator HITCHCOCK. Then you think it would be safe, because the same class of people do not patronize a national bank in its savings department that patronize an ordinary savings bank?

Mr. CLARK. Yes; that is the reason.

Senator HITCHCOCK. What is to prevent them patronizing it?

Mr. CLARK. There is nothing to prevent them patronizing it; but the savings banks usually pay a greater rate of interest. The savings bank in our town pays 4 per cent, and the national banks only pay 3.

Senator POMERENE. Just one question. You speak of your paper being for the most part six-months paper?

Mr. CLARK. Yes, sir.

Senator POMERENE. Of course, under the terms of this bill, any of that paper could be used after 90 days?

Mr. CLARK. Yes, sir.

Senator POMERENE. Would it seriously inconvenience your people up there if after this bill became a law and there is no change in that behalf, to say to your customers:

> Now, we have changed our rules somewhat here because of the new bill, and hereafter we would like you to give us your paper for 90 days, and renew it at the end of 90 days for another three months.

Mr. CLARK. I would not do business with a bank that would make a promise of that kind.

Senator POMERENE. That is your individual view?

Mr. CLARK. I know that is my individual view.

Senator POMERENE. How is that going to inconvenience your people? Most of the national banks, at least in my city, never loan money to exceed three or four months.

Mr. CLARK. Well——

Senator POMERENE. With the understanding that it will be renewed probably.

Mr. CLARK. The man who borrows money on the probability is in danger of getting in pretty bad shape in lumber or grain business. If he got the money he has got it.

Senator POMERENE. If you loan it for six months now and it is good security for a bank to accept a note of that kind, I do not understand why it would change the situation very much if the bank would take 90-day notes and at the expiration of the 90 days renew it for another 90 days.

Mr. CLARK. At the end of the 90 days the bank might have out obligations enough so that they would say:

> We have taken on more paper and we are not in as good shape as we were when we loaned this to you. You will have to pay part of it.

Senator POMERENE. Is not the real objection to that feature of this bill simply that they do not want to change their form of doing business?

Mr. CLARK. No, sir; it is because it is the right way to do business; and another thing: You would be giving your banker a pretty good "rake-off" in 30 days, and then he would get the interest on the interest for another 30 days.

Senator O'GORMAN. Mr. Clark, is not there another reason why the change suggested by Senator Pomerene might not be a wise one? The value of commercial paper depends upon the probability that it will be met at maturity?

Mr. CLARK. Sure.

Senator O'GORMAN. And you say from the conditions prevailing in dollars and cents in your section of the country if you were to give a three-months note and the bank was willing to accommodate you, the bank would know and you would know that you would not be able to meet that in three months, at the time of its expiration or maturity?

Mr. CLARK. Senator, the banker knows as much about the business of the individual it does business with as the individual does about himself. You go and open up your heart to your banker and take down and show him everything you have got, and he knows just as much about you as you do yourself, and if you should go and say, "Mr. Banker, I give this for 30 days, but you can see my condition and you know mighty well I can not meet it. If I make it six months, I can make it." He says, "Make it for six months." And when we give six-months paper we make arrangements to meet it.

Senator O'GORMAN. That, of course, is very plain, but the point I am trying to suggest, not only to you, but to my colleagues, is that in a case such as suggested, if the bank were willing to accept your three-months note, knowing you could not meet it at the end of three months, and you knowing that you could not, but there being the ready understanding that at the end of three months there would be a further renewal, if the bank needed to discount its paper your initial three-months note could not be regarded as prime commercial paper?

Mr. CLARK. It certainly could not; no, sir.

Senator O'GORMAN. Because the bank could not represent it as paper that would be paid at maturity?

Mr. CLARK. No, sir.

Senator O'GORMAN. And the officers of the regional bank, therefore, would be justified in refusing to accept it?

Mr. CLARK. Yes, sir.

If you will notice on all the lists that are sent out by commercial brokers of paper, it is six-months paper that they sell. There is very little short-time paper sold by commercial brokers. It is not only the custom, but people have regulated their business accordingly. If you overturn it——

Senator NELSON. That is, jobbing houses and manufacturing houses?

Mr. CLARK. Yes.

Senator NELSON. The jobbers handle their notes through these brokers.

Mr. CLARK. A broker may take a man's note for $1,000,000; then he takes and disposes of it.

Senator NELSON. And that is six months' paper?

Mr. CLARK. That is six months' paper; yes, sir.

Senator POMERENE. Do your banks discount much paper of that kind?

Mr. CLARK. When we are in funds we go to the commercial broker and buy paper, because it is not then individual paper. When that paper goes out the individual does not know who holds it. He knows it has got to be paid. We buy paper to run for——

Senator POMERENE. This paper is maturing all seasons of the year?

Mr. CLARK. Usually; yes, sir.

Senator POMERENE. And what portion of your funds are invested in that class of paper?

Mr. CLARK. That would be very hard for me to tell, Senator. I do not know. There will be times when we will have every dollar in the banks of Minneapolis loaned to home people, and when we have a good crop year, as we have got this year, and everybody pays up, we will have plenty of money and want to put it out at 30 or 60 days.

Senator HITCHCOCK. I guess we are ready for Mr. Winston.

Senator BRISTOW. Just a moment: You say you want to put that out for 30 or 60 days, and there are brokers in the country that are waiting for just such conditions in the various sections. Whenever they find that condition exists, they then are offering this commercial paper that matures in 30 and 60 days because they get a market for it?

Mr. CLARK. They usually offer what is called demand paper, if there is any of that kind, but there is not a great deal of that paper.

Senator BRISTOW. You spoke of the cattle feeder. That is the cattle feeder who buys his cattle along in the summer time, does he not?

Mr. CLARK. Yes, sir; and feeds them.

Senator BRISTOW. He buys them in the fall and turns them off in the late winter and along in the spring?

Mr. CLARK. Yes.

Senator BRISTOW. Is not that regarded as good security for the loans of your bank?

Mr. CLARK. It is with the people that know the cattle business. But take it in our part of the country up there; we do not know very much about cattle paper. You take it in Montana, and the Montana feeders, he may be keeping an account in one of our banks, and the banker may take that paper as an accommodation to him, but it is not well known.

Senator BRISTOW. That is a long way off. But in your local community—I do not know how it is in your State, but in Kansas there are certain men that are in the cattle business. That is their business and they do nothing else.

Mr. CLARK. We do not have much of that up there.

Senator NELSON. I want to say to you, Senator, that the men over in Nebraska and Iowa come up in our State and buy young steers and cattle for feeders, and take them down in Nebraska and Iowa and feed them. So I assume they get their accommodations from their home banks.

Senator BRISTOW. They get their accommodations from the home banks, and the home banks in our section of the country carry a great deal of paper of that kind, and it is regarded as very good indeed, because the bankers are dealing with the men year after year.

Mr. CLARK. They know all about it.

Senator BRISTOW. That paper would be in the same condition, so far as any utilization under this bill is concerned, as this paper of the manufacturers you speak of.

Senator NELSON. Of the flour men, the lumber men, and the feed men.

Senator BRISTOW. It is six and eight months' paper?

Mr. CLARK. If it runs for any length of time it is good money.

Senator HITCHCOCK. We will now hear Mr. Winston. Mr. Winston, will you kindly state your full name and address for the reporter?

STATEMENT OF FENDALL G. WINSTON, ESQ., OF MINNEAPOLIS, MINN.

Mr. WINSTON. Fendall G. Winston, Minneapolis, Minn. My line of work, the business I first went into and which I am in to-day, was railroad and general contracting, in 1878. In a contract way, it has been since 1874, but in a large way since 1878. The next business I went into, and what I am representing here to-day, was the wholesale grocery business, which I went into in the spring, in April, 1893, just before the panic broke. The next business in which I have been identified, not in a very active way, but still active, is in the banking business as vice president of the Security National Bank.

Now, in my connection, I will start and work back—in my connection in the bank business in 1893 I was a director and I went through that part and learned my lesson, what little I know about banks, in the troublous times beginning in 1893 and then in a little more of what you might call an official capacity in 1907.

But before I go any further I want to state right here to the committee that I thank you gentlemen very much. We came down here with a good deal of doubt; in fact, to be perfectly frank, the night before we left we took lunch together and talked the matter over and it was quite a question with us whether we should come at all, or not. The papers had stated that this bill was to be rushed through, that it had to be passed before this Congress adjourns, whether or not, and at the hearing the President, the Senators, and Representatives in Congress had gotten behind this particular bill and classified it as an administration measure, and it must be put through and put through at once. Of course, we got our information in the usual way, in the newspapers.

Senator WEEKS. Of course you do not reflect on the newspapers?

Mr. WINSTON. Not at all, but I mean the information was not justified. We came here, gentlemen, and we find your Senators feeling just as careful a responsibility of the duties falling upon you as we would and as we could do were we in your places. You have listened to my colleagues; you have asked them for their personal opinion on this measure, and you have listened attentively, and that means, to my mind, it has undoubtedly been because you wanted to know their honest opinion fully expressed, and you have given a chance to them, and I want to thank you.

I know your time is very short, and I want to try to get through, because I know you do not want to be bothered with us to-morrow, so I will just touch lightly upon the questions that are before the business man's mind in connection with this whole business. There is one point that has been raised as to the necessity or recognized necessity for this legislation. The first one is a question of making the banks safer. How does the business man feel about that? Some business men may feel that you can make things better—that you can bring about by legislation and supervision a perfect measure, so that no depositor and no creditor of any bank in the United States need ever concern himself about losing a dollar.

Some while ago I took the comptroller's report of 1911, and, to my surprise, my eye alighted on a statement showing the loss to depositors in the national banks in this country since 1864. I am not going to go into it very fully except, my interest being aroused, I classified those losses as to periods—time. I find that the total losses of all the depositors in all of the national banks during their history and covering a period of 44 years was $37,500,000 up to and including 1909. I was then a little bit interested, and I wanted to find out why we had those losses, so I classified them and cut it off into periods, and I find that, in the seven years commencing in 1891 and ending in 1897, we lost, of that total amount $19,600,000, or 52 per cent. Now, we learned a lesson in 1893 and the history following 1893. Commencing in 1898, including 1898 in the second period and running to 1909 and including it, making a period of, I think, 12 years—I find there has been a total loss in the 12 years of, I think, $1,400,000. Those are my figures from memory, and I think they are right.

Senator BRISTOW. Did you ever figure out the percentage of the deposits?

Mr. WINSTON. Yes; I am going to get to that. Now, then, I have not the figures absolutely correct, but in a way I am going to make a pretty close guess. In the 12 years, from 1898 to 1909, I think it is safe to say that the average deposits placed in the hands of the national banks by the people of this country averaged $5,000,000,000.

Senator BRISTOW. $5,000,000,000?

Mr. WINSTON. $5,000,000,000. On that basis, the average for each year's loss to depositors of the national banks was $375,000. Carried down to a mathematical calculation, it resolves itself down to a loss of $25 on every $1,000,000 of transaction, or 0.75 of one-hundredth of 1 per cent.

Senator NELSON. Of 1 per cent, you mean?

Mr. WINSTON. Oh, no; of a one-hundredth of 1 per cent, and that to my mind speaks volumes that the American people ought to thoroughly understand. First, because we need confidence in each other in order to understand each other, to get closer together and trust each other.

Senator. BRISTOW. Now, Mr. Winston, I want to get this clear in the record. That is, for the last 12 years, according to those figures, the losses of depositors in the national banks of the country have averaged, approximately, three-quarters of one-hundredth of 1 per cent per annum?

Mr. WINSTON. Yes, sir; absolutely. Three-quarters of one-hundredth of 1 per cent. Now, that speaks volumes for what? Of the character, the honesty, and the capability of the men that are handling the vast sums of money. It tells us that there are 7,000 banks with 7,000 presidents and cashiers and assistant cashiers, making an army of our American citizens, and after 12 years' handling, as trustee, an average of $5,000,000,000 a year, they have returned it honestly to you. It tells you further, that in turning this money over an average of every four months, they have made transactions amounting to $15,000,000,000 in each year, with the result that at the year's end they can say, in loaning $1,000,000 for you and turning it over three times, we have lost you $25. Now, that settles in my mind and in the business man's mind the question of whether we can or not, and whether it is necessary, in order to make our banking system safer, so as to prevent losses to the innocent depositor—whether we should engage in further legislation. I will dispose of that question right there. We have men in this country that have the capacity to run banks without losses. Those same figures tell you the story. Now, we have disposed of that question in all this discussion about banking and currency reform.

Something further: Have the business men of the country reason to get close to that class of citizens as depositors, as friends, as men that they can depend on in time of trouble to do the right thing by the business man? That question shows surely, that those men have done that thing. Not very many of them have been dishonest. Most of them have shown business capacity and good judgment, and therefore in our line of work we do not know of a better counsel on financial questions than men of that character in charge of our banks—big and small. And it has been the custom, in our western country, gentlemen, that the best friend of your business man, so considered by us in Minneapolis, next to his own brother, is his own banker.

You must not consider in any legislative programme here worthy of your consideration that you can divide the very mutual and necessary relations between your banker and your business man. The banker depends on his business man for his business, and the business man depends on his banker for his counsel and his money when he wants it. Sometimes—we are not proud people up our way; we are very democratic—a banker, when he has funds to loan and he wants to put out a little more money, he does not stay in his bank office and ask his good customers, or wait for them to come to him, but he puts on his hat and says, "I want to put out $500,000 of paper to-day," and he comes down to your office to do business with you; and when he gets down to your office you are glad to see him because you love him; he is your friend; he is your close business associate; he is your financial adviser; and you have got him in your office coming to ask you to take some of his money; and as an accommodation to that banker you take it at your own rate of interest, satisfactory to you. You say, "I can use it for 60 days, and I can pay you so much." You get your money. It is only when the time comes—the reverse side comes and the bankers have not the money, they have the deposits; the deposits are there just the same, but they have not the money—that the business man puts on his hat and walks up to the bank. The president says: "Now, my friend, you are a valued customer of this bank and you know we want to do anything we can for you safely. We are trustees and we must look after the interests of our depositors in our bank, and just as far as it is possible for us to go we want to do so, but we have not got the money." What does that mean? It means that banker has not got the money because our currency is not flexible, and we need nothing on God's earth in connection with the banking business of this country except a flexible currency. I think that is conceded. If we are going to work here to build up a very elaborate system of scientific fiat money or paper currency based on commercial assets, I am not prepared at this time to even suggest the basis on which you should build that structure. I am not capable of giving you any advice or an opinion which would be of any value to you, so I am not going to do it. But I went through the panic of 1907 and, to be perfectly frank with you, at that time we were doing work which involved an expenditure of $1,100,000 a month almost entirely on pay roll.

Senator NELSON. Your firm?

Mr. WINSTON. Yes, sir. That is, in that branch of the business. And when the banks in Minneapolis closed up we did not know where to get the money to take out to the mountains of Montana and pay our men, and we went to everyone. I walked the streets of Minneapolis, and I went to Chicago to the railroad companies, the men who we were doing work for, and I asked them for money currency. "Mr. Erling, let us have $100,000." I went down to the Northern Pacific, who owed us just about as much more, and they said, "Here are our receipts in cash. We can only let you have $50,000." I bought express order receipts coming in for the payment of goods, took them to the express office and cashed them; telegraph-order receipts, and took them and cashed them, and I got every little dollar I could. But, as it happened, we were doing business in Montana in a little town called Missoula, and had been for six months, and had a little branch office, and they had loads of money. That one little bank had out there $250,000 more money than they ever had been accustomed to carry, and they said, "Mr. Winston, you can have this $250,000; you can have all that you need of it." Now, we found money in Montana. We could not find it in Minneapolis. In Minneaepolis they had as much money as they ever had, but the minute they opened the doors it would all have been gone out for the wheat fields in Montana. We took the money out on a loan to us, and we took it out on the line and loaned it, and pretty soon the men went out and bought cigars and whisky around the town and very soon it went back again. There was our situation, and all for the lack of credit.

I am perfectly frank to say to you that at that time on deposit in my own bank we had more money on deposit than we needed to do this work, but we could not get it out. I could not go and ask the bank I was connected with and had been with these many years to treat me any different than they would anybody else. I could not do it, and they would not do it if I had asked them to. I found myself in that situation solely because of the lack of greenbacks. We could issue all the checks we wanted and send them to the clearing house to pay off customers, but you could not take a check and send it out into Montana, out in the woods of Minnesota, and offer it to the man who worked for us at so much a month. He would not know what to do with it. He had to have the money for it. So the 1907 panic, gentlemen, was simply a dearth of cash at some parts of the country and a superabundance of it at other parts. The machinery of sending it out and bringing it back did not work quick enough. If all of that money that the New York banks sent out, currency, and sent out and bought wheat with it through the country banks to send out and pay off labor in the wheat fields, had the next minute been put in an express office and sent back down to New York we would not have had the trouble. But it stopped; circulation stopped. Lack of confidence or something came in there, and this flow stopping, New York was exhausted. Now, New York was exhausted because we ran on them, gentlemen.

If you were going down here to-morrow morning and as you walked up the street you found all the people of Washington at the doors of one of your strong banks demanding that they turn over immediately all the money they owed them, and the bank shut its doors, you would not blame the bank. You would blame the people that ran on them to the point, the unreasonable point, that they exhausted them. Now, the transaction that resulted between New York and our people out there was simply a run. Our president did not get on the train and appear down there in person, and he did not send the cashier down to appear in person, but they all sent telegrams and sent letters and messenger boys, running into the bank all the time, "Send us cash! Cash!! Cash!!! We want to draw the balance out." Now, that was not an evil intention upon the part of the New York men. We knew that, but it was his inability. Just suppose at that time (this is simply a business man's view) you had some place that when New York found that the country needed $200,000,000 more money—we will put it that way; that is a big lot of cash—and they could go and get it, we would not have had the panic of 1907. It was a useless panic. It was not a credit to the Nation. The credit of the people was never better; crops were never better. The people in the South were getting as high as $60 a bale for cotton in November. I made some calculations and want to tell you what it cost the farmer. It cost in the months of November and December, in money returns alone over October prices, something over $15,000,000 in cotton. Barley in our country went from $1.12 down to 60 cents, Senator Nelson, almost in a day. In the stockyards in Chicago there were 1,200,000 hogs marketed at a cost of 1½ cents a pound less than they had been previously in the last two months, and I figured that out at $4,000,000. There was the cotton men who lost about $15,000,000; the men who sold us hogs in Chicago in those two months lost $4,000,000; and so on down with the grain. I figured out in the whole thing, I think, somewhere, one day, $25,000,000—almost a million dollars a day for the period that that panic lasted.

Senator NELSON. Losses to the business world?

Mr. WINSTON. Losses to the farmers of this country, simply because of the lack of some piece of machinery—governmental control, if you please—that could have stepped in and filled the void.

Now, that is what we need, gentlemen, something to fill a void. This bill here is entitled "Federal reserve act."

Senator HITCHCOCK. Would you care to be interrupted there?

Mr. WINSTON. Yes.

Senator HITCHCOCK. I want to ask you: Suppose the New York banks had been able at once to go to a reserve agent and get an almost unlimited quantity of currency or get commercial paper, they would have done that, of course, at that time and supplied the country?

Mr. WINSTON. Yes.

Senator HITCHCOCK. And what then would have checked the great expansion of speculative loans that really brought on the trouble?

Mr. WINSTON. I will tell you what. A tax on that currency that would absolutely prevent it from becoming fixed. As an illustration we will just take our western country. We needed at that time money to ship cargoes of wheat from Duluth to New York, where we could get an ocean bill of lading. It took three weeks, estimated, but probably it took four, to take those cargoes of wheat lying in the elevator at Duluth, ready to be shipped on export orders, convert it into money, foreign bills of exchange, and we could not finance them from Duluth to New York, where we could this foreign bill of exchange. We could not get the money to finance that between New York and Duluth. Now, suppose we had had some first-class commercial paper and you had an agency to be used entirely for emergencies, held in reserve, in deposit out of use, but there ready, like a savings account of the individual, and I came to you and after proper methods of inspection and certification you let the Northwest have that money for first-class notes. We could have financed ourselves regardless of New York.

Senator HITCHCOCK. Then it is your conclusion that this elastic currency is not needed for ordinary seasonable demands, but only for emergency cases?

Mr. WINSTON. For emergency cases.

Senator HITCHCOCK. Is that generally the opinion of the people in your section of the country?

Mr. WINSTON. I do not know, sir. I am going to get to the next part and then you can ask me some further questions, if you please.

You have heard these gentlemen from Minnesota, and you have heard your credit men from the National Credit Men's Association. I have sat here and listened to them. The individual opinions expressed by my colleagues were their individual opinions. They feel uneasy about this bill. You can not disguise that fact, and the business man feels uneasy. He feels that if this bill were to be passed to-morrow that there will be a stringency, an immediate stringency, and he does not know just exactly where it will end. The ordinary business man, he might come to point out some of the objections in the bill. I might do it, but I am not going into that, except in one or two cases, to elaborate a point made by our delegate. We do not pretend to say we can come here and take that bill and amend it or write a new one that will answer the purpose if you are undertaking to establish a system of banks here to do business every day in the year, to take over those rediscounts any day in the year and issue a billion or a half a billion or a billion and a half of money as may be necessary on bills rediscounted. We are not prepared (we have not the experience to warrant us, we have not even considered we can) to sit down and draw a bill that would be satisfactory to the business interests of this country, and I am asking you Senators this question: Can you tell the business men of this country with any degree of certainty that this bill will not produce these two results, violent contraction between the date of the passage of the bill and the time that you get this machinery in motion; and then violate expansion after you put this piece of machinery in motion and say to John Jones "you are raising pigs up there; send down your notes and we will rediscount them and get the money"?

Now, does it not appeal to you that there is danger in both directions? It does to me.

Senator POMERENE. Now, why?

Mr. WINSTON. Why? Because you expand. It will certainly lead to expansion of currency; and when it becomes fixed, from every-day use, then you can not call it back without causing that much more trouble.

Senator O'GORMAN. Have you not heard it stated here during the last day or two, that after this bill is in operation there will be a contraction because of the large amount taken from the member bank, and taken away from commercial activities?

Mr. WINSTON. When I say there will be an expansion I am going on the assumption that after you put it in operation and all your banks come in, as you hope they will do, you will have a very large expansion.

Now, on the other assumption, that the banks are not going to come in, if all of them stayed out, the things would go along just as they are to-day.

Senator BRISTOW. But we would not have any national bank currency; that would be retired.

Mr. WINSTON. Then, you would have a contraction.

Senator POMERENE. Unless there is something substituted for it.

Mr. WINSTON. Yes, unless there is something substituted for it.

Senator NELSON. That would not occur, except gradually.

Senator POMERENE. Yes, 5 per cent a year.

Mr. WINSTON. Now, gentlemen, I will not go through this bill and attempt to advise you, or suggest changes that you might make in it that might avoid all this trouble. It might get you in deeper.

Senator NELSON. You would fear contraction?

Mr. WINSTON. I speak for the business men. The first fear of the business men, their first feeling is that we are going to have contraction.

Senator NELSON. In the first instance?

Mr. WINSTON. In the first instance; that the country bankers and a good many of the city bankers—they are not going to say the minute this bill is passed "We are coming in" and surrender their charters. They are not going to do that the next month. They are going to think over it. In the meantime they are going to commence to get themselves into shape so that when the time comes if they have got to surrender their charter—the national bank has got a lot of circulation out. It has got to furnish the money to redeem its bonds, you understand, if they go out of the national banking business. They are going to prepare themselves. Now, they will all be in a state of doubt and there is no machinery, as I see it, provided in this bill whereby, if that contraction does commence, you can stop it. There is no chance to fill the void which is caused by it; and so the business men feel that you can not tell them that there will not be any contraction; but they are timid and they fear that the first effect of this bill is going to be violent contraction.

Senator POMERENE. Your thought is, then, that the business men or the bankers may bring on a panic, just as they did in 1907?

Mr. WINSTON. Do what?

Senator POMERENE. Bring on a panic as they did in 1907.

Mr. WINSTON. I will not go to the extent of saying that. I think the country is in pretty good shape; and the panic of 1907 was not a credit panic. It was just simply a void, lack of a certain amount of currency, actual money, which was created at one end of the country and filled up at the other.

Senator HITCHCOCK. Mr. Winston, let me see if I have ideas of the contraction of credit which agree with yours. I agree with you that the first effect of the bill will be a violent contraction of credit.

Mr. WINSTON. Yes; that is the first——

Senator HITCHCOCK (interposing). Let me see if we agree on the method by which this contraction will occur. Senator Pomerene rather indicates it would be due to a purpose on the part of the banks to discredit the law. Now, gentlemen, is that having, say, 48 reserve cities——

Senator POMERENE (interposing). Let me suggest that I did not state a purpose. I was simply trying to call out what seemed to be in the mind of the witness that a certain state of facts would occur.

Senator HITCHCOCK. Well, I think his theory is that. Let us see if he is correct. We have about 48 reserve cities. In those cities there are 350 banks that hold the deposits of country banks. The amount they hold is, I think, something like $300,000,000 or $400,000,000, which they will be required to turn over to the reserve banks. In order to be enabled to turn over $300,000,000 or $400,000,000 to the reserve banks they are under the necessity of calling their loans; and each of these 350 banks beginning to call loans to produce that cash would produce the violent contraction of credit that they fear. Is that a fair statement?

Mr. WINSTON. I have some figures here, Senator Hitchcock, and I think they are approximately correct. You know the national banks can not take advantage of this reduction in the reserve requirements, do you not, until after this bill goes into effect? Do you see what I mean?

Senator HITCHCOCK. Yes.

Mr. WINSTON. Therefore they must maintain their present 25 per cent reserve up to the time that they become a member of this new Federal reserve bank.

Senator NELSON. Until the new system is in force?

Mr. WINSTON. Yes, until the new system is in force. Now, the day that that new system is in force, these figures would show that there would be a shifting of reserves, by instructions from the country banks that deposited that money for their reserve, by telegraph or by letter—it might all be done in a day, if you are close enough to the reserve bank. The shifting of reserves would mean a loss of $409,000,000.

Senator O'GORMAN. A loss?

Mr. WINSTON. Yes; of lending power. That is, the banks would have to get that much money—to go in and make this deposit with the reserve bank.

Senator POMERENE. From what premises do you draw that conclusion?

Mr. WINSTON. The figures are here. I will give them to you:

Reserves require now $433,000,000 of the country national banks; reserve city banks, $350,000,000; and central reserve banks—that is the reserves required under the new system—$382,000,000.

Senator HITCHCOCK. Mr. Winston——

Mr. WINSTON (interposing). The net loss of reserve city banks and central reserve banks would be $409,000,000.

Senator HITCHCOCK. I think we had better adjourn until to-morrow morning at half past 10; and then we will take up that particular question with you, before going on with the next witness.

Mr. WINSTON. I have only a few more things to say, Mr. Chairman.

Senator BRISTOW. But we have a great many questions that we would like to ask you; your statement has been exceedingly interesting.

Senator HITCHCOCK. The committee will adjourn until to-morrow at 10.30 o'clock.

(Whereupon, at 5.45 o'clock p. m., the committee adjourned until to-morrow (Thursday), September 25, 1913, at 10.30 a. m.)

THURSDAY SEPTEMBER 25, 1913.

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

The committee assembled at 10.40 o'clock a. m.

Present: Senators Owen (chairman), Hitchcock, Shafroth, Hollis, Nelson, Bristow, McLean, and Weeks.

Senator NELSON. Mr. Chairman, Mr. Winston, of Minneapolis, was on the stand yesterday when we adjourned.

The CHAIRMAN. Mr. Winston, we will hear you now.

Mr. WINSTON. All right, sir.

FURTHER STATEMENT OF FENDALL G. WINSTON, OF MINNEAPOLIS, MINN.

The CHAIRMAN. Were there any further questions desired to be asked by members of the committee of Mr. Winston?

Senator HITCHCOCK. Senator Bristow had some questions, did you not, Senator Bristow?

Senator BRISTOW. Yes. You were speaking, Mr. Winston, of the contraction of the currency as to credits, that would come at once from the bill going into effect; and you were presenting some figures when we adjourned yesterday.

Mr. WINSTON. Yes, sir.

Senator BRISTOW. And you estimated that there would be a contraction of something over $400,000,000, caused, as I understood, by the collections that would be forced from the banks in the cities, to transfer their reserves which they had been holding to this central bank.

Mr. WINSTON. Yes, sir.

Senator BRISTOW. Now, would there be a contraction due to the requirements of the country banks to subscribe to the stock of this bank?

Mr. WINSTON. That is the taking out of active business in one locality——

Senator BRISTOW. Yes; there is 10 per cent of their capital stock which is to be subscribed at once to the Federal reserve bank, and 5 per cent of their deposits.

Mr. WINSTON. Yes, sir; to the extent of their contribution to the capital stock of this corporation; necessarily that additional amount of money would have to be taken out of active business.

Senator BRISTOW. And the taking of 5 per cent of the deposits in the transfer would necessitate their depriving their customers of that much available funds for use, would it not—credit?

Mr. WINSTON. Well, I think I can find a table here—but that four hundred and odd million dollars that I referred to was the amount of money that national banks would have to be prepared on the day this corporation opened its doors to transfer from their vaults to the vaults of this proposed Federal reserve bank.

Now, I did not go into the question—those figures apply only to the transfer of reserves.

Senator BRISTOW. Well, that was my understanding.

Mr. WINSTON. Well, then, as this bill reads to-day, and as a business man understands it, there would be other necessary transfers, either at the time or thereafter, dependent somewhat, I think, from a reading of this bill—then those additional transfers would be absolutely required to be made—that is, not necessarily on the day the bank opened.

Senator BRISTOW. Oh, yes; I understand that.

Mr. WINSTON. But as soon thereafter as the purpose of this bill and the intention of this bill is to be carried into effect.

Senator BRISTOW. Of course, the subscription to the stock, part of it, has got to be paid in at once?

Mr. WINSTON. Well, all within 60 days, up to 10 per cent.

Senator BRISTOW. Yes. Now, the banks would have to get the money to make this subscription, to make the transfer?

Mr. WINSTON. Well, they would have to take it out of their vaults, or out of their deposits——

Senator BRISTOW (interposing). Out of the community?

Mr. WINSTON. Out of the community; yes, sir.

Senator BRISTOW. Well, pending this transition, there would be a contraction—a radical one—would there not?

Mr. WINSTON. Well, simply as my opinion, we should have to be governed, to some extent, by what we think the average prudent banker would do in the meantime, between the time of the passage of this bill and the time that he was compelled to decide whether he would stay out or go into it.

Senator NELSON. And that is a year?

Mr. WINSTON. That is a year. Now, there will be a process of readjustment, in my opinion, and preparation. Some men might make no preparation, but leave it all to the last minute. But prudent bankers would not desire, I think, to leave all this necessary preparation to be made within the period of 30 or 60 days. He would immediately commence to get his line of customers down, so that they could have as much time as possible to adjust their business to it. So, I think it would be but a little while after the passage of this bill before you would see signs of contraction, due to this necessary preparation that they would have to go through.

Senator BRISTOW. It has been suggested—the question has been asked of a number of members of a delegation here as to the availability of the use of the six-months paper—six months and longer time, and it has been suggested that the tag-end of it, I will call it, after it has run a certain length of time, can be available; that the country bank, whose business requires it to take paper for longer than three months, can use the tag-end of the time of that paper to get money on it. As a practical proposition, what would the average customer of a country bank—how would he feel if his note was taken and rediscounted at a regional bank and he was notified that when it was due it had to be paid it had been sold? Do you think he would take very kindly to that, as a rule—the average customer of a country bank?

Mr. WINSTON. I am not, Senator Bristow, personally familiar with the characteristics of the average customer of a country bank, as I have never run one nor had anything to do with one. I have never been a director or stockholder in one.

But my judgment on that point is that the country, if you pass this bill with its 90-day limitation, would have to readjust itself—would be compelled to readjust itself. Some sections of the country where it is not the custom to take paper running much beyond 90 days would find no inconvenience. Other sections of the country where the custom of long standing has been to take this long time, for good and sufficient reasons and reasons which to them it would seem unwise to change, would hang tenaciously to their demand that the time of this limit of 90 days should be extended.

And if I may be permitted to say this, the business man's credit, however good he may be in the end, the standing that he has depends more largely upon the fact that when he gives a note, whether it be 6 months, whether it be 90 days, or whether it be 12 months, the people who take that paper can say, "Well, that is longer than we want to take; but we can depend on one thing, that man is going to be prepared to redeem that paper at that time."

Now, that is the reason that the country banks, as I understand it, have acceded to the demand of their customers in the Northwest and permitted themselves to fall into the habit of taking 6, 9, and 12 months paper, because they know that if they took that paper—paper issued in February—that 90 days afterwards that man never expected to pay it, and would not be able to pay it in 90 days.

Well, there is also the banker's side, who comes in with his paper for rediscount. He does not want to come under a subterfuge; presumably when he presents that bill, he carries with it at least his moral promise, or his moral obligation, that you may infer that he expects that paper to be paid; that there is no promise on his part that when this paper becomes due it shall be renewed.

Now, the banker would not like to get into the custom of having his paper, the character of his paper, questioned on that line, because he would perhaps admit, if he presented that paper at the doors of one of the Federal banks, that he did not expect the paper he was going to put up on his note would be redeemed at that time.

Then from the customer's standpoint, a man does not very often have to go back to his bank and say: "I never expected to pay that paper when it was due; why, you must not ask me to pay it now." Before the bank forms the opinion that that man's promise to pay may mean that it is going to be paid, and it may not. Now, there is a delicate point affecting the individual credit of every man. If he goes into an institution, as the custom has been in our community, and makes his note out at a time when he expects to pay it, and promptly meets it, bankers all over the country that have been accustomed to handle that paper take it freely and without question, because their experience has proven that that man's note is going to be met at the day named on its face for redemption.

Senator Bristow. Well, now, Mr. Winston, are there not a large number of patrons of a bank who have running accounts, in a sense?

Mr. Winston. Yes, sir.

Senator Bristow. That is, a credit?

Mr. Winston. Yes, sir.

Senator Bristow. He will have a credit of so much?

Mr. Winston. Yes, sir.

Senator Bristow. Up to $100,000, we will say, as it is in a fair-sized town?

Mr. Winston. Yes, sir.

Senator Bristow. And he keeps an account there, of course?

Mr. Winston. Yes, sir.

Senator Bristow. And his deposits, at times, will run up to considerable, while he has got notes in the bank at the same time?

Mr. Winston. Oh, yes.

Senator Bristow. Then at certain seasons of the year, he reduces the indebtedness very materially?

Mr. Winston. Yes, sir.

Senator Bristow. But he does not reduce it all?

Mr. Winston. Sometimes not all; sometimes all.

Senator Bristow. Yes; but it depends upon the conditions of the merchant?

Mr. Winston. Well, depending further, somewhat, on the condition of the merchant and on the condition of his customers.

Senator Bristow. Well, that is true. But do the banks as a rule not regard an account of that kind as a very desirable account, provided the man is good and could pay it if he had to—it might be a sacrifice to his business to do it, but he could clean it up if necessary?

Mr. Winston. No. A well-run bank, Senator Bristow, is to a larger degree, probably, than you appreciate, dependent upon the good will of the customer. They do not like to put themselves in any position—they do not like to see a situation arise whereby they have got to ask this customer to pay this note when it is due absolutely, if it is an inconvenience to him, so long as he is safe. They like to keep themselves at all times where they can, without inconvenience to themselves, to renew the paper and where they can extend—where they need not be compelled to ask the customer to pay this indebtedness.

Now, along that line, the idea suggested is this: If the conditions are entirely different under the proposed bill, a well-run bank would naturally have to adjust its business so that almost any of that paper and all of that paper must be redeemed on the day named on its face. So you understand me?

Senator Bristow. Yes; I understand. But my impression was——

Mr. Winston (interposing). You understand that a bank can not go and treat all of its customers along this line: "John, when your note comes due, it is over in the next bank, and you will have to pay it."

Senator BRISTOW. Well, that was the point. If a bank did that, it would lose a great many very valuable customers.

Mr. WINSTON. The most valuable customers they have got; the customers that——

Senator BRISTOW (interposing). I have known banks——

Mr. WINSTON (continuing). The customers that at times have more money in the bank—sometimes as much as 200 or 300 per cent more than the face of the note that the bank holds against them.

Senator BRISTOW. And still they do not pay their notes, because they are using the money——

Mr. WINSTON (interposing). Business men are subject to sudden calls, almost arising from conditions beyond their control, for large sums of money—as I think the grain men illustrated here the other day. They have got to have in bank, ready to send out in currency to their agents at their elevators, large sums of money, sometimes far exceeding the amount of notes that the particular bank holds against their account.

Now, you will ask why. The farmers may have a bright day to-day. It may be a favorable time this week—the price of wheat may appear to be favorable to them and they may all, without notice, or consultation with the grain men, bring their wheat into these elevators, hundreds and thousands of bushels on the same day—millions of them.

They may, on the other hand, have rainy weather, or their market conditions might not be quite favorable to them, or they might want to do some plowing, and they might defer this thing to suit their convenience. But they do not ask the grain men: "Are you better prepared to pay me for this wheat if I haul it in next week? Can I do my plowing this week, and bring my wheat in next week? Will you be just as well prepared next week as you are now?" They do not ask any questions, they bring the stuff in when it suits them, and the grain man must be prepared to have his money in there to pay them cash for the wheat if he wants to purchase it.

Senator BRISTOW. I was talking with a gentleman the other day, and he told me that he had more money on deposit in his bank than his notes amounted to. I asked him why he did not take up his notes and save interest; and he said "In my business I might need that money, and I would have to borrow it over again, and I would rather have the money there and be able to check against it, and my notes still running."

Mr. WINSTON. Well, Senator Bristow, right along there let me say this: Of course in my line of work we have a little more control of it than a grain man; but it applies all through. One line of our work, and a very large part of our work is contracting.

Now say we do a couple of hundred thousand dollars—may be $300,000 or $400,000 or $500,000 worth of work a month. We have men out in the field who, on a certain definite day, which is well understood, are supposed to have their pay in cash. That is one thing.

But the people owing us that money, which should be on hand prior to that time, sometimes neglect to pay it; it does not get through their auditing department, perhaps, and perhaps they may be 10 days behind time.

Consequently, we have got to have on hand, subject to call on draft presented at our door to-day, often as much as $100,000 in a day.

Now, we may owe $25,000 of that to the bank; we may owe $50,000 of that to the bank. When I left home, if I remember correctly, the amount we owed our bank was $25,000. We had on deposit with our bank something like $180,000. Now, you may say, "Why do you not take up that $25,000 note?" Because to-morrow drafts are likely, in our line of business, to come in calling for $175,000 or $180,000, because of the fact the railroads that owe us this money, by reason of the slow process of getting their vouchers through the auditing department and the treasury department, have neglected to send us the money on our estimates.

Now, there are two lines of work, you understand; two different lines of work.

Then the wholesale merchants are the same way. Farmers get through with their thrashing—I mean their harvesting—and it is a fine time to haul grain in and turn it into cash and pay the country merchant. But a rain may have come yesterday and the ground softens up and the farmers go into the field and commence to do the fall plowing, and they continue it for a week, until the merchant's collections slump temporarily. The wholesale merchants' collections over the country also slump temporarily.

In the meantime he has got bills coming from the East in large volume for his goods, and he has got to be prepared to pay them before the discount day runs. Now, necessarily, he can not depend on his money coming in at all times to correspond exactly with what he sends out plus exactly what he borrows from the bank; he can not run close; he has got to have a large margin.

And that is the very reason I say that those are the most valuable customers that a bank has; they are borrowing their own money.

Senator BRISTOW. Then any legislation which we should enact that would break up or disturb this custom that has grown up for a generation between the customer and the banker would not be kindly received, would it?

Mr. WINSTON. Well, I am going to be perfectly frank with you, gentlemen; you want my opinion. This is a great, big country. We have done our business here under our present system for 45 years——

Senator BRISTOW. Forty nine.

Mr. WINSTON. I think it is 48 years this year, if I am correct—47 or 48 years. Custom makes law. People in New York have conformed their lives to a certain custom existing in their commercial and their financial and their banking system.

If this bill affected only New York, you could readily determine and forecast, with a fair degree of accuracy, what effect this bill would have on the people, all of whom have like customs and like habits, who have conformed themselves and adjusted their business to the same custom.

But we have got a great country. We do more business, probably, in a day in the transfer of the products of the farm and merchandise and the factories among ourselves in dollars and cents, probably worth more than France, England, and Germany combined.

During this month, the month of September, and the month of October and the month of November we have a section of country, and a large one, where the business is not concentrated in large volume in those three months because of things over which they have control; but the Almighty has fixed up, in our northwestern country, three or four months when we must get increased volume of currency to do our business. That same period does attach to New York. The same period does not attach to the cotton States; in a measure it does; it overlaps somewhat; but they commence to get their product in earlier. So that the time of the peak of our load is not usually, when gauged by calendar months, that the peak of their load is.

Now, you are proposing to pass a bill here changing the customs and the habits and previous methods of all the people of this country to conform to a fixed standard. And, frankly, I think it is a very difficult question.

Senator Bristow. And the less it——

Mr. Winston (interposing). Somebody in this great country of ours, covering large parts of it, has got to readjust themselves.

Senator Hitchcock. At the present time your machinery is moving smoothly out there in the Northwest?

Mr. Winston. Never nicer, sir.

Senator Hitchcock. You have no difficulty in securing at your banks the accommodations that you need, have you?

Mr. Winston. No, sir; partly due to the Almighty, who has given us wonderful crops of all kinds.

Senator Hitchcock. And you secure it at a fair rate of interest, do you not?

Mr. Winston. Yes, sir.

Senator Hitchcock. And the banks are perfectly willing to extend the six months' credit that business men sometimes require?

Mr. Winston. Certainly they are.

Senator Hitchcock. Those six months' notes are paid automatically out of the proceeds of the operation, just as a three months' note is paid in the East as the result of a merchandising operation?

Mr. Winston. Yes, sir.

Senator Hitchcock. And that is also true, is it not of cattle paper?

Mr. Winston. Well, I am not so familiar with cattle paper, sir, because there is not very much cattle paper in our town.

Senator Hitchcock. But you are a western man, are you not, and know something generally about it?

Mr. Winston. Yes, sir. It must be so.

Senator Hitchcock. And you know that when a man buys cattle to feed during the season and gives a six-months note the fattening of his cattle and the sale of them at the proper season enables him to pay off his 6-months' paper, just as automatically as the business man in the East, or in the commercial centers, pays off his 90-day paper?

Mr. Winston. Exactly. Now, let me give you a point: Credit is a very delicate thing. A farmer who comes into a bank and says "I want to give you a 6-months' note" and gives it, and pays it; and gives it the next year and pays it; and gives it the next year again, and pays it, can rely on always being able to get his money when he asks for it; can he not? That is because he never made a note that he did not meet at maturity.

I will enlarge on that a little. I knew a citizen of Minneapolis, who is dead now, who had at one time on his personal indorsement, if I am not mistaken, $17,000,000 of borrowed money. The record of that man was that he never failed to meet one of his notes on the due day. He could not have done it had he not had that record.

Senator NELSON. You mean he could not have borrowed the money?

Mr. WINSTON. Oh, no. He could not have borrowed $17,000,000 to save his life. It was loaned to him with the understanding that if he wanted to renew it or part of it, he could do so.

Senator SHAFROTH. Did he fail afterwards?

Mr. WINSTON. No, sir; he died.

Senator HOLLIS. You mean the only security was his personal name?

Mr. WINSTON. Only his personal name.

Senator HOLLIS. Without any indorsement or collateral?

Mr. WINSTON. I do not know whether he had any collateral, whether he had some person indorse his paper, or some trust company, or not.

Senator HOLLIS. It is astounding if he did not have some security.

Mr. WINSTON. He may have, but it was largely on his personal credit.

Senator HITCHCOCK. I want to ask a little about this system of discount that is established in this bill. From time immemorial the American banker has been afraid to rediscount notes which he secured from his customers. That is, the American banker has felt that if he loaned money to his customers and then rediscounted their notes with another institution he would not only hurt himself with his customers, but he would also impair his credit with other banks, and he has been averse, therefore, to attempting to expand his business in that way.

Now, I would like to ask you whether you think that the violent change in this country which is proposed in this bill for bringing about a common practice of rediscounting is likely to be taken up readily by these bankers raised in the other school?

Mr. WINSTON. Senator, let me say here I do not know and do not claim to know all about the science of banks—the scientific features of a structure of this kind. I mean banks that issue money on commercial paper—asset currency. I do not claim to be justified in giving an opinion on that subject to you that is worth anything, but let me say just this much, that if we are to have that scheme work out properly the country must conform itself strictly to the rule of having every piece of paper that is presented redeemed on its due day or going and substituting—making new loans so as to take up the old ones. You understand that.

Senator HITCHCOCK. Yes.

Mr. WINSTON. But the principle, the underlying principle, must be founded on the express condition that so far as this reserve bank is concerned, and its transactions, that paper must be taken up on its due day. That is as far as I know about the science. I think that will appeal to you as absolutely necessary. Now, if that is the case, then the country must necessarily, in order to make this thing thoroughly workable, adjust itself to those conditions.

Are we prepared to do it? That is the question.

Senator HITCHCOCK. I am wondering whether as a practical question—suppose you are president of a bank in Minneapolis. I understand you are vice president of one of the banks there.

Mr. WINSTON. Yes; I am vice president of one of the banks, but I am inactive.

Senator HITCHCOCK. But suppose you were the executive officer of a bank there and you had turned over 10 per cent of the capital and lost a large per cent of the funds you had heretofore been loaning: Whether you take your customers' paper and discount it at the reserve bank, so as to maintain the same volume of loans you have now, you would have less real capital to work on, less loanable funds to use. Would you make good what you lack by indorsing notes of your customers and turning them over to the reserve bank?

Mr. WINSTON. You want me to answer that question?

Senator HITCHCOCK. Yes.

Mr. WINSTON. We might use the right of discount freely when we were educated up to the custom of using it and the people of the country did not look upon it with suspicion. After this proposed bank had been in operation one year, two years, or three years and the people when they read the bank statements had gotten accustomed to seeing large rediscounts in the statement and passed it on and paid no further attention to it, the bank might be tempted by the profit, if there was any in it—I understand you do not propose to let them have a profit—to rediscount. I understand the purposes of this bill—if I really understood what the object of this bill was I could pass a better opinion. Let me ask you a question. Is it your understanding that the object or one of the prime purposes of this bill is to furnish such an increased volume of money as to force lower rates of discount? If that is the purpose, how are you going to force it? By standing ready to rediscount yourself at a lower rate than the prevailing bank rate? If that is the purpose of the bill it is expansion.

Senator NELSON. And it leads to inflation.

Mr. WINSTON. It is inflation.

Senator HITCHCOCK. The bill does not permit reserve banks—as I understood it originally did permit reserve banks—to enter into competition with the member banks, but there seems to have been a provision inserted in the House.

Mr. WINSTON. But read between the lines, Senator. It is not really so much what is expressed on the face of this bill, but read between the lines It means, I think, that the purpose of this bill is to force the rates of interest down through the operation of th.s bank, directly or indirectly.

Senator O'GORMAN. That is conceded to be the purpose of this bill; there is no mystery about that. It is not so much to force down as to regulate and control the interest rate.

Mr. WINSTON. That is all right. Political pressure will be brought to bear. You will ask the question, "What is the use of this bill unless you force down the rates of interest." Now, how do you arrive at it? How do you force it down? By expansion. You can not do it any other way.

Now, if this bill was simply for the purpose of regulation, if it was simply for the purpose of regulation and being prepared temporarily to expand for short periods during a crisis, it would come near meeting with the approval of the cautious business man. Now, I said, "the cautious business man." The question has been raised whether or not it will meet with the approval of the banks themselves. Let us see what the business man has to say about it. You have heard what the banks have to say about it and, as I understand it, you have discarded the banks somewhat. You do not take what they have to say without a large grain of salt, on the theory that there is a divided interest between that of the business man and that of the bank.

Senator O'GORMAN. You think the inevitable result of putting the 12 reserve banks into competition with the individual member banks will be, in connection with the reduced rate of interest, an inflation of credit?

Mr. WINSTON. I think so. Now, then, let me stop right here and enumerate from start to finish my principal objections to this bank from the standpoint of the business man. In the first place, the taking, without their consent——

The CHAIRMAN. Speak a little louder, Mr. Winston; I can not hear what you say.

Mr. WINSTON. I say the compulsory provision in this bill to an old Democrat looks a little bit as if Congress was exercising the right to pass a law which in reality takes from the citizen, who owns, his property.

The CHAIRMAN. Speak a little louder. We can not hear what you say.

Mr. WINSTON. I say it takes his property without due process.

Senator NELSON. Without his consent?

The CHAIRMAN. Your next objection?

Mr. WINSTON. The next objection is that the National Government in doing that does not offer to property belonging to the national bank stockholder the same degree of protection under the Constitution that is offered to the stockholder in a bank or a trust company getting its charter from a State. If I remember rightly, a State can pass no law abridging the right of an obligation.

Senator NELSON. Impairing the obligation of a contract.

Mr. WINSTON. Yes; impairing the obligation of a contract. But Congress said our forefathers undoubtedly said, "We are above suspicion; we do not need to put into our Constitution just the same provision that Congress shall not do these things."

Senator O'GORMAN. Do you think Congress could pass a law impairing a contract?

Mr. WINSTON. That is a question for a lawyer.

Senator O'GORMAN. You expressed that objection.

Mr. WINSTON. But there is no express provision, Senator, that I know, under which this man can seek protection. It would have to be brought before the court.

Senator O'GORMAN. Let me say here there is no room for dispute with regard to this proposition. There is no suggestion of the impairment of a contract. There is no suggestion of the confiscation of private property, if this Congress adopts the provisions in this bill, with respect to national banks. In a word, it is entirely optional with the national banks whether they will avail themselves, whether the bank will avail itself, of the privileges offered by the national banking law, subject to the conditions which the Congress imposes. The Congress already in the existing law has imposed conditions which are respected by the national bank. This pending law would simply add to those conditions. So, for myself, I simply have to make the suggestion——

Mr. WINSTON. I am not prepared to do more than make a suggestion——

Senator O'GORMAN. Just one moment. For myself, I want to make a suggestion. It is quite idle for anybody, for any citizen, to come here and claim that there is an unconstitutional or an unlawful invasion of private rights. The question is entirely different and apart from any such thought. It goes to the general equity and justice and wisdom of the proposed policy. And it is by that test that this committee, so far as it may, will dispose of this proposed bill.

Mr. WINSTON. I supposed that you gentlemen were conforming yourselves strictly within the limits of the rights given you under the Constitution, but in the public mind I just tell you that is one of the things that disturb the minds of the business men. They do not like to see that very delicate question leading into the direction that this bill proposes to lead. They do not know whether it is constitutional or not, and they do not claim to know, but they have the impression that the rights of property are being infringed. Now, that disposes of that. I do not claim to have any knowledge, just an impression of what we had always believed were our rights.

The CHAIRMAN. What is your next objection to the bill?

Mr. WINSTON. Then the next objection is that they are voluntarily——

Senator NELSON. Let me say, in connection with that, Mr. Winston, here is a national bank that has a charter for 20 years. They got that franchise from the Federal Government. Half of that time has run, and it has still 10 years to run. Congress comes here and says, "Unless you will join this regional bank and become a member of it, you shall forfeit all the balance of your franchise." Is not that, in one sense, an invasion of the rights of the corporation and the rights of the stockholders in that corporation?

Senator SHAFROTH. No; because they take the franchise in the first instance with that understanding.

Senator NELSON. I do not question it in a technical sense, but, morally and ethically, here is a bank whose charter has 20 years to run. It is given by the Government to the national bank. It has run 10 years, and if it complies with the national-bank law it would have a right to run 10 years more without renewal. Now you step in and say to this bank whose franchise has 10 years to run, "You must come in here and join this regional bank. If you do not, you will forfeit the balance of your franchise; the right to do business for the next 10 years." Now, not technically but morally and ethically, is not that depriving that bank and the stockholders of the bank of the property right they now have?

Senator O'GORMAN. You and I and the whole committee believe there is no technical violation of the constitutional right. That thought you convey does go to the equitable consideration, the consideration of the equities of the people interested in that business.

Senator NELSON. That is what I understand is the idea Mr. Winston desires to convey.

The CHAIRMAN. There is no difference between you on that basis.

Mr. WINSTON. I did not want to mention that, but it is necessary in order to get to a point and tell you what we think would be prefer-able from the business man's viewpoint, and to just enumerate these things, because they all have their bearing.

Now, then, the next provision is that when this money is contributed you fix the rate of profit without assuming any responsibliity for the loss.

The CHAIRMAN. And what is your next objection?

Mr. WINSTON. That is the next objection. Then, coming on down, we object to clause 15.

The CHAIRMAN. On what ground?

Mr. WINSTON. On the ground that just as surely as it goes in the bill the bank will be compelled, for political reasons, political exigency——

The CHAIRMAN. A little louder, Mr. Winston.

Mr. WINSTON. I say, just as surely as that provision in there permitting those banks to do business with private citizens and foreign citizens—just as sure as the sun rises the political exigencies will arise when a good portion of this business will be done with the private citizen. Is that the purpose of the bill?

The CHAIRMAN. What other objection have you, Mr. Winston?

Mr. WINSTON. That objection.

Senator HITCHCOCK. Just before you leave that clause, you think under this a bank could do an unlimited business in buying commercial paper and lending money, direct with individuals?

Mr. WINSTON. Yes, sir. You can do just as much or just as little as you see fit. Imagine a time when there is an election coming on. You have not found the best people; you have not found the people that would run to a private bank. They want to discount a draft with a carload of potatoes that might come into a market, as 60 carloads did in our market this spring, when they were only worth enough to be turned into starch. That kind of stuff will come to you in volume, because the banks won't take it, and the people will appeal to you; and you, in order to carry out what the people understand is the intention of this bill, have gone into this thing——

The CHAIRMAN. The chairman of the committee must remind the committee that Mr. Hulbert, of Chicago, gave way yesterday afternoon at 2.30; that Prof. Fisher, of Yale University, is here to-day; and unless you give them an opportunity to be heard to-day they won't be heard at all, so the will of the committee must be tempered in the light of that fact.

Mr. NELSON. There were two gentlemen who came in here and broke in on this delegation since they started, Mr. Chairman—one from St. Louis and another gentleman who represented the National Credit Men's Association. They would have been through had it not been for that.

The CHAIRMAN. I am simply reminding the committee of the schedule they have before them.

Mr. WINSTON. Now, Senator, just one last point.

We are afraid that we are attempting to do a thing that the country is not prepared for at this time in such a large way as might result very seriously by reason of the contraction during the next 18 months if this bill were to become a law and the expansion afterwards. I feel that the remedy—we believe in asset currency because of its flexibility, properly safeguarded and used only in a limited way for the purpose of meeting a crisis. The business man knows to-day we have currency enough in this country to do all of his ordinary business. We have had it every year. It is sound. There is no question about its quality; they give it no concern. There is a crisis occasionally when the business man knows that more currency would be of value, and of large value to the country to carry it over a crisis. Now, to that extent, the business man approves of the injecting into our currency system all the money that can be reasonably expected to be required to take us over a crisis, and, at the end of a crisis, to prevent the danger of inflation, to tax it so that it comes back for redemption and remains as a reserve to which we may run again when we need it and not have it exhausted in this very expansion and leave us helpless when the next day of redemption comes. That is our position.

Senator NELSON. Your opinion, then, to sum it up, about this bill is that in the first instance it will lead to a contraction of the currency, and then ultimately, when it gets in full working order, it will lead to an inflation of the currency?

Mr. WINSTON. Yes, sir.

Senator NELSON. An unsafe inflation?

Mr. WINSTON. Under the present bill.

Senator NELSON. Yes; the bill as framed.

Mr. WINSTON. Yes.

Senator NELSON. And you further believe that this system of limiting the time on paper that can be discounted would disturb the business conditions in the Northwest as business is conducted to-day—the credit conditions?

Mr. WINSTON. I think it would disturb it.

Senator NELSON. Their credit condition is based upon 6 months, 9 months, and 12 months paper, and it would revolutionize that system if this law was passed in its present form?

Mr. WINSTON. Yes, sir. And, Senator, let me say right there, that knowing nothing about the science, the true science, of this so-called system, I am not prepared to say that you can comply with the best thought of the world in establishing that system if you do not make your notes of short time. Looking at it from that standpoint—taking out of consideration our interests, how much it would disturb us, how much inconvenience we are put to—I am not prepared to say but that this committee is right from a scientific standpoint if they hold those notes down to 60 days or 45 days.

Senator SHAFROTH. Or 26 days?

Mr. WINSTON. But I do say that the business men do not think that at this time there is a necessity for disturbing the existing conditions that would warrant us in passing this bill.

Senator NELSON. You no doubt have in mind—I call your attention to the fact that the plan of this bill ultimately is to retire our present national-bank note currency and have this asset currency of the regional banks entirely take its place.

Mr. WINSTON. Well, I do not see the object in retiring the national-bank currency. We can only do it at an expense of at least $7,000,000 a year of interest to the General Government. If you take up your existing bond issue, on which currency is now being issued, and expect to maintain your bonds at par, you must raise the interest on those bonds. I do not know whether Congress will think it is wise to do that or not. As a business proposition I do not think it is worth it. I like the old national-bank note. It may be unscientific, but wherever I go in this country I can pass it at par and I have gotten used to it. We are furnishing it with a profit to the Government. I think, if I remember rightly, about 130 or 140 millions, somewhere in that neighborhood, have been turned into the Public Treasury as a tax on circulation. I am not quite sure, but I think that is somewhere near it, so that it has been issued at a profit to the Government. Now, why not continue it as a profitable investment on the part of the Government? The Government gets its half or 1½ per cent, as the case may be. You cancel it to-morrow and substitute paper money. The Government loses that revenue and has to put its hands in its pocket and take out approximately $7,000,000 a year to create an interest on the bonds you have substituted for that paper currency.

Now, I am not going into that. It is a question I believe Congress will decide not to do. I do not think it will do it.

The CHAIRMAN. Shall the committee now hear Mr. Hulbert?

Senator SHAFROTH. I would like to say, Mr. Chairman, I do not agree with many of the conclusions reached by the witness, and I would like very much to examine him to present the opposite view. But, knowing Prof. Fisher is here, I will not ask any further questions.

The CHAIRMAN. Senator Weeks, have you any questions?

Senator WEEKS. Yes; I would like to ask just one or two. We have on the statute books a law which provides—purposes to provide—for emergency currency which expires by limitation next summer. Now, there is going to be an interregnum between the expiring of that law and this bill, if it is passed, going into effect.

Mr. WINSTON. Yes.

Senator WEEKS. Have you thought anything about the desirability of covering that time by extending the present law?

Mr. WINSTON. I have not that bill before me, Senator, but I think in a brief way I can tell you, just in a few words, the large reason why that bill seems to be a desideratum. The onerous condition attached to that bill, if you want to make it a service, you must remove.

The CHAIRMAN. The question was, Do you think it ought to be extended?

Mr. WINSTON. With amendments. I think that bill—understand, gentlemen, I am giving you only a business man's impression, not from the standpoint of a scientific man who would have you change the whole system for scientific reasons, though it may be justified. I do not believe there is any necessity at this time to do what you are attempting to do here before you adjourn. I do believe, with the same protection, that the business man would feel absolutely safe from any possible danger if you would amend and approve of the Vreeland bill. There was a suggestion made here by one of my people that appealed to me to be an economical and safe method for use in an occasional emergency. That bill can be made, in my opinion, and I think in the opinion of every man that is with me to-day, so far as the business man is concerned, to satisfy his needs and to quiet any fear he may have at any time—not to-day, but next year.

Senator WEEKS. In a word, what change would you make in it if it were considered possible to expand it?

Mr. WINSTON. Just as an illustration, Senator—you will see the point—I am, we will say, the president of a bank in the city of Minneapolis, having a large line of responsible customers, who handle the articles of daily commerce sold in terminal markets at any time in large volume. That trade, good trade, responsible trade, absolutely safe, comes to me to get the money to move the crop in large volume and with larger demand than I can myself supply. Now, the Vreeland Act says you can avail yourself of this privilege and get this rediscount from the Comptroller of the Currency. "Yes." And accommodate this customer. "Yes; I can do it, and I would like to do it, but I am afraid to. I am a member of the association." If one bank wants to get that association together with a view to calling for this assistance, this necessary and proper assistance, what have I got to do? I have got to call my local associates together, composed of a number of banks, some of whom are competitors. Some other bank with a different line of trade that does not call on him at that particular time may have a little surplus money, and he does not need to do it. I have got to call them together and ask approval of my application to the Comptroller of the Currency for the use of that money. I have not only got to give him that approval, but, as I understand the bill, they have got to back me.

The CHAIRMAN. They have got to indorse it.

Mr. WINSTON. They have got to indorse it.

The CHAIRMAN. And you do not want to expose your position to them?

Mr. WINSTON. It might be perfectly safe, so far as he was personally concerned. They might have to do the same thing the next week.

The CHAIRMAN. But it would affect your credit with your depositors?

Mr. WINSTON. Just a minute. The next day somebody has heard they do not know the law; the people do not know this law, they do not know the purpose of it, and somebody whispers on the street, "Say, I hear that bank over there had a meeting with the other banks yesterday. They must be in trouble." That bill would not be used. That bill does not speak for the individual bank element. If that bill had been in vogue just as it is to-day in 1907, New York never would have shut her doors on currency. They would have gotten together. All of them would have said to Chicago, "Let's get together;" they would have said to St. Paul, "Let's get together," and they would have said to St. Louis, "Let's get together," and all of the associations, each one of them, would have gone in and taken out some of this money.

But the individual bank does not dare take the first step under this bill.

The CHAIRMAN. Senator Nelson, you say there was another witness you wanted to have submit a statement.

Senator NELSON. Mr. Winston, was there anything more you wanted to say?

Mr. WINSTON. Mr. Mosher here has a geographic outline of our district. Would you like to have him give it to you?

Senator NELSON. He has a statement here which I should like to have him present to the committee.

The CHAIRMAN. Will you proceed, Mr. Mosher?

STATEMENT OF CURTIS L. MOSHER, SECRETARY THE CITIZENS' LEAGUE OF MINNESOTA, MINNEAPOLIS, MINN.

Mr. MOSHER. Mr. Chairman, I will say in submitting this brief statement that it was prepared in behalf of this delegation at the request of Senator Reed and some of the other gentlemen who became interested in the geographic area in the Northwest which might come into a theoretical Federal reserve jurisdiction in case that were to be established in the Northwest.

Assuming first that a Federal reserve bank would be established in the Northwestern States under the bill before this committee, our organization has, for the purpose of making its investigation of this subject clearer and more definite, arbitrarily outlined an extent of territory, following up the requirements of the proposed law, for the purpose of ascertaining what area the district of such a Federal bank in the section of the United States referred to might have and what conditions would arise in the handling of the business of such an institution. In marking out upon the map a theoretical Northwestern Federal bank district we have regarded the existing currents of business in the territory included with respect to trade relations, the movement of crops, and financing.

Taking up first the provision of the bill requiring that each Federal bank shall have to begin business with a paid-in capital stock amounting to $5,000,000—this amount to represent one-fourth of a sum representing 20 per cent of the capital stock of the subscribing banks, plus one-fourth to be paid upon call within 60 days after such subscription is made—we find that it would be necessary to include within such a theoretical northwestern reserve district the following States, and draw upon them for the required amount of the capital stock of all the national banks within them, viz:

States.	National banks.	National-bank capital.	10 per cent subscription.
Minnesota	265	$25,356,000	$2,535,600
North Dakota	145	5,210,000	521,000
South Dakota	103	4,185,000	418,500
Montana	57	5,135,000	513,500
Total	570	39,886,000	3,988,600

It is apparent that these four States will not furnish a sufficient amount of banking capital (national banks alone considered) to provide even $4,000,000 of capital with which a Federal bank might begin business. Although the business and banking currents of all of the State of Iowa do not flow directly toward the great centers of the four States just mentioned, it would be necessary in order to provide capital to include all of that State, with 342 national banks, total national banking capital of $23,005,000 and contribution to the share capital of the Federal bank of $2,300,500, or at least such a proportion of the area of that State as would give the Federal bank district the benefit of the banking capital in all the commercial centers of that State, plus a considerable share of the total capital of the numerous country national banks therein. The result would then be: States, 5; national bank capital, $62,891,000; Federal bank capital, $6,289,100.

We have not assumed that State banks and trust companies would contribute to this capital, upon the assumption that until it appears that this measure is sufficiently attractive to encourage them to voluntarily come into the system the burden would fall upon national banks. We regard it as probable that any advantage through the entry of State banks and trust companies to the system would be offset by the liquidation of national banks preferring State charter.

The Federal bank thus instituted with $6,289,100 of capital might call upon the banks for an equivalent amount, but only as representing the double liability of the banks upon their original advances to capital. The total of somewhat more than $6,000,000 would probably not be more than such an institution in the territory described would require.

These five States represent upon the map a broken wedge of territory with its principal length of about 1,300 miles lying east and west, its north and south boundary to the west of 300 miles extent, and its north and south boundary on the east of about 600 miles length.

The territory included has an area of 433,915 square miles, as follows: Minnesota, 83,365; North Dakota, 70,795; South Dakota, 77,650; Montana, 146,080; and Iowa, 56,025.

This is a territory equivalent in extent to all of France and the entire German Empire, in which are two of the best known banking systems of the Old World, together with the entire area of Denmark. There would still be left over about 2,500 square miles of territory or a corner of this great territory considerably larger than the State of Delaware.

This territory, the jurisdiction of but one Federal bank, would be equivalent in area to all of Italy, Spain, Belgium, the Netherlands, Bavaria, Saxony, and European Turkey, with the State of Connecticut thrown in for good measure.

It is equivalent to all of the British Empire, with its colonial possessions excepted, together with Norway and Sweden and Switzerland.

Or to make the comparison even more graphic, this extent of territory would include Massachusetts, Connecticut, New Hampshire, Rhode Island, New Jersey, Vermont, and Delaware, with all of Cuba, Porto Rico, and Hawaii; with the British Empire in addition to that, and all of France thrown in, and there would still remain a territory more than six times as large as the State of Rhode Island.

These figures are graphic, but may easily be confirmed by anyone who cares to sit down with a pencil and cast up a few figures, and serve to emphasize the fact that in a region which must all be included within a district to give but one Federal bank the capital prescribed by this bill there is an area equal to that of the countries of the Old World which are under discussion here because of their several typical systems of banking. In this territory the elements of population are quite as diverse as in the Old World, excepting alone that there is a common language and similar business customs, for we have drawn upon every part of these Old World countries for the population which in little more than 50 years has developed the Northwest and given it its production and wealth. Interest rates vary greatly within this area, those of southern Minnesota being uniformly lower by at least 2 per cent than those of the far northern and much newer section of that State. Western North and South Dakota present higher rates than the territory adjacent to the great centers of Minneapolis and St. Paul, and as between these commercial centers and large districts of Montana, as well as of these States, there is wide variation of prevailing rates. How it might be possible for a Federal bank to prescribe discount rates applying uniformly to this territory with proper support and satisfaction to all the kinds of business within it it is very difficult to say. How such an institution might make unequal rates, adjusted to the peculiar conditions of local districts, and escape severe criticism for alleged discriminations, is equally difficult of determination.

A new phase of the problem, resulting directly from the great extent of the territory, is that involving the ability of a Federal bank board to pass quickly, with full knowledge of the conditions under which the paper was made and without such preliminaries as might be very burdensome to business and agriculture, upon the thousand kinds of paper based on cattle, grain, lumbering, mining, dairying, the movement of various crops, manufacturing, and the various kinds of wholesale and distributing business therein. Few men would care to undertake such a serious responsibility, unless they felt that it would be permitted to take the word of a member bank for the character of the paper submitted with its indorsement for rediscount, and under some conditions such a custom might prove very dangerous.

Yet, upon the other hand, the banking and commercial currents of practically all of this great territory flow naturally to the important commercial centers in Minnesota. But 20 per cent of Montana's wheat goes to the north Pacific ports and markets. A very large share of Montana's stock shipments come eastward, either to the great market in the Twin Cities, or through them by fast trains to Chicago. The northern portion of Iowa is directly tributary to the commercial centers of Minnesota. To institute in this territory a Federal bank having a less capital would, in the opinion of the best authority, be to establish an institution, the ability of which to handle such problems as that of handling the great fall crop movement might be very uncertain. To subtract from this territoty, as well, any large share of the area indicated would be to endeavor by arbitrary rule to change the channels of trade which have established themselves through natural processes. This would be a very doubtful economic experiment.

The one solution which readily suggests itself, would be that such Federal bank establish numerous branches to represent it in the various areas of like agricultural and industrial enterprises and requirements. To this suggestion it is but fair to make the answer that all of this territory, while settled and developed, is yet but sparsely settled and but partially developed. Minnesota, with nearly 84,000 square miles, has but 2,075,708 people. Montana with 146,000 square miles has but 376,053 people.

These States lack density of population, such as older States have, and their business, while very great in terms of the burden which falls upon banks and financial institutions to maintain their prosperity, would make but an indifferent showing against Eastern States, where the total volume of business is prorated against the square miles of territory. Only about 35 per cent of Minnesota's area is in farms, yet it is a great agricultural State, with comparatively small proportion of waste or useless land.

The question naturally suggests itself whether a Federal bank, instituted under this bill, having an expensive headquarters force, doing the tremendous amount of business thrown to it by the exchange and collection provisions of section 17, and compelled to maintain numerous branch banks to serve its territory, could operate profitably and cover the cost of the forced extension of branches into regions of comparatively thin settlement, such as the cattle country of northwestern North Dakota and northeastern Montana. This query might have especial force if member banks, even after advance of their proportionate share capital, were not educated, except after a period of years, to freely rediscount. The profits of such a bank would lie in the latter and not the former class of its business. It seems improbable from all the first-hand evidence that can be obtained, that northwestern banks would have great occasion to rediscount, or would be readily educated to abandon a practice which has been visited with opprobrium throughout the whole experience of present bank officers and managers. It is the opinion of many observers and students of the peculiarly northwestern problems arising in this connection that banks located at country points would still prefer to make their loans, or their rediscounts if any, with the correspondents with whom they have long been associated in mutually satisfactory business relations. Settled business customs change very slowly.

STATEMENT OF E. D. HULBERT, VICE PRESIDENT MERCHANTS' LOAN & TRUST CO., CHICAGO, ILL.

The CHAIRMAN. I wish you would state to the stenographer the position you hold, Mr. Hulbert.

Mr. HULBERT. I am vice president of the Merchants' Loan & Trust Co., of Chicago.

The CHAIRMAN. I believe it would be well for you to make your statement first, if the committee will be agreeable to that, and then we can cross-question you afterwards. Would you like to follow that plan?

Mr. HULBERT. I should prefer to do that, with your permission; yes.

The CHAIRMAN. What are the resources of that bank?

Mr. HULBERT. About $65,000,000.

The CHAIRMAN. What is the capital?

Mr. HULBERT. $3,000,000, and $7,000,000 surplus.

The CHAIRMAN. If you will proceed now, Mr. Hulbert, I shall not interrupt you further.

Mr. HULBERT. The success or failure of any plan for currency reform will depend largely on the action of the State banks, and by State banks I mean all incorporated banks except national banks and mutual savings banks. The national banks alone, when deposits of State banks with national banks are eliminated, represent little more than one-third of the total banking power of the country. You can not satisfactorily reform the banking system of a country by reforming one-third of it, especially if that third objects to being reformed your way. Therefore, I think it is fair to say that in the discussion so far held regarding the pending bill, the State banks have not received sufficient consideration, as if the new plan is not made sufficiently attractive to the State banks so that a considerable number will voluntarily go into it, it will hardly be a success.

Probably the most difficult thing to adjust satisfactorily is the question of reserves, and I wish to submit that while the central reserve cities have nothing to complain of in this respect, the pending bill is unnecessarily harsh on both the reserve city banks and country banks.

It should go without saying that under any plan such as is under consideration less cash reserve will be required than under our present system, where each bank stands largely on its own bottom and is limited to a considerable extent to its own cash resources in a time of trouble.

While the pending bill apparently reduces the required reserves of the reserve city banks and the country banks, it in reality increases them. The reserve city bank at present, while required to carry 25 per cent reserve, carries only 12½ per cent in idle money, the balance being made up of credits with reserve correspondents on which the bank receives interest, so that if the reserve city banks are required to carry 18 per cent, as provided in the bill, it would require them to carry 5½ per cent more idle money than under the present system. The same thing applies to the country banks, on which the provisions of this bill perhaps bear more harshly than on any of the others.

It is a well-known fact that State banks and trust companies run with a much smaller percentage of reserve than the national banks. This is partly due to the fact that many such banks carry insufficient reserves, and partly to the fact that on the whole the deposits of State banks and trust companies are of a more stable character, having a larger proportion of time deposits and a far smaller proportion of deposits of other banks. It seems to me obvious that in any plan which is designed to unite all of these different classes of banks so that, to a considerable extent, their united resources will be available for all, it will be entirely safe and proper to largely reduce the reserve requirements of the national banks to a figure which will still compel the State banks joining the association to largely increase their present cash holdings. If this should be done, the result would be that the total cash reserves of the combined banks would be much larger than it is at present.

I would say here, Mr. Chairman, that the last report of the comptroller shows that the State banks reported have less than 5 per cent of total cash on hand, while the national banks have about 12.

One reason why our present reserve system has proven to be more or less of a failure is because only about one-third of our bank deposits have been subject to these reserve laws, so that in a time of stress the burden falls too heavily on the national banks. I think a simple solution of this problem would be to change the present bill so as to require a reserve of only 5 per cent against time deposits, including time certificates, providing, however, that all time deposits shall be counted as demand for reserve purposes when they are within 30 days of maturity. I am sure a provision of this kind would remove all objections to the reserve provisions of the bill on the part of State banks and trust companies.

Aside from this, I feel chiefly concerned about the language of the bill, which is in many respects ambiguous as regards State banks. I will call attention first to section 4, page 4, line 15. This section seems to provide that only national banks may take part in the organization of the reserve bank. I can not imagine any reason why that is there, and I think it must be an inadvertence, because the bill provides that State banks can join just as early as the national banks. Why should there be a provision here that only national banks can sign the articles of association? I want to suggest an amendment here, which is to change that word to "member" banks.

Senator SHAFROTH. Strike out the word "national" and insert the word "member." That is a good suggestion.

Senator BRISTOW. How do you know who are the member banks?

Mr. HULBERT. Those who become members.

Senator BRISTOW. But there has been no organization. How would you get at the member bank before the organization is perfected?

Mr. HULBERT. I think the bill provides that the organization committee immediately after the passage of the act can take subscriptions for this stock——

Senator BRISTOW. I note section 4, and then in the same section farther on—line 11, page 6—it says:

> 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.

Mr. HULBERT. That is, after the organization.

Senator BRISTOW. That is before the directors are elected.

Mr. HULBERT. You do not think it means, Senator Bristow, that any national bank can sign this organization certificate, whether it is a member or not?

Senator BRISTOW. I think it does mean that; yes.

Mr. HULBERT. That any national bank can sign it?

Senator BRISTOW. Within the district that is laid out by this organization——

Mr. HULBERT. Whether they intend to come in or not?

Senator NELSON. If you will note the first two lines of section 4 you will see how easily it can be amended. If you put in after the words "national banks" the words "State banks and trust companies," so it will read, "the national banks, State banks, and trust companies in each Federal reserve district uniting"—the word "uniting" covers it there—"uniting to form the Federal reserve bank therein." By putting in that you would get over it.

Senator SHAFROTH. If you just strike out the word "national," another clause makes the trust company appertinent under this act.

Senator HITCHCOCK. I think the word "eligible" would be better.

The CHAIRMAN. "Eligible banks" would cover it.

Senator SHAFROTH. Yes; that would cover it.

Senator NELSON. It seems to me he is quite right in saying that State banks want to join that to participate in the organization.

Mr. HULBERT. There is another suggestion I wanted to make in regard to this section that perhaps is not pertinent or very important. In regard to the Federal reserve agent I am wondering why there are not more safeguards thrown around that individual. Just as an individual he has charge of all the collateral that is turned in and of the redemption funds, which, of course, would be a vast sum of money. The bill simply states that this man, as an individual, has custody of all this property. I simply suggest the question whether there should be any safeguards about that.

Senator NELSON. Whether he should not be a bonded officer?

The CHAIRMAN. He should, by all means.

Mr. HULBERT. Usually those things are put in the bill, are they not?

Senator NELSON. Yes.

Mr. HULBERT. Section 10 provides that from and after the passage of this act any bank or banking association or trust company, properly incorporated, may become a stockholder in the Federal reserve bank.

Thereafter in this section and others such stockholding State banks are referred to as "banks or banking associations," and in some cases, "banking association or trust company," giving rise to the question as to whether are not the privileges of the bill apply in all cases to all these stockholding banks. Now, I won't go ahead with this because Mr. Jones suggested some amendment yesterday which I think the committee approved of covering this point. I have not in my notes now what it was——

Senator SHAFROTH. What Mr. Jones proposed was to include trust companies.

Mr. HULBERT. Mr. Jones, you suggested adding to that the words, "except where national banks"——

Mr. JONES. "Except where national banks are especially referred to."

Mr. HULBERT. That seems to be a good suggestion.

Senator NELSON. We shall probably have to rewrite that section to cover it.

Mr. HULBERT. Section 15, page 27—that seems to be the storm center. As I understand it, the first paragraph of section 15 intends to give the reserve banks power, when they see fit, to go into the open market in competition with the member banks in order to reduce the rate, or for any other purpose. That, of course, is very unsatisfactory, for a banker to feel that he is going to put his money into the stock of an institution that is coming into direct competition with him—that his own money is going to be used in direct competition. I see you have been thrashing that out with everybody. I only want to say that it seems to me an unfair provision. A thing of that sort would, of course, have some weight with banks that can come in or stay out as they see fit.

Senator O'GORMAN. It is generally recognized that the reserve board should have the power, through the regional reserve bank, to fix the rate of interest.

Mr. HULBERT. To fix the rate of interest for the reserve bank?

Senator O'GORMAN. Yes; and that would fix the rate for all membership banks, practically, unless it is fixed there.

Mr. HULBERT. It should; yes.

Senator O'GORMAN. Is it any more objectionable—personally I do not see that it is—to confer substantially the same right upon the same board to regulate the exchange rate?

Mr. HULBERT. I am not talking about the exchange rate, Senator——

Senator O'GORMAN (interposing). It is said that the reason for the first paragraph of section 15 is simply to confer that effectual power upon a reserve board to regulate the exchange rate.

Mr. HULBERT. Do you mean the interest rate or the exchange rate?

Senator O'GORMAN. The exchange rate. With respect to reserve banks the reserve board can fix the interest, and under this provision the power is conferred upon the reserve board by those means to control the exchange rate.

Mr. HULBERT. There would be no objection to that, Senator, but they go further. I am told it is intended, and apparently it reads that way, to confer upon the reserve bank and the reserve board the power to go into the market and loan money, and thereby reduce the current rates of discount. That is what we are objecting to.

Senator O'GORMAN. Is that any more objectionable, even from the banker's standpoint, than the first power conferred upon the reserve board to control the interest rate through the regional reserve banks?

Mr. HULBERT. We have not the slightest objection to that; not the slightest.

Senator O'GORMAN. Where is the objection?

Mr. HULBERT. That is the principal thing that reserve board is good for—to fix the interest rates for the different sections of the country.

Senator NELSON. But here, Senator, this is something more. It allows them to go in here and traffic in a class of commercial paper, which means that much business taken away from the other banks.

Senator O'GORMAN. But it is said that the trafficking will only be indulged in under the rules and regulations provided in this paragraph, to the extent and for the purpose of regulating the rate of discount and the rate of exchange. And after that is accomplished, I assume that it is the purpose of the reserve board to withdraw from any further active dealings in this class of paper.

The CHAIRMAN. These banks would have no object in making money at the expense of member banks. Their purpose is not to be money-making banks beyond interest on the stock. Their purpose is to stabilize commerce, and in order to enable them to do that it was thought judicious to give them this power, not believing that a bank organized for a public-utility bank would indulge in a competition that would be in any degree harmful.

Senator NELSON. To illustrate, the big millers at Minneapolis can ship a large consignment to Liverpool and draw a bill of exchange against that and get it discounted by the local banks so as to get the use of the money in transit. That is a business that pertains to the banks at Minneapolis. The regional bank under this provision could absorb that business.

The CHAIRMAN. It would have the power to do it, but would not, because these are not money-making banks. In case the Minneapolis millers could not get accommodation from home, for any reason which might arise, it would leave the opportunity open for that.

Senator NELSON. It leaves it to them. The only brake on it is this big reserve board of seven. If they permit it there is no limitation.

The CHAIRMAN. The policy is to serve commerce and not to make money at the expense of the bankers.

Senator O'GORMAN. Can you not conceive the situation, Senator, where there might be danger in the reserve bank possessing the power to use its funds for those purposes? As you will observe in the second line of section 15, the Federal reserve board here in Washington will fix rules and regulations under which this power will be exercised by the regional banks. It all gets back really to the fundamental proposition, whether we are going to repose confidence in the judgment and capacity and diligence and experience, perhaps, of the membership of the reserve board.

Senator NELSON. But it allows them, Senator, under this law, to enter into a class of business, that but for this, would appertain to the member banks.

Senator O'GORMAN. Undoubtedly, and they would only be allowed to indulge in it to the extent permitted by the Federal reserve board.

Senator NELSON. Yes; it would be wholly at their mercy.

The CHAIRMAN. But the policy of these banks is not to make money.

Senator NELSON. We do not know what the policy is going to be.

The CHAIRMAN. That is the policy of the bill.

Senator NELSON. Not exactly; it contemplates that after there is a revenue over and above 5 per cent.

Senator HITCHCOCK. I think this gives emphasis to the objection I have stated heretofore, that the power of the Federal reserve board has another addition here.

Senator NELSON. Certainly.

Senator HITCHCOCK. It not only has the power, evidently, to fix the rate of discount at which reserve banks shall pay for currency advanced and to fix the rate of interest which reserve banks shall pay on United States deposits, but it is proposed to give to the Federal reserve board the power to go into the market and reduce the rate of interest for the purpose of inflating business. And such power, I think, vested entirely in the hands of seven men appointed by a President of the United States who might at the moment be in a political contest for reelection would be the power to control for the moment the business of the United States.

Senator NELSON. That is the way it looks to me.

Senator HITCHCOCK. It would be a power, no matter how it might be used, which could be used for making the condition of business so active and so inflated as to serve the purpose of the President who was in the midst of a political campaign and who might want to control business for that reason.

Senator WEEKS. The two vital reasons for the downfall of the First and Second United States Banks were politics and the fact that those banks were in competition with banks throughout the country, and the sentiment that was created by the banks throughout the country against them on that account.

Senator O'GORMAN. They were private banks.

Senator Nelson. They were banks of issue; State banks.

Senator Weeks. This provision in this bill proposes to reenact that very possibility of introducing political influence into this measure and bringing these reserve banks, which ought not to be money-making institutions, directly into competition with every bank in the country.

The Chairman. That observation applies with just as much force to the Aldrich bill, which you approved, I think, Senator.

Senator Weeks. You and I will discuss that at some other time. I think it has nothing to do with this, however.

The Chairman. Perhaps not. I merely made that observation for the purpose of the record.

Senator Weeks. I will undertake at a proper time to demonstrate to you that the Aldrich plan and the Monetary Commission plan, in that respect, is infinitely superior.

Senator Nelson. I think, Mr. Chairman, we are enlightening the witness instead of having the witness enlighten us.

Mr. Hulbert. Mr. Chairman, the witness is here more to get information than to give information.

Well, I am sincere in what I say. What I am really trying to get at is what this bill means to the bank, because we want to understand this, and we do not understand it very well now.

Before we leave this particular section, I want to submit that it is objectionable to the banks that this power should exist, using the money that the banks put into stock to go into that competition with the banks. They should not have that power, and it seems probable that if that power is granted to them there is going to be pressure brought to bear to use it. So far as my own experience goes, and I have been in the banking business all my life, I have never seen a time when the banks could control interest rates in a way that would justify any such action as is proposed in this section.

The Chairman. Might it not make available foreign funds to American uses?

Mr. Hulbert. Oh, I am not objecting to the purchasing of bills of exchange at all; but this section is not clear and I do not know what it means. I have talked with some of the men who wrote it, and they say that it means that the Federal reserve bank has the power to do that—it can go on the market and buy paper and go into direct competition with the banks. That is what we refer to.

Senator Weeks. How did you discover who wrote that bill?

Mr. Hulbert. Well, I talked with some of the men who wrote this section or said that they wrote it.

Senator Weeks. I do not know who wrote it.

Mr. Hulbert. It is very fortunate I was not heard by the committee yesterday, because I have got a good deal of information since I have been here. I do not believe it ought to be in the bill, and I do not believe there is any necessity for it.

Senator Hollis. In other words, you think that whatever rights may be necessary to our banking conditions in this country the reform need not go to the extent indicated in this section 15?

Mr. Hulbert. Yes, sir.

Senator Hollis. You observe, Mr. Hulbert, that this does not permit the Federal reserve bank to go into the market and loan money.

Mr. HULBERT. My objection, Senator Hollis, is not the loaning of money, but the buying of commercial paper. However, there is no difference between the two. It is merely a distinction without a difference.

Senator HOLLIS. Just amplify that, will you?

Mr. HULBERT. Yes; I can not go to the reserve bank and discount a piece of paper of my own. I can not go in and make a loan, but I can give you my note, and you can go into the Federal reserve bank and indorse and sell it. They have the right to purchase it of you.

Senator HOLLIS. Under this clause?

Mr. HULBERT. Yes; under this clause.

Now, coming down to section 15, beginning with line 5 on page 29. Taken in connection with section 4, it would appear that the Federal reserve bank may carry on nearly all kinds of banking business.

> 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.

It is suggested that this section will be more satisfactory if the paragraph, beginning with line 8, is changed to read as follows:

> All domestic transactions of the Federal reserve banks shall be confined to the Government and the Federal reserve banks except as otherwise specifically provided in this bill.

It seems to me that would make the meaning a little clearer and would not leave it quite so indefinite. The reserve bank can do any kind of banking business except the two or three things which are prohibited.

Senator NELSON. In other words, you believe the enumeration of the powers there would permit everything else to come in?

Mr. HULBERT. It seems to me so. I do not believe that was intended, and I think it should be corrected in the way I have suggested.

Section 17, beginning with line 13 on page 33. That, of course, is one of the most revolutionary things in the bill. I heard Senator Hitchcock ask yesterday of Mr. Jones if he thought that free banking would be destroyed in this country by this bill. Mr. Jones said that he thought not. I can hardly agree with him if this clause is left in the bill.

Senator O'GORMAN. You are speaking of the clause on line 13?

Mr. HULBERT. Yes; line 13, page 33. If you give the members of this association, the members of the reserve bank, the rights and the privilege of transferring funds to all parts of this country without any expense to themselves, and the customers of those banks are given the right to use their checks, so that they are par everywhere in the country, I do not see how any bank outside of the association can possibly compete with them. I can not understand why the framers of the bill thought it necessary to put that in. It seems to me it is a violation of all economic laws. You can not deposit gold in San Francisco and draw it in New York without somebody paying the freight. This bill, however, forces the reserve bank to do that. That, of course, would be something which has never been tried before, and which is not done in any country in the world. I do not know what its effect would be; I do not imagine anybody knows.

Senator HITCHCOCK. Under this bill could you deposit anything else but gold at San Francisco?

Mr. HULBERT. Certainly; you can deposit a check on Seattle and have the funds transferred to New York free of expense. The bill provides you can transfer it anywhere you please.

Senator HITCHCOCK. Then you could deposit the check in Seattle and draw——

Mr. HULBERT (interposing). The gold in New York.

Senator HITCHCOCK. Yes.

Mr. HULBERT. Without any expense. You can compel, perhaps, the reserve banks to do that without a charge, but there is no way under Heaven they can do it without an expense. You can not transfer property from one place to another without some expense.

Senator HITCHCOCK. Those transfers are made by the Bank of France and in Germany by the Reichsbank. Can you tell what their charge for that service is?

Mr. HULBERT. No; I have no idea. I am not familiar with that.

Senator HITCHCOCK. They do make a small charge. I do not recall what it is.

Senator NELSON. My impression is that they make a charge, but I do not recall the amount.

Mr. HULBERT. The reserve bank can make no charge for doing that under this bill.

Senator HITCHCOCK. It would be easy to fix a charge for a country as small as France or Germany. How would it do to fix a charge in this bill?

Mr. HULBERT. In a country as large as this I would not do it. I see no object in doing it.

Senator HITCHCOCK. You would not do it?

Mr. HULBERT. I would not permit this to be done. I can not understand why the draft of a member bank on the reserve association at San Francisco, if there is one there, should be taken at par by the reserve bank in New York. The bank in San Francisco has no funds in New York to pay it. How is the bank in New York to be reimbursed? But the bill says the New York bank has to do it. That would be undoubtedly a burden on the bank in New York.

Senator HITCHCOCK. Should there not be a method of transferring the credit?

Mr. HULBERT. Without any expense?

Senator HITCHCOCK. With a minimum of expense, yes.

Mr. HULBERT. The expense is now very small.

Senator HOLLIS. What do you understand lines 20, 21, and 22 to mean? [Reading]:

> Nothing herein contained to be construed as prohibiting member banks from making reasonable charges to cover actual expenses incurred in collecting and remitting funds for their patrons.

Mr. HULBERT. I do not think it means much of anything, because under this bill there will be no expense.

Senator HOLLIS. That language says they may charge for doing it. If they have to transport gold they will charge a reasonable sum for doing it.

Mr. HULBERT. I think not. You are talking of member banks. [Reading:]

> Nothing herein contained to be construed as prohibiting member banks from making reasonable charges to cover actual expenses incurred in collecting and remitting funds for their patrons.

Senator HOLLIS. The banks will be the ones that will do it. The depositor of a Federal bank will ask to have the transfer made. Now the banks themselves do it and you make a reasonable charge?

Mr. HULBERT. Not the member bank but the reserve bank is required to do it. The lines you refer to apply only to the member bank. It says the member bank may make a charge to cover the expense, but the bill says there shall be no expense to the member bank.

Senator HOLLIS. Would that be taken care of if these words were inserted: "Federal reserve banks," as well as member banks?

Mr. HULBERT. I think that would help.

Senator HOLLIS. Of course, that is a mere detail.

Mr. HULBERT. I think that will help a great deal.

Senator HOLLIS. So that it will read:

nothing herein contained to be construed as prohibiting Federal reserve banks and member banks from making reasonable charges to cover actual expenses incurred in collecting and remitting funds for their patrons.

Would that cover your objection?

Mr. HULBERT. I think that would.

Senator HITCHCOCK. Mr. Hulbert, haven't you gone too far in saying that the charge for the transfer for such credit or the collection of checks is almost nothing?

Mr. HULBERT. It is very small.

Senator HITCHCOCK. Suppose I deposit in New York a check for $625, which is our monthly stipend. What do you think the New York bank would do—give me credit for the full amount?

Mr. HULBERT. You refer to a draft on Chicago?

Senator HITCHCOCK. No; it is a Treasury draft on Washington.

Mr. HULBERT. I do not suppose they would charge you much for it. I am not familiar with the practice of New York banks.

Senator HITCHCOCK. I have not had any experience with New York banks, but the Senator from New York (Senator O'Gorman) tells me that they charge about 70 cents.

Mr. HULBERT. I think they ought not to charge more than 62 cents, anyway.

Senator HITCHCOCK. Is not that altogether at the present time dependent upon the current regulations of the particular banking center?

Mr. HULBERT. It is dependent very largely on express rates. That is what really regulates those things.

Senator HITCHCOCK. I think you are mistaken there. If I deposit a check on my Omaha bank they give me credit at par. If I deposit that same check in New York they charge me for collection.

Mr. HULBERT. The Omaha bank is pretty liberal then.

Senator HITCHCOCK. And I say, does it not depend upon the rule of the particular banking center?

Senator NELSON. That is a rule of the clearing house of New York.

Mr. HULBERT. The rule is limited by the express charges. They can not go beyond that. It seems to me that there is no serious injustice done when you are charged for the express charges between Washington and Omaha on your check, whatever that may be. But if the banks choose to get together and say they will make a charge for it, the limit of charge they can make is the express rate. Otherwise you could express the currency down here. There is a limit to it.

Senator O'Gorman. Do you think it costs them 62 cents in express charges to send a small paper from Washington to New York?

Mr. Hulbert. They send currency. I presume it would not cost that much.

Senator O'Gorman. What is the rule in your clearing house association with respect to the charge on out-of-town checks?

Mr. Hulbert. We make a charge.

Senator O'Gorman. What is the charge?

Mr. Hulbert. It varies for different localities and different cities; different cities have different rates. It runs all the way from one-tenth of 1 per cent up to $1.50 a thousand. A dollar and a half would be about the limit between two given points.

Senator O'Gorman. What determines the difference in rates?

Mr. Hulbert. The distance from Chicago to the point at which you are trying to collect. That is the difference in express rates.

Senator Nelson. Does not a great deal depend upon the banks upon which the checks are drawn and the exchange between the banks. Sometimes it is an advantage to you for me to deposit a check on New York when you are short of funds in New York and when you can use that check instead of sending the money there.

Mr. Hulbert. That is true.

Senator O'Gorman. In a case like that would you give your customers the benefit of it?

Mr. Hulbert. It depends upon the size of the transaction a good deal.

Senator Hitchcock. Have you any estimate of the amount of checks and drafts that are constantly in transit—the average volume?

Mr. Hulbert. You mean in the country at large?

Senator Hitchcock. Yes.

Mr. Hulbert. It would not be a difficult matter to dig that out. I do not have it now. I have never tried to get at it. It is very large, of course. Possibly it would be a little indication of what this would be. In our bank, with deposits of $55,000,000, there is about on an average $2,000,000 in transit, and with active national banks, which would have a greater proportion of active accounts than we have, I should think the proportion would be a great deal larger than that.

Senator Hitchcock. Yours is about 4 per cent.

Mr. Hulbert. Just about that. I should say that with an active commercial bank it would be much larger than that. What would you say, Mr. Mitchell?

Mr. Mitchell. I should think so.

Senator Nelson. The banks, under the clearing-house system of New York, make a profit out of that, do they not?

Mr. Hulbert. Undoubtedly.

Senator Hitchcock. This clause you refer to would affect the country bank to a considerable extent, would it not?

Mr. Hulbert. Yes, sir.

Senator Hitchcock. They now receive a collection charge on checks.

Mr. Hulbert. Yes, sir.

Senator HITCHCOCK. Have you any idea what that amounts to to the average country bank?

Mr. HULBERT. It would not sound big in figures, but it is a pretty big item to the bank. The small country bank will make out of that something in the neighborhood of $1,000 or $1,200 per year. I am talking offhand now. I think a bank with $25,000 capital and $100,000 deposits would find that a pretty big item. It would pay the cashier's salary pretty nearly and they would feel pretty badly to have that taken away from them.

Senator HITCHCOCK. It would be 5 per cent of its capital.

Mr. HULBERT. Pretty close to that.

Senator HITCHCOCK. And they will be deprived of that under this bill.

Mr. HULBERT. Yes.

Senator HITCHCOCK. That is one of the things which might keep them from coming into this system.

Mr. HULBERT. It will make them reluctant to come into the system.

Senator HITCHCOCK. Suppose they don't come in?

Mr. HULBERT. If your bill becomes a law they would have to come in.

Senator O'GORMAN. They will be compelled to come in.

Mr. HULBERT. They will be compelled to come in.

Senator HITCHCOCK. Would they still be able to make this collection charge?

Mr. HULBERT. No, sir; I think not; because this bill provides that any check drawn upon a member bank by an individual shall be collected without charge; so that if a bank is not a member bank its check will not be collected and nobody will send checks to it for collection. It will be whipsawed.

Senator HITCHCOCK. Now here is John Smith. He deals with a country bank; he draws a check on the bank at Podunk.

Mr. HULBERT. Not a member.

Senator HITCHCOCK. And he sends that check to the wholesaler from whom he buys his goods. The wholesaler wants to keep his trade so he accepts the check.

Mr. HULBERT. The wholesaler is pretty apt to suggest to him "Why don't you get into a member bank?"

Senator HITCHCOCK. Well, I am assuming all the country banks would stay out. The wholesaler is anxious for that business. He accepts the check because he wants to hold the trade. He does his banking business with a member bank. He deposits that check with that member bank. What is the member bank going to do?

Mr. HULBERT. It would have to send to the country bank for the money.

Senator HITCHCOCK. For collection?

Mr. HULBERT. Yes.

Senator HITCHCOCK. That is if they should stay out of the system.

Mr. HULBERT. Yes; but I should think it would probably work out, if the system got into operation, that a new country bank would be started and go into it, and that would give it a very great advantage over the other fellow in the same town, because they could say at once to all the people in the village, "You come and deposit with us and your checks will go everywhere in the United States at par, but if you draw your checks on the other bank they will not be par anywhere; it will cost something to collect." The people outside will certainly not like it.

Senator HITCHCOCK. He will lose 5 per cent on his capital per year.

Mr. HULBERT. Pretty close to that.

Senator HITCHCOCK. He would have to put up one-tenth of his capital; he would be required to place his reserves in a certain place without any interest; therefore he would lose interest on his reserves; he would lose the 5 per cent he is now making on his capital by discounting his own checks; he would lose the interest which he is now making on his 10 per cent capital instead of 5 per cent which he would make out of his investment.

Mr. HULBERT. Yes.

Senator NELSON. You will remember, Senator Hitchcock, that that committee representing the Chicago conference, one of the representatives made that point about these checks. He said it was one of the great sources of revenue of the small country bank. I think he was the gentleman from Louisiana.

Senator HITCHCOCK. It was Mr. Wexler of New Orleans.

Senator NELSON. No; not that gentleman.

The CHAIRMAN. Mr. Wexler did point that out.

Senator NELSON. But it was another man who had that part of the question assigned to him.

Senator WEEKS. Mr. Hulbert, do you think it would be possible to determine how much it costs the banks of the United States annually to collect those checks?

Mr. HULBERT. Yes.

Senator WEEKS. And are figures obtainable to show how much charge is made to the business community for this service?

Mr. HULBERT. Oh, yes. Of course, you could not get the figures accurately, but you could get a pretty good idea.

Senator WEEKS. You could get an approximate idea.

Mr. HULBERT. Yes.

Senator WEEKS. How could we get the actual cost of the collection of checks for a year?

Mr. HULBERT. In the whole United States?

Senator WEEKS. Yes.

Mr. HULBERT. Or in any one community?

Senator WEEKS. I mean in the United States.

Mr. HULBERT. You could not get it accurately, but I think the clearing-house managers in the clearing-house cities could get you the figures approximately.

Senator O'GORMAN. In a recent investigation, I think in the so-called Pujo inquiry, that information was furnished at length. By referring to the record any of us can get that information. It showed the amount of money received, I think, by the New York banks and by the Boston banks for this service, what the cost was and what the net profit was.

Mr. HULBERT. I think that can be gotten at.

Senator WEEKS. I had forgotten that.

Mr. HULBERT. Now, I want to suggest in section 23, page 41, line 11, that the words "national banking associations" be changed to "member banks."

Senator O'GORMAN. That is a very proper correction.

Mr. HULBERT. Probably it was not intended that way.

Senator NELSON. Strike out "national" and insert "member."

Senator O'GORMAN. Mr. Hulbert, before you proceed, the same change that you suggest on line 12 should for the same reason be made on line 16, if you will refer to the bill.

Mr. HULBERT. Yes; that should be changed.

Senator O'GORMAN. It should be changed to "member bank" instead of "national banking association."

Mr. HULBERT. Yes; I think I passed something over that I wanted to speak of, the rediscount.

Senator HOLLIS. That is on page 24.

Mr. HULBERT. This bill provides that when the Federal reserve board turns over any notes to the Federal reserve bank, these notes shall become the first lien, the paramount lien, on the assets of the reserve bank; but when the reserve bank turns around and loans these notes to a member bank it does not provide that the loan shall become a paramount lien on the member bank. It seems to me that that is a defect in the bill. In my judgment it is bad banking for the reserve bank to be required to loan a member bank the face value of the collateral. That is something one bank does not ordinarily do for another.

Senator HITCHCOCK. Mr. Hulbert, what is going to become of the depositor in the individual bank?

Mr. HULBERT. That is a question that always arises.

Senator HITCHCOCK. You simply take away from him what you are giving to the reserve bank?

Mr. HULBERT. That is true. When the reserve bank makes a loan of these notes the member bank gets the notes and has full value for its loan. I recognize that objection, however.

Senator NELSON. But here is another difficulty in the application of that. The reserve note will indicate what reserve bank it comes from, but when a member bank secures those notes and they go into circulation how are you going to tell where they come from?

The CHAIRMAN. It is the volume of the notes and not the identity of a note to which he refers.

Senator NELSON. How are you going to tell what bank you must go to for security?

Mr. HULBERT. It is the loan, not the note.

Senator NELSON. I thought you meant the currency.

The CHAIRMAN. No.

Mr. HULBERT. When a member bank borrows money from a reserve bank is what we are referring to. I did not state it very clearly, perhaps.

Senator HITCHCOCK. There is no reason why the reserve bank should be protected against any loss to the same extent that there is a reason why the Government should be protected against loss. If there is to be a loss, it seems to me a part of it might better fall upon the reserve bank—representative of the banks—than to have the whole thing fall upon the depositors of the defaulting bank.

Mr. HULBERT. I see that line of argument. Of course that does not appeal to the banks who have stock in the reserve bank particularly.

Senator HITCHCOCK. It makes their loss mutual.

Mr. Hulbert. If it is to be left as it is, without making these debts a first lien on the assets, I want to suggest that it is bad banking for any banking institution to loan promiscuously to banks money on commercial paper at its face value, because every banker who comes here will tell you that it is the usual experience that when a bank fails the collateral that it has put up is not worth 100 cents on the dollar. You can pick it out as carefully as you like and if you leave this bill as it is and do not make these debts a first lien on the assets and do not require any more collateral than you have here, every time a member bank fails the reserve bank is going to get stuck. Of course that is hard on the stockholders, who do not expect to fail. No banker would advertise or solicit business on the ground that every bank that did business with him could borrow money from him on commercial paper at par, letting him pick out the commercial paper.

Senator Hitchcock. The reserve bank, under the terms of this bill, is under no compulsion whatever to loan or discount the paper of a member bank.

Mr. Hulbert. It would be regarded as a very serious breach of faith if a member went to a reserve bank with what he thought was good collateral, and they said "We will not loan you any money."

Senator Hitchcock. That is the power absolutely vested in the reserve bank.

Mr. Hulbert. You do not believe that power would ever be exercised, do you? I do not.

Senator Hitchcock. I am afraid it might be. And that is one of my objections to the bill in its present form—that the bank loses its independence and becomes absolutely helpless and dependent upon the decision of the reserve bank in the first place.

Mr. Hulbert. It seems to me it would be a mere whim of a bank situated as the reserve bank would be to say to any member, "We will not loan you money."

Senator Hitchcock. Well, Mr. Hulbert, Prof. Sprague, of Harvard, who was here the other day, gave as one of the reasons why he indorsed the bill the fact that it would enable reserve-bank directors to enforce certain ideas of banking on the member banks. When I asked him how he would enforce those ideas, he replied that it would be by refusing to give discounts to the offending bank.

Mr. Hulbert. I do not think you would ever get a banker to make any such statement as that, Senator Hitchcock. You would have hard work to do that, because that is a banking proposition, and if the reserve banks are going to have bankers on the boards, and business men on the boards, and undertake to say to each member, "We are going to regulate your business; we are going to tell you when to borrow money and when not," to my mind it would be absurd.

Senator Hitchcock. Prof. Sprague went on to say that he believed that would give them a disciplinary power; if a bank failed to observe regulations in making remittances, for instance, when they come for a loan the door might be closed to them and that that would be a compulsion which would force them to recognize the theory of the board of directors in doing business.

Mr. Hulbert. I am willing to take a chance on that.

Senator Hitchcock. He went further. In answer to my question whether if the board of directors of a reserve bank might feel that the banks in my State were loaning too liberally to farmers to make improvements, loaning too liberally in real estate booms, or loaning too liberally for the purpose of buying automobiles, he said that they would exercise a restraining influence on those banks in my State, and compel them to restrict the loans.

Mr. HULBERT. I should certainly hope they would not do that.

Senator HITCHCOCK. That is one of the——

Mr. HULBERT (interposing). I should think, Senator Hitchcock, that the examiners who go out frequently to member banks would have the same advisory powers as they have now; but that the board of directors of the reserve bank would undertake that kind of a job, I can not believe, because they could not do it. In the first place, they would be fools if they tried it. There is no man wise enough to do that.

Senator NELSON. Take the other horn of the dilemma: Suppose the board of the reserve bank had not the power to say whether bills should be issued upon commercial paper offered for discount, because that is what the bill contemplates——

Mr. HULBERT. Yes.

Senator NELSON. That bills of the regional bank shall be issued——

Mr. HULBERT. Yes.

Senator NELSON. Suppose there was no restriction on a member bank to keep in that paper; it could dump it into the regional bank, could it not, if there was no brake on it, and lead to excessive inflation?

Mr. HULBERT. There is no brake on it, Senator Nelson, as far as I can see.

Senator NELSON. The brake is this board.

Mr. HULBERT. You mean the board? They might say to a certain bank, "You have borrowed all you ought to." I think this bill is pretty wide open in that respect. There is no limit at all upon what one bank can borrow.

Senator HITCHCOCK. We have developed that under the terms of this bill the board of a reserve bank can refuse to discount any paper for a bank in a certain community, and for another bank in the same community can discount all the paper that it has got.

Mr. HULBERT. They undoubtedly can under this bill, and they probably could under any bill. You have got to have that power vested somewhere.

Senator HITCHCOCK. You think there should be no restriction provided by Congress on the discretion of the board of directors of a reserve bank?

Mr. HULBERT. I can not imagine how such restriction would be worded so as to be workable.

Senator O'GORMAN. Mr. Hulbert, do I understand that a reserve board at all times can exercise the restraining influence on the officers of the regional bank?

Mr. HULBERT. Certainly.

Senator O'GORMAN. And that whenever the officer of a regional bank abuses or misuses his power, that he is likely to be decapitated by the reserve board?

Mr. HULBERT. I should think any captious discrimination between one bank and another would lead to some such discipline pretty quickly. I can not imagine such a thing being done.

Senator HITCHCOCK. Suppose a case in which it is not captious. I have seen in my town one national bank have United States deposits to the extent of, say, $400,000, and other banks equally good have a deposit of, say, $100,000. There was no captious discrimination. It was simply vested in the discretionary power of the Washington authorities. Now, then, suppose this Federal bank discounts the paper of one Omaha bank to the extent of $400,000 and to another bank across the street, of equal capital and equal resources, only discounts to the extent of $100,000?

Mr. HULBERT. Is it quite a parallel case? It does not seem to me so. I was a national banker for about 16 years, and I used to come down to Washington and try to get Government deposits, and I found it was like kissing—went by favor, absolutely; so one bank gets it and another bank does not get it; but that is owing to the way in which Government deposits are distributed. There is no pretense that they shall be divided equitably among the banks. I think it has never been done. I do not think it has been handled fairly, but nobody has made any special complaint about it. But this is an open, public affair that everybody is interested in and everybody knows what is going on, and I can not imagine that the officers of any reserve bank or the directors would dare to exercise any captious discrimination.

Senator HITCHCOCK. Do you say it is known to what extent the reserve board is discounting for individual banks?

Mr. HULBERT. I should think it would be; not publicly, perhaps.

Senator HITCHCOCK. That is one of the reasons why the banks are said to dislike it, because it is public.

Mr. HULBERT. They could not do things of that kind very much without it being known.

Senator WEEKS. The statements would show it?

Mr. HULBERT. The statements would show it; yes.

Senator HITCHCOCK. What would be the effect upon a bank in a community if it were known that it was unable to get reserves from the reserve bank?

Mr. HULBERT. It would be a very serious thing.

Senator HITCHCOCK. So that the bank itself that was suffering would be interested in keeping it secret and would be afraid to make a complaint?

Mr. HULBERT. I can not answer that, only I feel that nothing of that kind could happen. These men who are elected as directors of the regional reserve banks—there are nine of them, if I remember rightly——

Senator O'GORMAN. Yes.

Mr. HULBERT (continuing). Have to be a pretty good lot of men and a pretty decent lot of men. Things of the kind that you suggest would be a crime; men who would do that ought to go to jail.

Senator O'GORMAN. We have a very good lot of men in national banks, and yet the national banking act puts very strong restraints on their power. They are allowed to loan not over 10 per cent of surplus and capital.

Mr. HULBERT. But it does not compel them to loan.

Senator O'GORMAN. And there are other restrictions in there which restrain the board of directors in the control of their own property.

Mr. HULBERT. They do not try to compel them to loan money to anybody they do not want to.

Senator O'GORMAN. But they are restrained in the control of their own property for the public good. Do you not think some restraint should be put upon these men who are running the property of others?

Mr. HULBERT. I certainly would not recommend any change which would compel them to loan money to banks whether they wanted to or not

Senator O'GORMAN. Then, would you not recommend a change which would limit the amount?

Mr. HULBERT. I say I think this is pretty wide open as it is now. There is no limit.

Senator WEEKS. One of the developments of the Pujo investigation was that there had been cases in clearing-house communities where the clearing house had refused to clear for certain banks, and that was believed to be a sort of abuse. If that power is an abuse in such a case as that, would not the same abuse be continued by this bill in its present form?

Mr. HULBERT. I do not admit that any such thing as that ever happened. I do not believe it did, myself.

Senator WEEKS. Have there not been cases in Chicago where banks have not been admitted to the clearing house?

Mr. HULBERT. Not unjustly; no, sir

Senator WEEKS. There is the point, whether it is justly.

Mr. HULBERT. Not arbitrarily; not in Chicago nor anywhere else I ever heard of.

Senator WEEKS. I think there have been cases in every large city where a refusal has been made to admission to the clearing house.

Mr. HULBERT. Certainly; there is no doubt of that.

Senator WEEKS. And it is charged that this abuse which the larger and stronger banks——

Mr. HULBERT. Somebody says so. Nobody knows the facts of the charges.

Senator WEEKS. That is pretty generally charged.

Mr. HULBERT. There are only a few such cases. I would be very glad, if it would not be injuring these banks that are not doing business, to submit figures in every one of them, and you would say finally, as did the clearing house, that you would not admit them.

Senator WEEKS. I am pretty familiar with some of those cases.

Mr. HULBERT. I know you are.

Senator WEEKS. And my idea is that your statement is substantially correct, but still there exists in the public mind the idea that large and strong banks have refused to allow the weaker and possibly competing banks to come into the clearing house, and have prevented the development of their business by so doing.

Mr. HULBERT. But you know, Senator Weeks, that that is not true. I know there is a popular notion to that effect, but the tendency in every clearing house, fearing that kind of criticism, is to let banks in which ought not to be in. That has been the experience. But I am perfectly willing to assert here that there has not been a case where a bank has been thrown out of a clearing house and it turned out to be solvent.

Senator WEEKS. The result has been, generally speaking, that a bank which has been refused clearing-house privileges or has been thrown out of the clearing house after receiving the privilege, has failed.

Mr. HULBERT. And its assets have been proven to be insufficient to pay the depositors.

Senator WEEKS. Probably that is true.

Mr. HULBERT. Yes.

Senator WEEKS. Is there not a possibility that kind of a condition might exist under this bill and really become an abuse?

Mr. HULBERT. I do not think that any such abuse exists now and I do not think it would under this bill. I do not think there is the slightest danger.

Senator O'GORMAN. Have you concluded your criticism of the bill?

Mr. HULBERT. Not quite.

Senator O'GORMAN. Because I have one or two questions when you get through.

Mr. HULBERT. There is nothing very important here, but I do want to ask, for information, why this time limit on farm loans is made so short. It is no benefit to the country banker to be allowed to loan money on farms for a year. If he can not loan for five years he would not care to loan at all.

Senator O'GORMAN. What page is that?

Mr. HULBERT. Page 44, section 26.

Senator NELSON. You are right about that: it is of no value at all in its present form.

Mr. HULBERT. It would be a great satisfaction to the small country banks if they could be permitted to loan on farm lands for five years, but to be permitted to loan for a year is nothing.

Senator NELSON. They do not make loans of that kind?

Mr. HULBERT. No.

Senator HOLLIS. Do you speak of national banks being allowed to make farm loans for five years?

Mr. HULBERT. Yes.

Senator HOLLIS. You approve of that?

Mr. HULBERT. Yes.

Senator HOLLIS. You think that is a good policy?

Mr. HULBERT. Yes.

Senator NELSON. It is the best kind of paper. You and I know about that. There is nothing better.

Senator O'GORMAN. In this connection, Senator Owen, I would like to call your attention to the need of making the change suggested by Mr. Hulbert in another place, on the first line of page 44, substituting "member bank" for "national banking association." That may occur several places through this bill.

Mr. HULBERT. If I may interrupt there, Senator O'Gorman, there is nothing in the bill, I take it, that prevents State banks from loaning all the money they please on farm lands, so that this does apply to the national banks only.

Senator NELSON. You can not; unless you make the rule that State banks should come in under the same conditions, you would not want to change that.

Senator O'GORMAN. That would be that "any national member banks"?

Mr. HULBERT. I think that is the intention, to apply only to national banks.

Senator NELSON. Most State banks can loan on farm lands?

The CHAIRMAN. Nearly all of them.

Mr. HULBERT. I think they nearly all can, practically.

Senator NELSON. If you cut them off from that they would not any of them come into this system.

Mr. HULBERT. This provision in the same paragraph that limits the aggregate amount to be loaned on farm lands to 25 per cent of the capital and surplus is so small as to make it without any value.

Senator NELSON. Would it not be better to say that a certain percentage of the time deposits——

Mr. HULBERT. That was so in this bill originally—50 per cent of the time deposits.

The CHAIRMAN. Fifty per cent of the time deposits would be a larger amount and more desirable to the bank?

Mr. HULBERT. In every way.

The CHAIRMAN. Would there be any danger in allowing them to run up to the margin?

Mr. HULBERT. You know, Senator Owen, there are a lot of small country national banks; in fact, the majority of them, that while it does not show in their figures, their deposits are very largely time deposits, frequently 75 or 80 per cent of their deposits would be time deposits, and I should say that to allow them to run up to their full amount would be too much.

Senator NELSON. He is correct about that; the bulk of the deposits of small banks are time deposits. And here you must bear in mind, gentlemen, that the deposits of these country banks are, as a rule, actual money passed over the counter, while some of these city banks it is simply a matter of bookkeeping. A man goes in and gives his note for $100,000, and he is credited on the deposit side as having deposited that much money. Now, if it is a country bank, the farmers come in and deposit their actual cash.

Senator HITCHCOCK. Not altogether, Senator Nelson. Farmers receives pay for a crop of wheat usually by check.

Senator NELSON. That is the same as cash.

Senator HITCHCOCK. No; I think that is a credit on a town bank.

Senator O'GORMAN. An exchange of credit.

Senator NELSON. A man came to me when I was out home to pay me a little bit, and he handed me an elevator check, and I went right over to the bank and got the cash on it.

Mr. HULBERT. I hope the committee will consider that, because it is a matter of very great importance to the small banker, and he does not get up here very often. We bankers in the city are getting letters from the small country bankers all the time, asking us if we can not help them out on these things. If you are going to let them loan on farm lands, let them make the loans for five years.

Senator NELSON. And a percentage on the time deposits.

Mr. HULBERT. And a percentage on the time deposits; otherwise you may as well strike it out.

Senator O'GORMAN. Your suggestion is that it should be 50 per cent of the time deposits and five years to run?

Mr. HULBERT. Fifty per cent of the time deposits and five years.

Senator NELSON. You had a provision in the monetary bill, what was that?

Senator WEEKS. I think it was 50 per cent of the time deposits.

Mr. Hulbert, have you any suggestion about this proposition that the privilege of loaning in that way be limited to banks outside the reserve cities?

Mr. HULBERT. Oh, yes; I think it should be.

Senator NELSON. Limited to country banks?

Mr. HULBERT. Yes; I think so, because I can not imagine any reasons why national banks in reserve cities should be loaning on farm lands.

Senator WEEKS. You would not want to do it on farm lands?

Mr. HULBERT. We are doing it in a certain department of ours which does nothing else, but I should think it would be a mistake for this bill to permit national banks in reserve cities to do loaning of money on farm lands.

Senator WEEKS. Especially if they were receiving reserve deposits?

Mr. HULBERT. Reserve deposits; yes, sir.

Senator NELSON. Senator Owen, I think that provision should be limited to country banks.

Mr. HULBERT. It is now in the bill.

I want to talk a moment about section 27, still on page 44.

The CHAIRMAN. Before leaving that point of the country banks, Mr. Hulbert, I want to call attention to a complaint made by a number of New Jersey country banks, who called attention to the character of their deposits. They have a large volume of time deposits, which in effect are of a savings character, and they call attention to the provision in this bill which would set up a separate savings deposit. They do not want to be compelled to set up a separate savings department, because it adds to their expense, and furthermore might lead to their being required to put the proceeds into investments in municipal or State bonds, whereas they use a considerable part of that fund for local development—money which is made in the locality. Do you think their suggestion is sound?

Mr. HULBERT. I do. I was just going to talk about that, Mr. Chairman.

In section 27—it seems to me you get that complaint from almost every locality, and I want to ask why it would not accomplish what you are trying to do a good deal better if you saw fit to adopt my suggestion that I made earlier in the talk, of making the reserve requirements of banks 18 per cent on demand deposits and 5 per cent on time deposits? Take the case of the banks, Senator Owen, that you are speaking of, down in New Jersey, with their deposits largely——

Senator NELSON. Time deposits?

Mr. HULBERT. Time deposits; these are national banks, I take it, that you are speaking of?

The CHAIRMAN. Yes; they are.

Mr. HULBERT. There are a lot of State banks down there in the same situation. The State bank coming into this association would have to carry 18 per cent of time deposits, and the national bank under this plan for the segregation of savings deposits would have to carry 18 per cent against all its certificates of deposit, or, if a country bank, 12 per cent. I want to repeat what I said at first, that if this plan gets in operation the bank will not need as large cash reserves as it has got now. That is obvious?

The CHAIRMAN. I think it is.

Mr. HULBERT. Because now we are depending on our cash reserves for emergencies, but when we get a plan by which the resources of the banks can be used for the benefit of all the banks whenever it is necessary, you need to keep only a little reserve, and it is a pretty big hardship, and it is going to be a serious injury to the country to tie up all this money unnecessarily, to try to make banks carry a flat 18 per cent reserve against all their deposits, because the effect of this bill is going to take away the necessity of the reserves, even under our present conditions. The great necessity for reserves comes from the deposits of one bank with another, and with this bill in operation that will be very largely eliminated and the reserve requirements will be very much less and the protection to the bank without reserve will be a great deal better than it is now. There is a great deal of objection everywhere to this bill on account of the reserve provisions, and if you make reserves 18 per cent on demand deposits, it seems to me——

Senator NELSON (interposing). That is, in the big banks?

Mr. HULBERT. Yes.

The CHAIRMAN. In reserve cities?

Mr. HULBERT. Yes; in the central reserve and reserve cities; and 12 per cent for the country banks on demand deposits and 5 per cent all through on time deposits. It seems to me that will be perfectly sound and it will be a great deal better for the country, because it will not be contracting credit so much when this goes into operation, and that is something which no banker on earth can reasonably object to. If the time deposit is called a demand deposit within 30 days of maturity, you get all the protection you need, and it seems utterly absurd to say that 18 per cent must be tied up against six-month deposits, such as these banks are carrying, and with that I do not see any necessity for segregating the savings department. Of course, there is a great deal of criticism to be made of this section. Mr. Jones referred to it yesterday, but I want to speak of it also. This bill provides that the savings department can do any kind of business without restrictions. It can loan 100 per cent of its capital to one person, if it chooses.

Senator NELSON. Invest that capital in stocks and bonds?

Mr. HULBERT. Invest it in stocks and bonds, and it can take demand deposits. Under this section as it is drawn the savings department could do anything it pleased without restriction. Certainly that was not intended.

Senator O'GORMAN. What restriction would you suggest?

Mr. HULBERT. Well, I would suggest striking that section out altogether. I take it, Senator O'Gorman, that you do not approve of anything such as this, as I know——

Senator O'GORMAN. I believe there should be some restraint.

Mr. HULBERT. I put down here, I believe, some of the things: That they may loan to officials and directors without restriction.

The CHAIRMAN. You write the objections you have, Mr. Hulbert, so we can get it in the record.

Mr. HULBERT. This covers the whole point, and I think Mr. Jones covered it yesterday, Senator Owen, quite completely. It says somewhere here that—page 47, beginning with line 17:

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——

Senator HOLLIS. If the Federal reserve board is all right they would make good restrictions.

Mr. HULBERT. If you are going to leave all those things to the Federal board you do not need any restrictions in your bill.

Senator HOLLIS. There are not a great many.

Mr. HULBERT. It is pretty wide open.

Senator HOLLIS. That is undoubtedly the theory that they would establish rules that would approximate the rules of savings banks in the State?

Mr. HULBERT. Yes.

Senator NELSON. You can see how this will work. Let me call your attention to how the small national banks operate now. Three-fourths of their deposits are time deposits, and if you enlarge it so as to allow that class of banks to loan on farm property, a limited amount, it would help the farmers. All the rest of their resources would be devoted to commercial loans. Out of this system they would divert a part of their funds into this savings department, and it would be tied up in stocks and bonds and other securities, whereas if you leave the system as it is, they are practically conducting a savings department by their time certificates, and under the present system giving them that money would only be available for commercial purposes or for farm loans, while under this savings department they could divert their funds and use them for anything in God's world, and you can see that Mr. Jones and this gentleman are eminently correct in their view.

Senator HOLLIS. I have a letter from one national bank in my State saying that they have been conducting virtually a savings-bank business for a number of years, and they very much prefer to have this left out, because they are doing a better business and more satisfactory to themselves at present. Do you believe that is so, Mr. Hulbert?

Mr. HULBERT. I do; yes, sir.

Senator HOLLIS. And you think it would make them more efficient in the savings department, so far as desirable to be left under the present law rather than to have this in here?

Mr. HULBERT. I certainly do.

Senator HOLLIS. Have you received any different opinion on that?

Mr. HULBERT. This has been in the bill such a short time, Senator Hollis—I think it has only been in here a few days—and I have not heard very much discussion about it. Of course, there is this situation that ought to be cleared up: The national banks are coming more and more to a savings business, and everybody questions their authority. It seems to me that ought to be cleared up. They ought to have the right——

Senator NELSON (interposing). There is a legal question about it, but as a matter of fact the practice has existed, I do not know whether I should say for 25 or 30 years.

Mr. HULBERT. It has been growing rapidly for the last few years, and one of the witnesses here yesterday said there is over $800,000,000 of that sort. I did not know that there was that much.

Senator NELSON. It is a very curious thing, gentlemen, but farmers will come in with their money and deposit it on time certificates drawing 4 per cent instead of loaning it out to their neighbors on a mortgage drawing 6 per cent.

Mr. HULBERT. The amount is $829,000,000, Mr. Clark says.

In regard to this section, if it is left in, I want to ask to have the situation cleared up as regards State banks. I understand there was no intention of having this provision of the bill apply to State banks, to have them segregate their savings deposits as a national bank would have to do; but this bill could be construed the other way. I asked our attorneys before I left home what they thought about it, and they read the bill, and they said that under the bill State banks coming in would have to do that. They based their reason on this—on section 10, page 16, from line 18 on:

No such applying bank shall be admitted to membership in a Federal reserve bank unless it possesses a paid-up unimpaired capital sufficient to entitle it to become a national banking association—

And these three lines are what I want to call your attention to—

and conforms to the provisions herein prescribed for national banking associations of similar capitalization and to the regulations of the Federal reserve board.

Take that, in connection with the reading of this section, and I think it might ordinarily be construed to include State banks, on page 49, beginning with line 3:

Every regulation made in pursuance of this section shall be duly published, and also posted in every member bank having a savings department.

That clearly would include State banks and trust companies, would it not?

The CHAIRMAN. I think it would, under that language.

Mr. HULBERT. Yes. Then, in the next paragraph, beginning with line 6:

Every officer, director, or employee of any member bank who shall knowingly or willfully violate any of the provisions of this section—

I assume, as a matter of course, and I am told by those who have had to do with this bill in the House, that it was not intended to bring State banks under that restriction. Of course it would be a serious matter for an old State bank that has been doing business for 50 years to have to rip up its organization in that way.

Senator NELSON. Here is a question, Senator Owen, that occurs to me, that this savings-bank provision in the bill would destroy the power of these little banks to issue time certificates of deposit, would it not?

The CHAIRMAN. It might possibly be so construed, although I do not think that was the real purpose.

Senator NELSON. But that would be a most serious thing.

Mr. HULBERT. That is all, Mr. Chairman.

I might say, in regard to this last section, the foreign branches, that I should think it might be well to change that to "member banks." Why should not the State banks be allowed to establish foreign bank connections if they wanted to?

The CHAIRMAN. Will you be here this afternoon, Mr. Hulbert, as there are a few questions I want to ask, and perhaps also other members of the committee?

Mr. HULBERT. Yes.

The CHAIRMAN. If it please the committee, we will now recess until half past 2.

(Thereupon, at 1.12 o'clock p. m., the committee took a recess until 2.30 o'clock this afternoon.)

AFTER RECESS.

The CHAIRMAN. Mr. Hulbert, you may proceed.

STATEMENT OF MR. E. D. HULBERT—Resumed.

Senator HITCHCOCK. Mr. Hulbert, you favor the general purpose of this bill, as I understand?

Mr. HULBERT. Yes.

Senator HITCHCOCK. And is one reason you favor the bill on account of the elastic currency it undertakes to provide?

Mr. HULBERT. No; I do not care about that.

Senator HITCHCOCK. You think that is not an important matter?

Mr. HULBERT. I do not think it is.

Senator HITCHCOCK. You think the country has sufficient currency at the present time?

Mr. HULBERT. I think it has about twice as much as it needs.

Senator HITCHCOCK. It is not on account of providing an elastic currency you think the bill is useful?

Mr. HULBERT. That is my individual opinion. Of course, there are a good many people who think differently who are wiser than I am, but that is my individual opinion.

Senator HITCHCOCK. Is it because of the mobilization of reserves that you favor it?

Mr. HULBERT. No. I favor it because it gives the banks a place to go for additional credit when they need it, and I think that is the only thing the American banking system needs. I think the American banking system is the best on earth. I think it is the very best in the world.

Senator HITCHCOCK. You think the credit for those banks could be provided for without providing for additional currency?

Mr. HULBERT. There does not seem to be any better way of doing it. Although it is necessary to have additional currency or means of issuing additional currency, I believe that under the workings of this bill the new currency wont enter into it perhaps as much as a good many think it will. The banks in time of stress will go to the regional reserve bank and get credit there that they can check against. They wont get currency; they rarely get that; there is plenty of currency in the country now, but I think what we need is an elastic credit, and this bill is going to provide for that.

Senator HITCHCOCK. At the present time, this credit being limited when a certain point is reached, a stringency occurs and that restrains further expansion of credit?

Mr. HULBERT. Yes.

Senator HITCHCOCK. Will you explain how you would provide any limit to the expansion of credit under this system that is proposed?

Mr. HULBERT. I said this morning I think it is too wide open. There is no limit.

Senator HITCHCOCK. Without any limit provided for the expansion of credit, is there not danger of what we call inflation?

Mr. HULBERT. In my judgment there is not as much under this plan as under the so-called Aldrich plan, because under that plan it provided that the notes which were issued by the reserve association should be eligible for bank reserve. Now it seems to me very clear that this bill does not authorize banks to count these regional reserve notes as reserve and that in itself would do away with any great danger of expansion. The danger of expansion, as Senator Aldrich expressed it, is where banks can replenish their reserve indefinitely, because when they can replenish their reserve indefinitely they can go right on loaning money indefinitely. There is no limit to it, and these notes, that are not available for reserve, wont create any expansion of credit beyond the actual volume of notes. So, I think these notes, so far as any expansion is concerned are not much more dangerous than the issuing of checks. We are not afraid of the amount of checks that may be issued. They are simply currency, just as checks are currency, and so long as they are not available for reserve, I do not believe there is any very great danger of overexpansion.

Senator HITCHCOCK. It is provided in the bill that reserve banks may discount the paper of member banks without limit.

Mr. HULBERT. I think that i s a mistake.

Senator HITCHCOCK. What limit would you place, if you think there should be any?

Mr. HULBERT. This bill originally, as I remember it, provided for the rediscount of the direct obligations of the bank in an emergency, under certain conditions. That, of course, was designed to meet a great stringency. For some reason or other I see that has been stricken out of the bill. I think the provision of the Aldrich bill is pretty good in that respect, but should be limited in normal times to the capital and surplus of the bank. I think that is quite enough and better, in ordinary times, but when a crisis comes and there is a general stringency and contraction of credit everywhere, I would provide that the reserve association could loan without limit. But in ordinary times I think loans should be limited to the capital and surplus of the banks.

Senator HITCHCOCK. Taking off the limit, a bank can go to a reserve bank with an unlimited quantity of reserve paper and discount it.

Mr. HULBERT. Yes.

Senator HITCHCOCK. And if all the banks, say 20,000 banks, came into the system, there would be 20,000 banks with that privilege, and that demand upon the reserve banks would be met by them as far as they could from their own resources at that time, and when they reached their limit the reserve bank would apply to the National Government for currency. And would you think there would be a limit on the amount of currency required by the fact that the reserve bank is required to keep a gold reserve of one-third?

Mr. HULBERT. That is a check, of course.

Senator HITCHCOCK. And that check would be sufficient to prevent——

Mr. HULBERT (interposing). I think that is rather a small reserve myself.

Senator HITCHCOCK. I agree with you. As a matter of fact, the central banks of Europe keep 50 to 60. The Bank of France at the present time has over 80 per cent.

Mr. HULBERT. Yes. I had assumed that the regional reserve banks, as a matter of practice, will carry a great deal more than 33⅓ per cent. I can not imagine managers of regional reserve banks running on a 33⅓ per cent reserve of gold, which I take it is the minimum. The present reserve laws have never been observed fairly by the banks, because nearly every bank in the United States to-day carries always the minimum reserve. I take it that was not what the law contemplated, because they can not keep that minimum all the time. Their reserve is going below the minimum a great deal of the time. The reason why the banks are doing that is because they are money-making institutions. With the regional reserve banks, which are not to be money-making institutions, I can not imagine them running with a 33⅓ per cent reserve. I think they would naturally carry 40 or 50.

Senator HITCHCOCK. Suppose the demand on them for the discount of paper continues; your view is they must continue to discount?

Mr. HULBERT. Yes

Senator HITCHCOCK. Without any favor and to all banks?

Mr. HULBERT. Yes.

Senator HITCHCOCK. But of course then they may not be able to carry 40 per cent?

Mr. HULBERT. They have pretty good facilities for buying gold and keeping up their reserve.

Senator HITCHCOCK. That all depends on the quantity of paper they must discount?

Mr. HULBERT. Oh, yes; they have got to keep both sides going.

Senator HITCHCOCK. There must be an unlimited demand for discount?

Mr. HULBERT. Yes.

Senator HITCHCOCK. And the bank will discount paper as long as it is profitable to do so?

Mr. HULBERT. I do not feel that the banks are going to make very great use of that discount privilege in ordinary times. Perhaps that is not quite in line with what I said to you this morning. I do not intend to be inconsistent, but I think the managers of the regional reserve banks will find it possible and reasonable to put some check on that. If they find banks are without any urgent necessity for borrowing, borrowing money and loaning it to make money, they might properly put a check on it.

Senator HITCHCOCK. Would you think it is true to-day that the careful banks do not discount very largely, and the more venturesome banks discount a great deal?

Mr. HULBERT. They do now.

Senator HITCHCOCK. But suppose under this bill there were 20,000 banks having rediscounts, and that they had all reached a point for inflation. What would be the injurious effects?

Mr. HULBERT. We all know what the injurious effects of inflation are. It can best be described by taking an individual case. The individual cases put together make up the excessive inflation of the country. When any single borrower gets a larger line of credit than he is entitled to, and his credit becomes inflated so that the amount of debts is very greatly in excess of capital, then there comes the danger. The same percentage of loss which comes to all business concerns would come to this one, and this percentage of the amount of indebtedness they have out will wipe out their capital. That is the real danger of inflation, as I look at it, and you have failures all around because those concerns become overexpanded.

Senator HITCHCOCK. What would be the step taken by the reserve banks or the reserve board to put an end to inflation?

Mr. HULBERT. They would have to use some discretion, of course.

Senator HITCHCOCK. What would it be? Would they raise the rate of interest or stop rediscounting?

Mr. HULBERT. I should say they ought to raise the rate of interest. I should say to stop rediscounting would be a last resort.

Senator HITCHCOCK. If they raised the rate of interest it would affect the temperate borrower, probably, as well as affect the others?

Mr. HULBERT. Yes; that would.

Senator HITCHCOCK. Would that be right?

Mr. HULBERT. I do not know how you could avoid it.

Senator HITCHCOCK. To bring about this period of inflation there would have been issued perhaps $500,000,000 of these notes. With your Government notes they are legal tender, but as provided in this bill those notes are not legal tender. They are inferior currency.

Mr. HULBERT. Yes.

Senator HITCHCOCK. What effect on the gold circulation would be produced by injecting $400,000,000 or $500,000,000 of inferior currency into our circulation?

Mr. HULBERT. I should not regard that as a dangerous limit if you provide redemption facilities that would require a proper reserve account against them. We have more than that in our circulation now.

Senator HITCHCOCK. I am asking what the effect would be to have $400,000,000 or $500,000,000 in addition to what we have now?

Mr. HULBERT. In addition to what we have now?

Senator HITCHCOCK. Yes.

Mr. HULBERT. We have to be sure they are going to be redeemed and must have reserve enough to redeem all that are presented; and by the terms of this bill, as I understand the last amendment to it, the credit of the Government is pledged to maintain those notes at par. I do not believe they would drive confidence out of the country. They would not until a fear arose that the Government was not able to maintain the gold standard and to maintain that currency at par.

Senator HITCHCOCK. The Government has on deposit only 5 per cent of the vast sum, and with 5 per cent of the deposits can not redeem $400,000,000 or $500,000,000.

Mr. HULBERT. I think myself that has not been worked out very well. I think that the redemption part of the bill needs more study. I do think so; I do not think the redemption facilities provided for are quite adequate now.

Senator HITCHCOCK. Do you think these would be presented for redemption as rapidly as national bank notes are now under the present law?

Mr. HULBERT. I am under the impression that the national bank notes now are rarely presented for redemption, except when they may become worn or defaced.

Senator HITCHCOCK. On the contrary, last year the Treasury redeemed 87 per cent of the national bank notes.

Mr. HULBERT. Can you tell me what purpose they were presented for? I do not understand that.

Senator HITCHCOCK. They were mostly presented by New York.

Mr. HULBERT. That, it seems to me, has no very large significance. I understand it is quite a custom of New York bankers. I may be saying something that is not quite true; but I have heard it has been the practice of New York banks when they get a lot of mixed currency on hand or a lot of bank notes they simply send them in for redemption so as to avoid the burden of counting and assorting the notes.

Senator HITCHCOCK. No, that is not the reason.

Mr. HULBERT. Then I am mistaken about it.

Senator HITCHCOCK. I will tell you the reason. The process is this: They come in from all over the country. The western bank has currency which it desires to add to its account in New York, and it knows that its gold certificates or notes can not be counted as reserve—the national-bank notes can not be counted as reserve—so it sends its bank notes to New York. Now, with 7,000 national banks all doing that same thing, New York is being constantly loaded up with national-bank notes and the New York banks can not count the notes with their reserve, so they send them to Washington and get legal tender in place of them, and the result is that 1 per cent, or nearly $7,000,000, a year of the $700,000,000 of national-bank notes are in fact redeemed. And it has been demonstrated that a 5 per cent fund in the Treasury is utterly inadequate. It is overdrawn $20,000,000 or $30,000,000 all the time.

Mr. HULBERT. I think it would be in that case.

Senator HITCHCOCK. Under those circumstances do you think the provisions of the bill for a 5 per cent reserve for those notes would be at all adequate?

Mr. HULBERT. I should say not. I have not thought so at any time.

Senator HITCHCOCK. You would feel, then, there might come a period when an inflation brought about by this constant destroying of notes and issuing of currency might make it necessary for the reserve banks or the reserve board to put a stop to the inflation. When that time comes, would not we have just the same injurious stringency that occasionally occurs in this country now?

Mr. HULBERT. I do not believe, Senator Hitchcock, we are ever going to do away with financial crises of some sort. I do not think we ever can do away with them by any possible legislation, but I think we can soften the blow somewhat.

Senator HITCHCOCK. Thus by stretching our credit to a greater extent than it is stretched now, too elastic currency would not recover without more difficulty than it does now.

Mr. HULBERT. If allowed to go to the full extent, it would not.

Senator HITCHCOCK. As a matter of fact, do you not believe, as a banker, Mr. Hulbert, that the occasional stringencies we have are healthy experiences to bring us back to more normal conditions of doing business?

Mr. HULBERT. I certainly do. I think we have got to have them, but I do not think it is necessary to have stringencies accompanied by panics. I think we can avoid that, but I do think we have got to have readjustments.

Senator HITCHCOCK. What we really need is some legislation to prevent a panic.

Mr. HULBERT. I think that is all anybody is asking for really.

Senator HITCHCOCK. This bill does not do that. This bill undertakes to provide for an expansive currency.

Mr. HULBERT. Yes.

Senator HITCHCOCK. And my own judgment is what we really want is something—we have enough currency now for normal times; all the business men have testified to that. But what we really need is some legislation that will avert panics and offer an opportunity of straightening out.

Mr. HULBERT. Yes. I think our banking system, with that one exception, as I said before, is the best in the world. I do not think we need a reorganization of our banking system myself.

Senator HITCHCOCK. As Prof. Fisher has got to come on this afternoon, I will discontinue my questions.

Senator BRISTOW. Can we have Mr. Hulbert back when Prof. Fisher gets through?

Mr. HULBERT. I am leaving this afternoon.

The CHAIRMAN. These gentlemen both leave this afternoon, and that is the reason I called the attention of the committee to it. Prof. Fisher is leaving on the 5.30 train.

Senator HITCHCOCK. I will give way to some other Senator.

Senator POMERENE. I would like to ask one or two questions.

The CHAIRMAN. Very well.

Senator POMERENE. Let me ask just one question, if I may. In answer to Senator Hitchcock's question you stated you were not satisfied with the redemption features of this bill, that it ought to be worked out more explicitly, and so forth?

Mr. HULBERT. Yes.

Senator POMERENE. And that 5 per cent was not sufficient?

Mr. HULBERT. Yes.

Senator POMERENE. I wish you would briefly state in what particulars you think the bill should be amended.

Mr. HULBERT. I am afraid I can not do that, Senator Pomerene. I feel that way, but I did not refer to it in my statement this morning because I was afraid somebody would ask me that question, and I would not know what to say. I have not studied it enough to express an opinion, but as Senator Hitchcock asked me that question I was obliged to say the bill is not in good form in that respect, but I did not attempt to criticize it, and I am afraid to undertake to offer any suggestions.

Senator O'GORMAN. Mr. Hulbert, we have had your view with respect to certain features of this proposed legislation, and I would like to know what your impression is as to the necessity of any substantial reform or change in the existing banking conditions in this country.

Mr. HULBERT. I feel that the only necessity, about the one thing necessary to make our present system all that is needed, is some provision by which banks may, in a time of emergency, use their united credit. This bill provides for that very well, only it provides for a whole lot of other things besides which a good many of us wish were left out. If we could have the regional reserve banks simply as discount institutions dealing with banks and cut out these various other powers they have, which seem to us very objectionable, I think it is all that is necessary.

Senator O'GORMAN. That is all.

Senator NELSON. Would you not think the notes ought to be redeemable in gold?

Mr. HULBERT. By all means.

Senator NELSON. Or anything else?

Mr. HULBERT. In gold or lawful money? I do not like "or lawful money."

Senator NELSON. In lawful money. That would throw the burden on the Government again to redeem the lawful money?

Mr. HULBERT. Yes.

Senator NELSON. Do you not think the bill here—to give you an understanding of what I am driving at, the bill is ambiguous in this: It makes all those notes redeemable at those reserve banks and also at the Treasury Department?

Senator HULBERT. Yes.

Senator NELSON. There is no provision in the bill by which the Government could secure the gold for the redemption of the notes, is there?

Mr. HULBERT. I think not.

Senator NELSON. Would it not be wiser to have the banks deposit that 33⅓ per cent of the gold in the Treasury, each bank, that gold reserve for the redemption of its notes, and would not that relieve the Government from the necessity of providing the gold? Don't you think that each one of those 12 regional reserve banks could deposit their 33⅓ per cent in gold in the Treasury for the redemption of the notes? Would not that relieve the Government from the necessity of providing the gold?

Mr. HULBERT. I think it would, Senator. But I should think it would be necessary to have these notes redeemable at the reserve banks also, and they would have to have something there to redeem them with.

Senator NELSON. Yes; but they could be sent in through the bank to the Treasury.

Mr. HULBERT. I should think that under a plan of this kind redemption should be made very easy and very free. And it would seem to me that the notes ought to be redeemable at the reserve banks as well as at the Treasury.

Senator SHAFROTH. Would not that make each one of these reserve banks a competitor with the Government?

Mr. HULBERT. In buying gold?

Senator SHAFROTH. Yes.

Mr. HULBERT. I should think that the reserve banks ought to be, and probably would be the agents of the Government in purchasing gold. They work pretty closely with the Treasury Department, as there are Treasury officials on the board.

Senator SHAFROTH. But you would have to have 12 separate and distinct places in addition to the Government.

Mr. HULBERT. Oh, yes. You mean, each of these people would be competing in the market and buying gold?

Senator SHAFROTH. Yes.

Mr. HULBERT. I think, as a practical proposition that the demand for gold for redemption purposes would largely fall on the New York reserve bank.

Senator SHAFROTH. Don't you believe that the fact that the national-bank notes are not redeemable in gold has relieved a great strain on the Treasury?

Mr. HULBERT. They are practically redeemable in gold, are they not?

Senator SHAFROTH. Well, no——

Mr. HULBERT. It takes a roundabout way.

Senator SHAFROTH. It takes a roundabout way, but is not that roundabout way the very thing that impedes it and helps to reduce the strain? Would not these notes, in the same manner, being redeemable by the Government alone at the subtreasury in New York——

Mr. HULBERT (interposing). It would be a little harder to get the gold.

Senator SHAFROTH. It would be a little harder to get, and would not that tend to stop the run if it were for any other purpose than legitimate foreign commerce?

Mr. HULBERT. Undoubtedly it would, but if we are going to have an ideal system of currency we ought to have redemption pretty easy, I think.

Senator SHAFROTH. That depends on what its object and purpose is. You know, at the Bank of France you can not get it——

Mr. HULBERT (interposing). But, Senator Shafroth, right there we have an object lesson. The Bank of France has carried, as you know, for a great many years the heaviest gold reserve in the world, practically, and it has been one of the strongest and best managed financial institutions in the world. But here within the last year they saw fit to exercise their privilege of refusing to pay gold, and are doing so to-day. They are paying nothing but silver. The effect is that the people of France have hoarded over $200,000,000 of gold. The people of Germany have done the same thing, and the people of Austria have done the same thing, and that is probably one great cause of the monetary stringency all over the world.

Senator SHAFROTH. The last report I saw of the Bank of France showed that the reserve was about 9 to 1 as to silver.

Mr. HULBERT. Yes.

Senator SHAFROTH. In favor of gold.

Mr. HULBERT. But they are not paying out any gold to-day.

Senator SHAFROTH. It may be. I understand you can get gold.

Senator NELSON. They have bimetallism in France, you know. Under the law they can redeem in either gold or silver.

Senator SHAFROTH. Certainly they can, and that seems to be to their advantage in not exceeding their gold supply.

Mr. HULBERT. It has worked so far, but it has not worked well under this present state of affairs.

Senator SHAFROTH. Don't you recognize this, that when you make these reserves in gold or lawful money and they are located throughout the entire country, at 12 different places, and the currency is presumed to stay within the district—because whenever it goes out of the district it is sent back there for redemption—that consequently any demand for foreign shipment is not likely to arise at any of these places, unless it be New York, Philadelphia, or New Orleans?

Mr. HULBERT. I think so.

Senator SHAFROTH. Keeping that currency in the interior, as it were, and not having it redeemable in gold, would not that have a tendency to loosen the gold market so that the United States Treasury could get plenty of gold and thereby supply legitimate demands for gold?

Mr. HULBERT. You mean by making it harder for people to get gold?

Senator SHAFROTH. Yes; I mean they have got to go and make their demand for United States notes, and after those are given them they have to send it down here to Washington.

Mr. HULBERT. The harder you can make it for a man to get his money the less likely he is to try to get it perhaps, but whether that is ideal or not——

Senator SHAFROTH. If the blanket of gold is not sufficient to go around and satisfy everybody, is not that one of the means that is considered a proper means for keeping and maintaining the gold reserve?

Mr. HULBERT. Yes; but I think the proper plan would be to try to carry a larger gold reserve.

Senator NELSON. What would you estimate would be the proper reserve?

Mr. HULBERT. I should say not less than 40 to 50 per cent.

Senator NELSON. Redeemable in gold on demand at all times?

Mr. HULBERT. Yes, sir.

Senator NELSON. At the regional banks and at the Treasury?

Mr. HULBERT. Yes, sir.

Senator SHAFROTH. Don't you think the declarations contained in this bill, that the Government shall at all times maintain the parity of the metals, gives it sufficient standing so it will never go to a discount as long as the Treasury——

Mr. HULBERT. I certainly do think so.

Senator SHAFROTH. Is it better to have it that way and let the bill stand as it is, which keeps the reserves in the districts in either gold or lawful money at the option of the district bank, or to have it purely as gold?

Mr. HULBERT. Well, the Congress, as you know, some years ago made this same declaration, that all kinds of money shall be kept at a parity, but they very wisely put a gold reserve aside for the greenbacks. And I think it is pretty difficult to keep up the equality and the standing of paper just on the declaration of the Government that it will maintain that paper at par, unless you know that somewhere there is an adequate metal reserve.

Senator SHAFROTH. When you have simply a demand drawn on one point, is it not much easier to retain that reserve there than in 12 other places?

Mr. HULBERT. Undoubtedly it is. The question in my mind is whether it ought to be easier.

Senator SHAFROTH. The easier it is the more certain it is the gold standard will be adhered to and pursued.

Mr. HULBERT. That is, admitting that possibly it could not be maintained if these notes were redeemed freely wherever the people want the gold.

Senator NELSON. As the bill reads now, these regional banks could keep all their reserve, all their demand money, in greenbacks or silver dollars.

Mr. HULBERT. Certainly.

Senator NELSON. And if anybody wanted gold on that currency they would have to go to Uncle Sam's Treasury?

Mr. HULBERT. They would have to go a long way.

Senator NELSON. Which would throw the whole burden on the Government of maintaining the parity instead of throwing it on the banks.

Mr. HULBERT. I would prefer to see it that way.

Senator HOLLIS. Do you know, Mr. Hulbert, any recognized financial authority who advocates redeeming in gold or lawful money?

Mr. HULBERT. I do not, unless you want to quote the Aldrich plan.

Senator SHAFROTH. Can not you quote the national banks that have been in existence for 40 years? They have been pretty successful, it seems to me.

The CHAIRMAN. The Chair ventures to remind the committee that Prof. Fisher was expected to be heard this morning——

Senator REED. I should like to ask a question of this witness.

The CHAIRMAN. Prof. Fisher will have to leave at 5.30, gentlemen.

Senator HOLLIS. We ought to have time enough to interrogate these witnesses.

The CHAIRMAN. That may be, but you can not have the time if the witness is not here, and he is going to leave, and will not return. The committee has the option.

Senator HOLLIS. But here is a witness who has a large amount of detailed information and who is informing the committee of things they ought to know, and it does not seem wise that, having come all the way from Chicago, he should not be given time enough to answer the questions the committee desire to ask.

The CHAIRMAN. The Chair has no further observations to make on that question.

Senator REED. Could not the present witness wait?

Mr. HULBERT. Well, I should feel bound to if the committee ask me to, but it would be very inconvenient. I hoped to get away last night, because I had an appointment at 2.30 yesterday.

Senator REED. It is rather embarrassing to ask a man to wait. It is equally embarrassing to interfere with some other witness who is to follow. But I think we ought to have the opportunity to ask whatever questions we desire of these witnesses.

Mr. HULBERT. I do not know what to say. Certainly, if the committee ask me to stay, I will go to any extent.

Senator NELSON. I for one would be glad.

Mr. HULBERT. It would be exceedingly inconvenient for me to do so. I should feel bound to stay if the committee asked me to.

The CHAIRMAN. What time does your train leave to-night?

Mr. HULBERT. 6.45.

The CHAIRMAN. Prof. Fisher's train leaves at 5.30, and there would still be time.

Mr. HULBERT. I would be glad to stay until train time.

Senator O'GORMAN. Do you think it would be fair to Prof. Fisher to put him on at this late hour, allowing him about two hours to make a statement and subject himself to the inquiries that will be addressed to him by members of the committee?

Senator SHAFROTH. If you do not do it now, I understand you can not do it at all.

Senator BRISTOW. Can not he come back?

The CHAIRMAN. He advised me that he would not be able to be here except to-day. I am simply giving you the information I have at this time.

Senator POMERENE. I am going to renew the suggestion I have made several times, that when Prof. Fisher goes on the stand he be permitted to make his statement in full, and that after he shall have finished we then take up the matter of cross-examination.

The CHAIRMAN. Do you make a motion to that effect?

Senator POMERENE. I do.

Senator SHAFROTH. I second the motion.

Senator BRISTOW. I understand that Mr. Hulbert has done exactly that thing and now we are cut off from pursuing the line of inquiry we desired to make because of lack of time.

Senator POMERENE. My motion did not have reference to Mr. Hulbert. I assumed that he was going to give way to Prof. Fisher.

Mr. HULBERT. May I ask, Mr. Chairman, how long these hearings are likely to last?

The CHAIRMAN. That is a question that the Chair is not able to answer.

Mr. HULBERT. If the committee care to have me and thought it was worth while, I should be glad to come later.

Senator NELSON. Would you not rather finish to-morrow?

Mr. HULBERT. No.

The CHAIRMAN. The motion has been made——

Senator O'GORMAN. If that motion is going to be put, I will ask for an executive session.

Senator SHAFROTH. We will lose so much time I will withdraw the motion.

Prof. FISHER. Mr. Chairman, I feel that my testimony will not be nearly so valuable as the testimony to which you are now listening, and I think it would be better for my testimony to be presented in abbreviated form and that Mr. Hulbert be recalled.

Senator BRISTOW. Professor Fisher, could you come back next week?

Prof. FISHER. Not very conveniently, but I feel as Mr. Hulbert does. I do not think my testimony is of any substantial value, and I think I can give it in a short time.

Senator O'GORMAN. We think your evidence would be very valuable. Will you be here to-morrow?

Prof. FISHER. No.

Senator NELSON. I move we hear Prof. Fisher, and in connection, with that that we ask Mr. Hulbert to remain over and stay with us until we are through with Prof. Fisher.

The CHAIRMAN. Is that the pleasure of the committee?

Senator O'GORMAN. Everybody agrees to that.

The CHAIRMAN. If there is no objection that will be ordered.

The CHAIRMAN. Mr. Francis C. Howell, president of the Camden National Bank, of Camden, N. J., has presented me with the following table showing that certain country banks referred to there have certain noninterest-bearing deposits and then certain interest-bearing deposits which are in the nature of savings deposits, giving the percentages in each case and showing how these moneys are invested, a large part of them being invested in local loans, and a considerable part in bonds. He strongly represents that if these quasi savings deposits should be compelled to be invested in classified securities under any savings-bank plan, instead of being available for local loans and the upbuilding of the local community by local loans, it would be seriously injurious to the service of the local community where this money is made and saved, and to the banks themselves, and, therefore, he desires the committee to carefully consider the interests of the country banks in this particular, and not put into the bill (see p. 47, lines 18–24) anything which would compel these banks to invest their so-called savings deposits or interest-bearing deposits in any particular kind of security, but that this matter should be left absolutely within the discretion of the bank itself. The matter is of such importance that I ask that it be placed in the record together with the following table:

Report to comptroller, Aug. 9, 1913.

Banks.	Noninterest-bearing deposits.	Percentage.	Interest deposits, including certificates.	Percentage.	Loans, mostly local.	Bonds, probably a small percentage of which would be available.	Percentage of local bonds, and bonds necessary to be sold and called if present currency bill is adopted.
Millville, N. J	$316,201.65	31	$719,832.53	69	$635,346.85	$606,862.20	58
Port Norris, N. J	49,384.36	40	75,862.00	60	93,197.80	33,386.25	60
Farmers & Mechanics, Bridgeton, N. J	148,112.96	31	328,125.49	69	451,652.70	122,770.00	57
Cumberland National, Bridgeton, N. J	675,181.43	40	1,019,149.39	60	1,389,914.91	641,244.06	50
Bridgeton National	512,324.24	40	786,469.19	60	1,149,803.92	250,820.00	60
Mechanics', Millville, N. J	135,453.92	38	220,146.16	62	391,686.03	74,200.00	47
Vineland National	297,988.00	38	473,300.00	62	528,940.00	259,092.00	60
Camden (N. J.) National	843,831.00	42	1,181,887.00	58	1,386,395.00	383,208.00	....
Total	2,978,477.00	[1] 37	4,804,771.76	[1] 62	6,026,937.21	2,371,582.51	[1] 56

[1] Average.

STATEMENT OF PROF. IRVING FISHER, OF YALE UNIVERSITY HARTFORD, CONN.

Prof. FISHER. Mr. Chairman and gentlemen of the committee, I want to repeat what I have just said. I am not an expert on the subject, as Mr. Hulbert is. I am not a practical banker, and not even a student of banking organization. So far as I have studied banking, it has been in connection with the currency problem and the circulation of money. It was along those lines that I wished particularly to speak.

A good deal has been said this afternoon in regard to inflation and contraction and the effects and evils, and the way of preventing them. I want to begin, however, by saying that I am very much in favor of passing this bill. I should be in favor of it even if no amendments were made whatever, although I think that would be extremely unfortunate, for I think the bill can be very much improved by adopting the suggestions of Mr. Hulbert and of others who have appeared before you.

I think that a bill even worse than this would be superior to the present situation. I was in favor of the bill offered by the Monetary Commission, but I am much more in favor of the bill that is now before you. I assume that is substantially the bill that has recently passed the House of Representatives, that being the one I read last.

Now, the greatest problem, it seems to me—the greatest defect in our present system—is the inelasticity of our banking reserves; or, to put it another way, the inelasticity of the deposits which are our chief currency in this country, based on those reserves. As it is now when the bank, which is required to keep 25 per cent reserve, gets down to 25 per cent it is required by law to stop discounting. As a matter of fact, the law is often violated, and the violation permitted because the law is altogether too drastic. There is this rigid limit of 25 per cent which can not be transcended theoretically at all; but it has to be, as Mr. Hulbert has just said, and therefore it is and its violation is winked at.

Now, if this bill is passed, by counting as the reserve of an ordinary bank its deposits in the Federal reserve bank, you meet the situation. It can be met, however, in another way, in addition—not in substitution. And I was going to suggest that I very much hoped this bill would pass in some form at this session. It seems to me it would be a very unfortunate thing to have it passed over as unfinished business and left to the next session. But if it should turn out as I have heard it hinted, that it is going over and that it will not be passed at this session, then I should most earnestly recommend that an emergency measure be passed to take the place of the Aldrich-Vreeland bill.

The Aldrich-Vreeland Act is not very practicable, for several reasons. One is that the graduated tax is graduated on a wrong principle. When a man borrows money at 5 per cent he does not wish to have the rate raised on him if he keeps his money more than a month. According to the Aldrich-Vreeland Act, if he keeps it over a month the tax is raised to 6 per cent; then 7, 8, 9, and 10, on the same money.

If, instead of that, we had a graduation by which a certain amount of loans could be made at 5 per cent, a certain additional amount at 6 per cent, 7 per cent, etc., the first amount would remain at 5 per cent, and it would be much more likely to be availed of. I think that is one reason why the Aldrich-Vreeland Act is not availed of. I think the chief reason is that in order to avail one's self of it the bank has to advertise that it is in trouble.

The suggestion I am going to make has probably been made to you more than once. I simply want to emphasize it. It would not have either of these two difficulties. It seems to me we ought to legalize what is now actually allowed—permit, under penalty, a reserve below 25 per cent. When a bank gets down to 25 per cent, that, instead of being a rigid limit, should be an elastic limit. It should be allowed to go below that, down to 20 per cent, on penalty of a tax, down to 15 per cent on penalty of a heavier tax, and so on down to zero. There is no reason why all the money should not be used if it becomes absolutely necessary.

A life preserver ought not to be nailed to the deck so you can not use it. Our present system is very much like making a rule that on shipboard there must be at least 25 life preservers nailed to the deck, so that they will always be there. They would not be of any use, and that is the case of our 25 per cent reserve; it is of no use.

So it seems to me that if instead of having a rigid limit you should substitute an elastic limit, you can let the reserve go down indefinitely. And no bank, soundly managed, will let it stay below 25 per cent very long, because it can not stand the tax. Probably the proper way of graduating this tax would be on the basis of the deposits rather than on the basis of the reserve. To say that a reserve must be 25 per cent and no lower is the same thing, of course, as to say that deposits must be four times the reserve and no higher. And if you make the graduated tax on the basis of the deposits in terms of the reserves, it would amount to the same thing as if you made it on the basis of the reserves. That is, any excess of the deposits above the fourfold limit should be penalized. Then if the bank's requirements are 15 per cent, it would be arranged that they would be penalized whenever the deposits were above 6⅔, and they would be penalized in the same ratio dollar for dollar for all the banks that have the 25 per cent reserve. Probably that would be the way to graduate it.

Now, coming back to the bill, it seems to me that if it is passed it ought to be amended in some particulars. I shall not go into the details, because, as I have already said, you have had much wiser counsel on that than I could give you. I have looked over the recommendations of the banks, which seemed to me to be very carefully worked out, and with the majority of them I heartily agree and hope they will be incorporated in the bill.

Senator O'Gorman. You speak of the bankers at their conference in Chicago?

Prof. Fisher. At their conference in Chicago; yes, sir.

If I thought it worth while I would go through this in detail, but that would take a good deal of valuable time. There are one or two points, however, I should like to emphasize, which, it seems to me, ought to be adopted in the bill when it is passed. In the first place, in order to avoid even the suspicion of a sudden contraction due to the calling of loans, etc., as was claimed—I rather judge without very much foundation—by some of the witnesses yesterday, it seems to me that the substitution of the new system for the old should take place more gradually than is provided for in the bill, so that the transfer of the deposits from the reserve cities and central reserve cities to the new system should be by gradual stages.

Then as to getting the bankers into it, it seems to me a bid should be made to make this bill at least palatable to the great majority of the bankers, not to force it down their throats or run the risk of their getting out of it by their becoming State banks. For that reason I would accept their terms to a large extent; at any rate, to the extent of giving them dividends out of the bank, and after a limited time giving them a larger amount.

In regard to the reserve on notes of 33⅓ per cent, it seems to me that is too low; that to raise it would be an advantage, and particularly an advantage in order to avert the possibility of inflation. Moreover it seems to me that there should be a graduated tax, as is recommended by the bankers; and, if I am correct in my recollection, there is nothing in the bill at present to correspond to that. The bankers recommend that if the reserve falls below 40 per cent it should be allowed to fall below 40 per cent but should be penalized—that is, down to 37½ per cent, and beyond that penalize more heavily, etc.; I think, perhaps, a tax of one-half per cent for the first, and an additional tax for the second.

There are some more radical things I would like to see in the bill, which are much more fundamental and which it seems to me ought to be carefully considered. In all this discussion very little has been said about the relation of the banking organization to the currency system. Fundamentally we are on a gold basis, but we have had a good many ifs and buts about it, and the result is that the business world, particularly abroad, have in the back of their heads a feeling that we have some unsound spots—and we have. We have several unsound spots and they are bound up with this rigidity or inelasticity that we are suffering from. We have an inelastic bank-note system, because it is tied up with our Government bonds. There is nothing unsound, however, in that.

We have an inelastic volume of silver certificates, because that is based on silver purchases that have been completed. That is more or less unsound.

Then the unsoundest spot of all is the greenbacks, of which we have $346,000,000 out, the residue of the inflation of the Civil War, and which are compulsorily kept in circulation by the act of May 31, 1878, which, it seems to me, ought to be repealed in connection with your measure.

According to that act this money must be put back in circulation. As soon as a greenback is redeemed it must be reissued. It is very much like saying that as soon as a man gets out of debt he must get in debt again. It is not like real redemption. And I have heard men in the Treasury of the United States say they thought that if this were brought before a court it would be decided we were not really redeeming the greenbacks to-day. According to this law it must be done.

Of course, ordinarily it works smoothly, and it may be we will never get into trouble with it again, but we did get into trouble with it in 1893, and it had a great deal to do with the crisis of 1893, when, as President Higgins said, an endless chain of greenbacks ran through the Treasury pulling out gold for export.

Now, if the result of passing a currency bill such as this be—and without certain amendments it seems to me it may be—to inflate the currency of the United States, that is exactly what would happen again. We would find inflation, a rise of prices in this country, a tendency to export gold, and that gold would be taken from our hoard of gold in the Government vaults, and that gold would be taken out, as it has been taken out in the past, by the greenbacks.

But it is not because that may happen that it seems to me the greenbacks ought to be more truly redeemed; it is because of the name of the thing. It is because that soft spot in our currency really gives a flavor of greenbackism, inflationism, to the situation; and that is one reason why the Britisher does not give us the credit he would otherwise.

Now, we want to understand well that, with financiers like those in Great Britain, France, and Germany, it would help if we eliminated that provision by which greenbacks must be reissued, and say that they "may" be reissued. I am not advocating that they must be retired immediately; that is another proposition entirely. I am advocating that the gold we have should be behind them in the true sense of the word, so that we would be absolutely on the gold standard.

It seems to me, if I may say so, that it would be good politics for the Democratic Congress to do this, because the Democratic Party has been accused of being an inflation party. But, now that greenbackism is really dead, that inflationism, even in the silver form, is really dead, why not admit the fact and bury it, and let the world know it.

Therefore, I quite agree with what Mr. Hulbert suggested when he said that the term "lawful money" should be omitted, both in specifying the kind of reserve that the Federal reserve banks should keep and the redemption of the United States notes—and particularly in the redemption of the United States notes. It seems to me it should be unequivocally "gold"; not "gold or lawful money." Of course, the greenbacks are supposed to be redeemable in gold, but they must be reissued. The two expressions appear to be very much the same thing, and yet not quite the same. If it is the same, why not say just "gold," instead of "gold or lawful money"? If it is not the same thing, then there must be something the matter with it.

Then I think the power of the reserve board should be reduced. I think the fears of the bankers in regard to the abuse of that power are probably greatly exaggerated, but nevertheless the fact that those fears exist is one reason why these powers should be reduced. One of the powers is that the Federal reserve board shall have the right to compel one of these banks to rediscount for another, and shall also have the right to impose the rate at which this rediscount shall take place. There is a double compulsion which is hinted at; probably it would never be enforced. Therefore it seems to me it would better not be put in until, because of an abuse of power, we find it necessary. Just as the Interstate Commerce Commission developed its powers gradually, starting out with more or less statistical and clerical duties, it seems to me this Federal reserve board ought to grow in power as the necessity for the exercise of power develops with experience.

Let us assume the bankers will not abuse their power in a way that will require the conferring of these enormous powers on a Federal reserve board. But, if they ever do, then we can make supplementary legislation. I do not believe they would. I do not believe it would ever be necessary, and it seems to me it would be extremely inadvisable to exercise such a power as to compel one bank to rediscount for another. That is a matter that can be left to supply and demand, and I believe that if it is left to supply and demand it would be more efficiently worked out.

I think that, automatically, if you have a dozen of these banks, what will happen will be that the bank in New York or Chicago—two or three banks, and probably one—will become the central bank and will do rediscounting for the others. The New York bank would naturally be the one toward which these bills would gravitate, and we would have a rediscount apparatus developed automatically without the necessity of a Federal reserve board saying which bank should rediscount for which other bank.

Also they would feel more free to raise the rate of interest. If I were sure that the policy of the Federal reserve board would be always unbiased, uninfluenced by popular prejudices on the subject of the rate of interest, I would be much more in favor of allowing them to regulate the rate of interest; but it seems to me the rate of interest ought to be regulated by the banks themselves. Very often the rate of interest ought to be put up when the popular cry is that it should be put down.

There is, as you all know, a great prejudice against interest; there always has been, for thousands of years. You will find the prejudice expressed in the Bible. You will find that during the Middle Ages the church was constantly legislating against usury, which in those days meant interest. And you will find the prejudice surviving to-day among the socialists, who say that interest ought to be abolished.

On the contrary, interest is an honest price, as any other price is, and sometimes it ought to be high. It is sometimes good for the welfare of the community that it should be high, because it puts the brakes on business. And if the rate of interest is unduly low the tendency is toward expansion, and then you have inflation; and I believe most sincerely that all crises, all panics, have been bound up with the tardy rise of the rate of interest. The rate of interest has not risen promptly enough, and the result is inflation has taken place, and then at the end the rate of interest has gone up with a jump, and it has meant the ruin of people who could not then renew their loans at these high rates. Either the rate jumps up beyond what they can pay or, what now happens, the bank refuses to loan at all.

Now, possibly a much better apparatus could be arranged by which a business man is always sure of getting a loan if he needs it, even if he has to pay a high rate of interest, than having a system under which ordinarily you have a low rate of interest but sometimes can not loan at all. The Bank of England has the courage, in the interest of public policy, to raise the rate as well as lower the rate. It even raises the rate beyond the market rate in London, and thereby safeguards the gold reserve of the bank to the country. It seems to me these regional reserve banks should be allowed to do this themselves.

There is one other suggestion I wanted to make, which is of a somewhat radical nature, but it is not original with me. I got it from Mr. Barron, the proprietor of the Boston News Bureau, who has made quite a study of these problems. He calls attention to the fact that we have in this Government the largest gold reserve in the world. We have over a billion dollars of gold in one hoard, and yet we are m king no use of it. Theoretically it circulates in the form of gold certificates, but that merely means that we have got for those gold certificates, or paper, 100 per cent reserve.

I am not advocating that the Government should substitute for these gold certificates greenbacks or notes which would reduce the reserve to a smaller percentage, or increase the notes to a larger ratio than a 1 to 1 ratio, for that would mean inflation and be dangerous from many points of view. Under ordinary conditions, I think, the present situation should be maintained. But in times of emergency it would be a great advantage if this gold could be released in order to safeguard the stability of the monetary system of the country, and that could be accomplished if these yellow backs, or gold certificates, could be converted temporarily into greenbacks or United States notes, so that the gold behind them could, instead of being 100 per cent reserve, be a lower per cent; that is, the modus operandi would be like this: A Federal reserve bank would take to the Treasury in time of distress a certain number of these yellow backs, or gold certificates, virtually redeem them in gold, hand the gold back to the Government for notes—either the kind specified in this act, or greenbacks, or a new kind of note, gold notes, or whatever you might call them, but not certificates. Then the Government could lend, under penalty of a higher tax, to the Federal reserve banks an additional amount of the same notes, and still have—for instance, if they issued the same amount they could still have 100 per cent reserve. If $100,000,000 of yellow backs were converted into $100,000,000 of greenbacks, you could issue another $100,000,000 of greenbacks as emergency currency for a high rate of interest, which would tide over a stringent period, and they would come back automatically on account of the tax.

I do not know whether I have made that suggestion clear or not, but it would put this Government in an impregnable position by utilizing the biggest hoard of gold in the world, and make it, if it were properly and scientifically arranged, so that the stability of the financial system of this country could never be called in question, either by our citizens or by anyone in a foreign country.

I want, finally, as an incidental point, to second another point that Mr. Hulbert emphasized, the importance of distinguishing between the deposits subject to check—demand deposits—and time deposits. And in that connection I want to say, as a student of statistics, that I hope the members of this committee will see to it that the statistics of deposits subject to check are not discontinued, as I understand there is some danger they may be. Those statistics only started with the National Monetary Commission in 1909. Before that we never had any statistics of deposits subject to check in this country. We had statistics of individual deposits; that is, including both the time deposits and the demand deposits, but we did not have any statistics of the demand deposits alone. Now, we have those and it seems to me we ought to keep them. I really think they are more valuable than statistics of money in circulation, because the deposits are really a most important money. Ninety-two per cent, if my calculations are correct, of the exchange work done in this country is done through these deposits subject to check—done by means of checks instead of by money. I think we ought to keep track of that as well as of the money.

I want to say I believe there is a danger of inflation from these deposits, from the use of checks, which is just as real as the danger of inflation by money. In fact, I am very strongly of the opinion, based on considerable study, that the present high cost of living is largely ascribable to this check inflation which is going on all over the world. It is not confined to this country; deposits are increasing by leaps and bounds all over the world, increasing 10 per cent in this country, 10 per cent in Canada and in Germany; they are increasing about 3 per cent in England. They are increasing daily all over the world. I believe the rise in prices is due about half to that alone, and I hope this bill will try in some way to avoid the possibility of inflation. I have not studied enough to calculate exactly how much inflation would be possible, but I imagine something like a half billion of inflation would be possible under this bill.

I think it would be a great advantage if we could couple the issuance of this new currency with a provisoin for the retirement of the old currency, giving the Secretary of the Treasury authority to retire greenbacks and, if necessary, silver certificates as fast as is necessary to prevent inflation of the currency. That is, there will be a gradual retirement under this bill of bank notes anyway, but there is danger that the new notes will be issued more rapidly than the bank notes are retired.

There is no particular relation, as I understand it, by which the two are coupled with each other. It would be an advantage if there could be such a coupling, so that one would go out as fast as the other came in, so that there would be a substitution. What we want is an elastic currency, not an inflated currency.

Gentlemen, I thank you for your attention.

Senator NELSON. If I understand you correctly, you first of all insist on retiring the greenbacks?

Prof. FISHER. No, sir. I am glad you asked that question, because I tried very hard to avoid giving that impression. I would not insist on the payment of the $346,000,000, by which they would be entirely extinguished, but I would take away the present requirement by which they must be reissued, allowing them to be reissued, but not compelling them to be reissued; so that the Treasurer could retire them gradually if he choose.

Senator NELSON. Tell us what in principle is the difference in value, as paper money, between greenbacks backed by $150,000,000 of gold reserve, and these regional reserve notes backed by 33⅓ per cent. Why is one better than the other?

Prof. FISHER. The difference is——

Senator NELSON (interposing). Why is one safer than the other?

Prof. FISHER. The differences are two. Of course, one is purely a Government issue and the other is not; that is one difference. But the difference that I was laying emphasis on is the inelasticity of the greenbacks. The greenbacks are just the same in volume as they were May 31, 1878, but these notes that you are going to issue will fluctuate; they will change with the balance of trade.

Senator NELSON. But there is the $346,000,000 of good paper money that is floated with $150,000,000 of gold.

Prof. FISHER. They are perfectly safe, so far as their parity with gold is concerned. The only danger of disparity would be in the very remote contingency that we should so inflate the currency as to cause gold exports—and after all the gold is exported and you could not redeem the greenbacks in gold—then, of course, they would go to a discount. That was what nearly happened in the summer of 1893, and would have happened if it had not been for the repeal of the silver purchase clause, which was brought about by President Cleveland.

Senator NELSON. This bill provides for the issuance of these new notes as Government obligations, instead of the obligations of the regional banks. What have you to say on that subject?

Prof. FISHER. I think that is more nominal then real, Senator. It seems to me these are nearly bank notes in principle; the credit of the Government is behind them, so they are indorsed by the Government.

Senator NELSON. It is a promise of the Government in form?

Prof. FISHER. It is the promise of an indorsor but not of a drawer, it seems to me.

Senator NELSON. While it is the direct promise of the Government, you say the Government is simply an indorser?

Prof. FISHER. Perhaps, legally, what I said would not stand water.

Senator NELSON. What do you say on this question of requiring the notes to be redeemable in gold both at the Treasury and in the various regional banks—how would you supply the gold reserve? What method would you employ to supply the Government with gold for redemption of these notes if they are to be redeemable by the Treasury of the United States?

Prof. FISHER. By appropriating for that purpose and possibly by the method that was suggested in a bill that Senator Owen drew, I think, sometime ago, by which a certain amount of the certificates, as they passed through the Treasury, should be eliminated, and instead of being reissued there should be greenbacks virtually issued for them.

Senator NELSON. Greenbacks should be issued for the gold; is that your theory?

Prof. FISHER. So as to release that gold and add that to the $150,000,000.

Senator NELSON. Yes; but if one of these certificates is presented to the Treasury you would have the Government issue in place of it a greenback?

Prof. FISHER. I do not say that they——

Senator NELSON (interposing). How could you enlarge the currency, then? You would be issuing one kind of paper money—Government greenbacks—instead of another kind of paper Government money, which circulates as money—the gold certificates. How would it enlarge our currency?

Prof. FISHER. It would not, but their enlargement comes from this bill, as it reads, and it seems to me you want to mitigate that enlargement rather than aggravate it, and anything that would tie up more gold reserve would have that effect. That is one reason, and I would like to see the gold reserve increased from 33 to 50 per cent.

Senator NELSON. How would you tie it up? You have now dollar for dollar in those gold certificates?

Prof. FISHER. Yes.

Senator NELSON. If those certificates are redeemed, the gold is left with the Treasurer and you have a greenback issued in place of it?

Prof. FISHER. I understand your question now.

Senator NELSON. The volume of the currency did not increase a bit?

Prof. FISHER. You are asking what I recommended for an emergency. In an emergency if that conversion were made and you do that according to Mr. Barron's idea, if that is what you are inquiring about——

Senator NELSON (interposing). No; that is your plan, as I gathered from your remarks.

Prof. FISHER. Yes; I think it would be a good plan. There would be regional banks, which could on the deposit of suitable securities borrow additional greenbacks; that would be new paper money; that is, for, say, $100,000,000 of these yellow backs converted into greenbacks. That would not enlarge the currency, as you see. The currency would be exactly what it was with the exception that it would be green instead of yellow; that there would be then $100,000,000 released, as gold.

Senator NELSON. But under existing law that would only be available for the redemption of greenbacks; it would not be available for the redemption of these new notes?

Prof. FISHER. Perhaps I ought not to have said "greenbacks," but a new form of note that would be authorized which would take the place of these yellowbacks.

Senator NELSON. It would be a note different, then, from these notes contemplated in the bill, would it not?

Prof. FISHER. No; I think it could be included in the same category. You could make them different and they could be just the same, and the banks which made this operation would have the privilege of borrowing an equal amount of new greenbacks as an emergency. It is only in case of an emergency that this suggestion would be operative.

Senator NELSON. What is the vice of our present system that needs more than anything else a remedy?

Prof. FISHER. The one that I emphasized first, it seems to me, is the worst vice—the inelasticity of our bank reserves or our bank deposits.

Senator NELSON. You seemed to imply in your statement that there was a great urgency for the passage of this bill. We have lived under this currency some 47 or 48 years and got along fairly well. We have not to-day much more panics or losses than other countries have had. Now you insist that there is an urgent demand at this present time for a change in our banking and currency legislation. What makes you think there is such an urgency? On what do you predicate it?

Prof. FISHER. I did not mean, Senator, simply that there is an urgency now. I think there has been a need for a great many years. I do not think our present banking system is a good one. I was very much surprised to hear Mr. Hulbert say that it was one of the best in the world. I think it is one of the worst in the world.

Senator NELSON. In what way is it the worst?

Prof. FISHER. The inelasticity of our reserves.

Senator POMERENE. How shall we decide between these two experts?

Prof. FISHER. I have already told you that as far as I am concerned, he is the expert, but I am privileged to have my own view in the matter. In the inelasticity of our bank reserves, it seems to me, is the very great difficulty as far as panics are concerned.

Senator NELSON. Are you not confusing it there? It is not the inelasticity; it is the inelasticity of our bank notes, because they are based on bonds that secure currency?

Prof. FISHER. That is another story. I was attempting to answer your question as to what I thought was the worst feature of our present situation.

Senator NELSON. Yes.

Prof. FISHER. The feature you are speaking of is bad, but I do not think it is the worst. It seems to me that the inelasticity of our bank reserves—by which I mean bank reserves which have come down to the legal requirements so as to stop business and precipitate a crisis at the very moment we need reserves there. That seems to me the very worst situation, and therefore the thing we need most of all and which seems to me could be passed with this bill or before this bill would be an elastic limit instead of an inelastic limit for that 25 per cent legal reserve.

Senator NELSON. That principle is still retained in this bill but a less quantity.

Prof. FISHER. I do not think that principle is retained in this bill, because if this bill was passed, while it is true the bank must maintain the fixed reserves and not get below it, it can count as reserves deposits with the regional bank association.

Senator REED. I know.

Prof. FISHER. And that gives it really more funds; that gives it elasticity.

Senator NELSON. They can count that now as they can with banks in reserve cities or in central reserve cities. Is not that the present system? A bank in a reserve city is required to maintain the reserve of 25 per cent, and 12½ per cent of that money may be money in a central reserve bank?

Prof. FISHER. Yes.

Senator NELSON. This changes the system simply by reducing the amount to 18 per cent and leaving one part of it with the bank in its own vault and the other part of it with the regional reserve bank. The principle is still maintained. The only difference is the amount of the two classes—that is, in the reserve bank and in the vaults of the bank are changes, and then the money in the reserve bank pays no interest, as they do now? Is not that the difference?

Prof. FISHER. That is the difference. I was under the impression that there was another difference, but in any case it seems to me that it would be an advantage to allow this elastic limit that I was speaking of by penalizing the bank when its reserve was below the percentage. I regard that as really the cardinal reform.

Senator NELSON. I will differ with you in one point. I think one value of this bill—and to my mind it is the most important—is the fact that no interest is paid on these reserves in the reserve banks. Do you not think that is a valuable requirement?

Do you not think that that is of value?

Prof. FISHER. I was not suggesting interest should be paid on these reserves.

Senator NELSON. Oh, but you know, do you not, that that is of value?

Prof. FISHER. I had not given it enough thought to answer your question.

Senator NELSON. Do you not think that the vice of our former system was this, that in times of opulence, when our interior and country banks had an abundance of money, for the sake of getting the 2 per cent interest they would send it down to the big banks in New York at a season of the year when even among them there was not a tense call for money, not for commercial purposes, and the New York banks, in order to pay the 2 per cent interest, would invest that money in call loans on stock securities?

Prof. FISHER. Yes, sir.

Senator NELSON. Do you not think that was one of the vices of the reserve system as disclosed by the panic of 1907?

Prof. FISHER. I do, most emphatically; and I think that one advantage of this bill would be to substitute a new kind of banking on acceptances instead of banking on collateral securities.

Senator NELSON. I think I have had my share of questions. I will yield to the other members of the committee.

Senator POMERENE. They are very instructive, sir.

Senator NELSON. If the committee will allow me—this is kind of a free conference, like a class meeting, you might say—I would like to ask this: It has always occurred to me, Professor, that the great vice of our present reserve system was not so much what they called the pyramiding of reserves as the fact that these big banks in New York and Chicago, more particularly in New York, held the inducement out that they would pay 2 per cent, rain or shine, on the deposits of country banks. The country banks, when there was a demand for money in their immediate neighborhood, would not send the money on to New York, but when they got a surplus of money, for the sake of getting that 2 per cent interest, they would load up the New York banks, and the New York banks not being able at the time when they got all this surplusage of money from the country to use it in the channels of commerce and trade—I mean the legitimate purposes of commerce—would do this: They would invest it in call loans secured by stock collaterals; and did not the panic of 1907 disclose a vast amount of loans—stock-collateral loans—and were not such loans, under such circumstances as that panic, anything but liquid loans?

Prof. FISHER. Undoubtedly you are right, Senator; and I think that is a point of very great importance.

Senator NELSON. Do you remember, Professor, that a committee of the New York Stock Exchange, after the panic of 1873, what we commonly call the Jay Cooke failure, recommended as one of the chief remedies the abandonment of the payment of interest on deposit in country banks, and that because a few of the New York banks would not agree to it, the plan was abandoned? The vice, as I said a moment ago, of this reserve proposition, to my mind, is the fact that these reserve banks pay no interest on the reserves, and it will eliminate all temptation for the banks to pile up money in these reserve banks for the purpose of getting interest, instead of keeping it at home for the use of their home customers.

Prof. FISHER. Yes, sir.

Senator NELSON. That is all, Mr. Chairman.

Senator SHAFROTH. Is it not a fact that there is no prohibition upon the New York banker paying still his 2 per cent interest on money that may be deposited by a country bank, and loan that, and continue the policy of sending to New York most of the money, instead of putting it into the reserve banks?

Prof. FISHER. It can not be counted as reserve. If you substitute the new system for the old, it will not be possible to use the old system, for the reason that unless you modify your bill——

Senator SHAFROTH. Of course the reserve money has got to be there; but the question in my mind, in answer to Senator Nelson's, was that no more money would be there for them than the absolute amount of reserve in the regional bank, because they do not get any interest on it, and the New York banks are willing to pay interest on it, and it will go where there is a profit.

Prof. FISHER. I have no doubt you are right; that there will be a certain amount of it left.

Senator SHAFROTH. Do you regard it a wise policy to take up the national bank currency by means of this emergency currency to be issued under this bill, to retire it?

Prof. FISHER. Yes, sir.

Senator SHAFROTH. Do you think that that ought to be retired by a permanent currency, such as the currency as you suggested here, in converting the gold deposit fund into a gold redemption fund?

Prof. FISHER. But is not this a permanent currency which is suggested in the bill?

Senator SHAFROTH. It has got to be renewed every 90 days, has it not?

Prof. FISHER. Not the currency.

Senator SHAFROTH. Well, what is back of the currency has got to be renewed every 90 days?

Prof. FISHER. Yes, sir.

Senator SHAFROTH. You do not regard this as an emergency currency, then, that is to be issued here?

Prof. FISHER. No.

Senator SHAFROTH. You consider it a stable currency?

Prof. FISHER. Yes, sir; an elastic currency; and the fact that it has a liquid basis for it seems to me gives it greater elasticity. Our present bank notes, as Senator Nelson was saying, are inelastic because they are bound up with the national debt. We can not reduce it except as the Government pays its debt, and we can not increase it unless the Government gets in debt further.

Senator SHAFROTH. Is there any certainty, after national bank currency has been retired, that the banks will go on and discount their paper and get new currency?

Prof. FISHER. I should think it was pretty certain.

Senator SHAFROTH. Suppose they should conclude not to do it; there would be a contraction of the currency to the extent of $740,000,000, would there not?

Prof. FISHER. In case the bank notes were taken away. It seems to me that is one reason the two ought to be coupled together.

Senator SHAFROTH. You think that this redemption of these bank notes, these notes that are issued by the Government under this system, should be payable in gold alone, and not in gold and lawful money?

Prof. FISHER. I do. I include gold certificates as equivalent to gold. I say that the regional bank could use gold certificates and the Government gold.

Senator SHAFROTH. Do you recognize that if you make each one of these regional banks redeem these notes in gold it will make competition among 12 new sources for the accumulation of gold?

Prof. FISHER. Not if we have gold certificates.

Senator SHAFROTH. Gold certificates are the same as gold. They represent gold.

Prof. FISHER. But the dissipation of the gold will not care for the gold certificates scattered around the country or the gold concentrated in Washington.

Senator SHAFROTH. But the question is whether there is enough gold, whether represented in metal or in certificates, and whether there is a strain on that gold reserve or gold redemption fund. If you have 12 distinct points in the United States, each one of which is required to keep gold or gold certificates for the purpose of redemption of their notes outstanding, and then requiring the Government also to keep gold at the same time, you are overlapping the matters so that it will take a greater quantity of gold or gold certificates to do that work of redemption.

Prof. FISHER. I think that would be an advantage, because it would mitigate the tendency that is inevitable and going on all the time, and there is some danger that in this bill the inflation——

Senator SHAFROTH (interposing). Then, your theory is that the tendency ought to be toward contraction?

Prof. FISHER. No, sir; I think contraction is just as bad as inflation. I think we need to keep on an even keel as near as we can.

Senator SHAFROTH. Do you not recognize that when notes of the Government are payable in gold and the notes of these regional reserve banks are payable in lawful money, that you can do the same quantity of redeeming and have them redeemed in gold or redeemable in gold with a very much less gold reserve than you could if you had the gold redeemed in each one of the banks?

Prof. FISHER. Yes; but that would be an objection and not an excellence, in my mind, just for the reason mentioned.

Senator SHAFROTH. It would be because you think it would tend toward inflation?

Prof. FISHER. Yes.

Senator SHAFROTH. You have got those 12 reserve banks now competing in the market for gold, and we do not seem to have too much gold.

Prof. FISHER. I think we have.

Senator SHAFROTH. You think we have?

Prof. FISHER. Very much. I think that part of the high cost of living all over the world is due to gold inflation. I think the two great causes of the world rise of prices are gold inflation and credit inflation.

Senator SHAFROTH. An explanation was given here the other day that, in the judgment of one of the gentlemen, it was due very largely to the fact that the population in cities had increased at the rate of 22 per cent, and the population in country districts had increased only 2 per cent, and that therefore the consuming population had increased largely, and the producing population had practically stood still, and the greater the demand for the product and the same quantity of product would produce a higher price. Is that correct or not?

Prof. FISHER. I think it is partly correct and partly incorrect, Senator; but that is taking us off into another field—the cost of living.

Senator SHAFROTH. You do not want to make it harder for the Government to redeem its obligations in gold, do you?

Prof. FISHER. No; I want to make it easier for the public, so that we shall have a distinctively gold standard. It was necessary a short time ago for the House of Representatives to put into this bill a declaration in order to show the world that it was not on a silver basis.

Senator SHAFROTH. Everybody agrees to that.

Prof. FISHER. We are always talking about lack of money in an inflation, and no one ever gets enough money individually, you know.

Senator SHAFROTH. I do not think there is any country in the world on a purely gold basis, in the way of the use of gold——

Prof. FISHER (interposing). If the Government of the United States would inflate the currency by giving me a million greenbacks, free, I personally would be very much benefited. But the fact that I would like to have that amount of inflation, and everybody else would not, does not show that it is a good thing for the public.

Senator SHAFROTH. No. The issuance of the notes of the Government, of any quantity of money, is not good. There is no doubt about that. But it seems to me that we ought to, inasmuch as you have these runs on the treasury, make it just as easy for the Government to stand those runs as for the banks. We are trying to relieve the banks from excessive runs, and it seems to me that by opening up 12 competing points where they will compete against each other, it will take more gold to redeem the same quantity of money. In other words, if I have a bank note redeemable in lawful money, and I take it to the regional bank and I get my lawful money, I have got to get it cashed in gold. It is just as good, no doubt; but hundreds of people who sometimes get scared in that length of time conclude that the currency is all right and they do not want it, and consequently the drain on the Government will not be so great.

Prof. FISHER. I would be willing to offer the suggestion that the banks would like to have gold and allow the lawful money to remain in the vault for them, if that was regarded as an important point; but I think there ought to be somewhere a statement that is unequivocal that gold is behind everything. We have not any such statement now.

Senator SHAFROTH. I think that declaration is perfectly proper.

Prof. FISHER. Not a declaration; no; that is merely a pious thought; but we want to have a guaranty.

Senator SHAFROTH. A declaration that the Secretary of the Treasury shall buy gold or sell bonds to get gold—would not that be sufficient?

Prof. FISHER. That he shall redeem all the other moneys in gold.

Senator SHAFROTH. I do not believe as a matter of fact that this redemption of the greenbacks that you speak of would be wise at all. It is all right to say that you will take the greenbacks and retire them, but they ought not to be retired——

Prof. FISHER (interposing). I was not insisting that there should be compulsory retirement and should not be compulsory redemption.

Senator SHAFROTH. Contraction might occur.

Prof. FISHER. It would occur and did occur when we had such a situation as we had in 1893 when we were driving gold abroad because we were inflating the silver. The currency was overflowing abroad because we were pumping in silver and silver certificates, and this great mass of greenbacks performed the operation of sending it out. If they had been redeemable we would not have got down so low as we did in 1893.

Senator SHAFROTH. If they are willing to pay for it in Europe, it is going there. No redemption can keep gold from going to Europe if they are willing to pay more for it there.

Prof. FISHER. If we do not inflate our currency we can get gold here and keep it here. We have the biggest hoard in the world and can keep it here if we do not inflate our currency and drive it abroad.

Senator SHAFROTH. You understand, of course, that Mr. Cleveland, when he issued his bonds, was short on ordinary income for the Government, and it went into the General Treasury and served for the payment of expenses. The cost of maintaining the gold reserve at that time, even, was a mere bagatelle compared to the cost we pay on these bonds that secure the bank currency.

I guess I have taken up more time than I ought to have taken.

Senator BRISTOW. Prof. Fisher, were you ever engaged in the banking business?

Prof. FISHER. No; I began by saying I was not.

Senator BRISTOW. Have you ever been engaged in any line of mercantile business of any kind?

Prof. FISHER. Not very definitely. I am somewhat connected with a manufacturing business at present.

Senator BRISTOW. The purpose of the questions is to get your line of experience, because I think that adds more or less weight to the opportunities you have had for observation. You have been teaching all of your life, practically; is that your vocation?

Prof. FISHER. Yes, sir.

Senator BRISTOW. I understood you to say that you thought it was very important to the country that this bill should be enacted at this special sesssion?

Prof. FISHER. Yes.

Senator BRISTOW. If business men engaged in large enterprises of various kinds whose business operations are affected very much by any change in our financial system or banking system, men of wide experience and wide opportunity for studying the movements, the currents of our commercial affairs, should say that in their judgment it would be very unfortunate to have this bill enacted at this session, what weight would their judgment have upon your mind?

Prof. FISHER. I should respect that opinion, and I have given a good deal of weight to it in considering the matter. I think the bill needs improvement before passage, and I should be extremely disappointed if it were passed in its present form. But rather than have nothing better than what we have, I should be in favor of its passage in its present form.

Senator BRISTOW. That is, you would put your judgment, as a student, against the experience of these business men who have developed these great enterprises with which they have been connected for almost half a century?

Prof. FISHER. No; I do not maintain that my judgment is better than theirs, but it may be different.

Senator POMERENE. Are you assuming, by your question, Senator, that the business people and bankers all have one opinion on the subject?

Senator BRISTOW. Up to date we have not had any business men before us that had any different opinion.

Prof. FISHER. Mr. Hulbert stated substantially what I have been saying.

Senator BRISTOW. He is a banker; I am speaking of business men who borrow from the banks, and not the banks who loan the money. I just wanted to know your views as to what weight we legislators should give to the judgment and opinions of the practical business men of the country who are carrying on these enterprises that will be affected one way or the other by this legislation.

Prof. FISHER. Is it not true, Senator, that these men merely want to have this bill perfected? They object to it in its present form. They do not object to its passage, if it is perfected. They merely doubt, it seems to me, your ability to perfect it in the requisite time. I have talked with business men who are the kind of men that you refer to, men of large experience, and I find that there are a large number of them who think that this bill is on the right track. Not all are of the opinion that you quote. I am surprised if such men have not appeared before your committee.

Senator BRISTOW. The practical operation of the measure, as it touches the productive as well as the commercial energies of the country, is the thing that we ought to give first consideration to, is it not?

Prof. FISHER. Of course, that is the problem.

Senator BRISTOW. The purpose of my question was to elicit from you your judgment as to how much weight we ought to give to the men who are carrying on the enterprises such as I have referred to.

Prof. FISHER. I think you should give a great deal of weight to them, sir.

Senator BRISTOW. You spoke of the use of reserves being like a life preserver that was nailed down and could not be used. As a matter of fact, are not the reserves used when the crisis comes, but the use of the reserve is regarded as an evidence that the bank is in extremities, so it is forbidden to use it? But when the life of the bank is at stake the reserve is used, is it not?

Prof. FISHER. You mean in violation of law?

Senator Bristow. Why, yes.

Prof. Fisher. Yes, sir; to a certain extent, to 1 or 2 per cent. I was told, for instance, yesterday by one of your witnesses here that in July, when there was a very tight money market and very nearly a crisis, that a bank, for a week, had its reserve down to 23, when it should have been 25; and it was known; but that is a very small margin and a short time. You ought to have an elastic rubber ball there to go down in it as deep as you want.

Senator Bristow. I am not questioning the advisability of having some means whereby the reserve might be made more useful than it is; but you never have known a bank to fail with its reserve intact, have you? It would be very foolish for a bank to close its doors because it had gotten down to its reserve and had not gone any lower?

Prof. Fisher. No; not failed. Failure has not so much to do with the reserve as with the capital and surplus, whether you are solvent or not; but in the crisis of 1907 there were a number of banks that made a good deal of trouble for their customers because they had plenty of money in their reserve, but they simply wanted to keep within the law and would not accommodate.

Senator Bristow. They were afraid to put it out?

Prof. Fisher. They virtually closed their doors.

Senator Bristow. They did, yes; that is true, but they refused. I know banks all over the country refused to pay out money when they had plenty of it, because they did not know what might happen.

Prof. Fisher. Exactly.

Senator Bristow. And if they paid to one they would have to pay to all?

Prof. Fisher. Yes, sir.

Senator Bristow. So they refused to pay to any. That was because of a panic, and the reserves had nothing to do with it. The reserves would not have saved them in the panic of 1907?

Prof. Fisher. I think they would have.

Senator Bristow. You think they would?

Prof. Fisher. I think if we had had a mere proclamation it would have had the same effect as the proclamation of Secretary McAdoo offering $50,000,000 of money if they wanted it. It was a purely psychological panic in 1907.

Senator Bristow. Then, the fault was that the banks felt frightened?

Prof. Fisher. No; it was largely the fault of the law which compelled frights under those conditions.

Senator Bristow. I will not pursue it any further. I merely wanted to call this to your attention, that the bank ought to use its reserve when the stress comes, and it had to use it or go under. So it does serve as a reserve, so far as the depositor is concerned, does it not?

Prof. Fisher. In a sense; yes, sir. I do not mean to insist upon my simile of a life preserver, Senator.

Senator Bristow. If it is used, it should be buoyant enough to hold the bank up. It is not left nailed to the deck while the bank is drowning.

Senator Shafroth. Senator Bristow has yielded to me for a question.

I was very much interested in the theory of the reserve being fluctuating, and I think there is a great point in it, but I will ask you whether or not this would not accomplish the same result. Whenever the danger of panic arises there would be either the Comptroller of the Currency or some officer of the Government who would permit the substitution for the reserve in cash, notes of the bank that are good. In other words, reserves are of no use if they are to be kept in cash and not to be trespassed upon; and yet you say they ought to go down to the very minimum or zero. If there was some officer who could in times of stress say they would give permission that the reserve could be converted into notes, it would be a security, in case the bank failed, to the depositors, and that the money should be released to them.

Prof. FISHER. That would be another way of doing it. The Reichsbank, I understand, has the privilege every quarter of using, without gold to cover, 200,000,000 of marks in order to accomplish the business of that quarter without embarrassment to the business world. That is along the line of what you are saying exactly.

Senator SHAFROTH. That is all, I think.

Senator BRISTOW. You spoke of the rise in prices. Do you think that the rise in prices has been against the public interest? Has it been an unfortunate thing?

Prof. FISHER. Very.

Senator BRISTOW. You think it has?

Prof. FISHER. Very.

Senator BRISTOW. You think that when the producer gets a better price for what he produces, that it is an evidence of calamity?

Prof. FISHER. Not to him; but the price has two sides, the buyer and the seller; and in the matter of social justice, it hurts certain classes and benefits other classes. That is a very big problem. I have written a book on the subject, Senator; I think Senator Owen has a copy of it.

Sentor BRISTOW. You think the price of corn and wheat and hogs and cattle and potatoes, and things of that kind, ought to be reduced?

Prof. FISHER. No. I think the general price level ought to be maintained unchanged, as nearly as possible. A stable price level I think is an advantage, but the inflation of prices, such as we had during the Civil War, and such as we have had during the last 15 years, is a calamity, just as the deflation of prices as we had in 1873 and 1896.

Senator BRISTOW. You speak of the inflation of prices. What law controls? Do you think it is the surplus of gold? I understand you to say you give credit to that for this situation, that it figures in our prices?

Prof. FISHER. Partly.

Senator BRISTOW. What else?

Prof. FISHER. The inflation of credit, partly.

Senator BRISTOW. Why is the price of wheat lower now than it was years ago?

Prof. FISHER. The price of any individual commodity is an entirely different thing from the price level. Certain prices are lower, though the general price level is higher than you get from an index number, of course. And even the index number in this country, such as was published by the Bureau of Labor, now called the Bureau of Labor Statistics, understates the rise. It shows a rise of over 50 per cent in 15 years, but it understates it, because it gives too much emphasis to the things which have fallen in price. I was just talking with the head of that bureau yesterday in regard to that matter.

Senator BRISTOW. What commodities do you especially refer to as having risen far beyond what they were justified in advancing?

Prof. FISHER. I can not enumerate them; but this index number is based upon 267 wholesale prices. It shows an average rise of 50 per cent.

Senator BRISTOW. Do you think that is due to the currency?

Prof. FISHER. Largely.

Senator BRISTOW. A currency system, then, may create a rise in the price of cattle and not in the price of sheep, or a rise in the price of oats and not in the price of wheat?

Prof. FISHER. No, sir; it would affect the price of all of them, but some of them are going in the other direction. It is just like the Hudson River; some steamboats are going up and some down. You can not claim on that account that the river did not pull them all downward. It pulls every steamer on the river downward, but nevertheless some are going upstream. They are pulled downward just the same.

Senator NELSON. Senator, will you allow me a question?

Senator BRISTOW. Yes.

Senator NELSON. Have you taken into account in your estimate of the inflation of prices the higher grade of living and the increase of our population?

Prof. FISHER. In a way.

Senator NELSON. Is not the grade of living higher than it was 15 years ago?

Prof. FISHER. Yes; but I interpret that to mean, Senator, that the actual wealth of the world is greater. People live higher because there is more to live with. We have invented and produced a great many things within the last 15 years, and that also disposes of the theory that the high level of prices is due to the scarcity of goods. It is not. There is no scarcity of goods. Goods have increased in value. It is due, not to the scarcity of goods, but to the abundance of the means of paying for goods. But I am afraid we are getting rather far from the subject.

Senator BRISTOW. No; I think it is directly on the question of currency reform. This is a new idea to me. I do not mean to say it is a new idea, but it is new in this hearing. This is the first time it has been injected into the hearing. I think it is a very important matter.

Prof. FISHER. Yes.

Senator BRISTOW. The redundancy of gold in the country is one of the causes of high prices?

Prof. FISHER. It is a very common opinion, sir.

Senator BRISTOW. I have heard it expressed, but it has not been injected yet into these hearings.

Why is it that this redundancy of gold does not make the price of sugar go up, the same as it has the price of bacon?

Prof. FISHER. Because sugar happens to be one of the steamers going up the river.

Senator BRISTOW. Is it going up the river instead of down?

Prof. FISHER. I am perhaps confusing you by using the simile of the stream running down to indicate the rise of prices, but what I mean is, sugar has specifically had a tendency in the opposite direction to the general tendency of prices, and it has been affected. In other words, if gold had not declined in purchasing power, sugar would have declined in price more than it has. I do not maintain that the inflation of the currency can affect one commodity one way and another commodity another way.

Senator NELSON. Do you take into account that in the realm of production, the production of one commodity is superabundant while that of another commodity is scarce? That is, for instance, the crop of potatoes was very poor in the country, while this year the crop of wheat is very abundant. Does that cut any figure in your estimate of prices?

Prof. FISHER. Yes.

Senator NELSON. And does not the amount of production oi a country, whether it is an agricultural product or anything else, the volume of production, determine to a large extent the scale of price rather than the money theory?

Prof. FISHER. Not rather than, but is a part of that theory. That is, the volume of trade is one of the five factors that virtually act upon the price level.

Senator NELSON. But the volume of trade has nothing to do with it; that is simply an exchange of commodities.

Prof. FISHER. But that is dependent on the production.

Senator NELSON. If a crop of wheat is abundant, as it is in this country, then the price will be low?

Prof. FISHER. Yes.

Senator NELSON. This year the price of corn is high, because in a great many States it has proved a failure. How can you ascribe all these things to the currency system?

Prof. FISHER. I do not, sir.

Senator NELSON. And if there has been such an inflation of our currency for the last 15 years, what is the urgency of more currency at this time?

Prof. FISHER. I am against having further inflation. I emphasized that point; and I think further inflation must be guarded against in drawing this bill.

Senator NELSON. Go on, Brother Bristow.

Senator BRISTOW. Professor, I will have to hurry along.

Senator NELSON. I am sorry I have taken up your time, Senator.

Senator BRISTOW. I want to say that while it has been impossible to prevent this congestion, I hope when we get more witnesses before us we can have all the time we need in order to get their views elaborately, and that we will not be handicapped here with so many important men in such a limited time. It has been unavoidable so far.

Prof. FISHER. I do not think that I have anything further to offer. I can come back at any time the committee should so desire.

The CHAIRMAN. I would suggest that you read this book by Prof. Fisher. That would help you in this problem.

Senator BRISTOW. I would rather talk with the professor face to face than to read his book, as entertaining as that would be.

What per cent of loans would be available in this country, of the general loans that banks have under the provisions of this bill—that is, the 90-day limit?

Prof. FISHER. I do not know. That is a question that I should think only a banker could answer.

Senator HITCHCOCK. They give it up.

Senator BRISTOW. That being beyond the possibilities of ascertainment, how much of this currency would be issued? Does anybody know?

Prof. FISHER. I do not suppose it would be possible to calculate it with exactness, but I should think that you might make some estimate, because you have 10 per cent gold on the capital of the banks; you know what the capitals of the banks are; you know what the deposits with the United States Government would be, and you can reckon up the resources of the banks.

Senator BRISTOW. But it is not on resources; it is on loans.

Prof. FISHER. But those resources would be put in the loans, and in that way you can reckon the loans.

Senator BRISTOW. There is a bank in New York which has 24 millions of loans and discounts on a million capital.

Prof. FISHER. But they had a large surplus besides. That is really a part of the capital. Capital, surplus, and undivided profits ought really to go together every time.

Senator BRISTOW. That is about 8 or 10 to 1, is it not, of deposits to capital?

The CHAIRMAN. About 8 to 1, of the national banks.

Prof. FISHER. And when you take in the State banks and trust companies it probably would go beyond that.

Senator BRISTOW. It is the notes that are available for rediscount; that is the only limitation, is it not?

Prof. FISHER. I do not mean the capital would be a limitation, but in making an estimate I would begin that way. The size of this bank is determined somewhat by the capital, and I would talk about the Government deposits that go in there.

Senator BRISTOW. That would determine approximately what was the character of their loans and discounts; what per cent of this would be available under this 90-day limitation is simply an unknown quantity, is it not?

Prof. FISHER. Well, it is unknown; but it is not unknowable, it seems to me. I should think if you got the right kind of men here before your committee you could make a pretty good estimate of that.

Senator BRISTOW. You think we could. Well, we have not been able to up to date. We may be able to get that later on.

Prof. FISHER. There must be some figures as to the volume of loans in existence on different dates, the same limitation, 30, 60, 90 days, etc.; and then they would know what percentage of them would be cut off every day.

Senator BRISTOW. You spoke of replenishing the gold reserve which should be used in redeeming this currency that is proposed by this bill. I want to see if I understand you properly. I understood you to say that while no provision is made except this 5 per cent for the redemption of this currency, the Government could, when a gold certificate is presented, instead of giving the gold, nominally give the gold to the holder of the certificate, and then say to him, "Here, I will give you twice the amount of legal-tender notes for this gold," and in that way get the gold back and put it into the reserve fund to put behind its circulation, its currency, and keep it up and use the billion dollars of gold we have got down here. Is that your suggestion?

Prof. FISHER. Yes; with a very important specification, that that should be not as a matter of current exchange, but of an emergency, with a penalty attached, only in case there is a crisis on, a panic impending. Then these banks who would have in their reserves large quantities of these certificates could double the amount virtually by converting them into the notes.

Senator BRISTOW. Yes, I can see that it is purely for the purpose of meeting an emergency; but suppose that these notes were presented for redemption in gold and the Government has not got the gold. How is the Government to get the gold when it has not got it?

Prof. FISHER. You mean in an emergency?

Senator BRISTOW. No; the currency that is based upon these assets——

Prof. FISHER. You are not talking of certificates?

Senator BRISTOW. No; the fund, the reserve, the currency.

Prof. FISHER. The current redemption of the notes ought to be specific in this bill.

Senator BRISTOW. How would the Government get the gold to redeem them when they are presented? Five per cent is not enough. That is all the bill requires.

Prof. FISHER. I could not add anything to what Mr. Hulbert said in regard to that.

Senator BRISTOW. I did not know that he talked of it. I did not understand that he did.

Prof. FISHER. He said that he thought the 5 per cent was not enough. I am not informed as to that.

Senator BRISTOW. There would be a larger per cent of gold maintained there by the banks, a sufficient per cent?

Prof. FISHER. Certainly.

Senator BRISTOW. What per cent would that be?

Prof. FISHER. I do not know. I should think that that might be figured on the basis of experience that has been mentioned here.

Senator BRISTOW. So you would compel the banks to provide the Treasury with the gold to redeem these in whatever amount was necessary?

Prof. FISHER. Yes, sir. It seems to me when we have a scientific currency, responsive to the needs of business, we will not need a great deal for redemption, because the money will all be fully occupied.

Senator REED. Do you think that the massing in the Federal Treasury of over a billion dollars in gold has had any tendency to strengthen the currency of our country?

Prof. FISHER. Simply sentimentally. It represents, of course, ownership not by the Government, but by the people; that gold is nominally in circulation.

Senator REED. But, sentimentally it has been of value?

Prof. FISHER. I think so.

Senator REED. If a billion dollars of the currency of the United States is backed dollar for dollar by gold, at least that part of our currency is secure and safe, is it not?

Prof. FISHER. It certainly is.

Senator REED. Would you not say, then, that the massing of this gold has added greatly to the strength of our financial system, speaking as a whole, and giving it a condition of confidence in the minds of the people of the world?

Prof. FISHER. I do not think it has added as much as one would think, from the mere offhand statement that we have a billion dollars of gold in the Treasury, because when we come to analyze it it does not remedy the inelastic condition of the currency——

Senator REED. I am not speaking of that. I did not mean to interrupt you, but I want to be brief. Therefore I want if possible just to confine your thought to this one matter. Is it not your opinion that every form of money we have in this country to-day is regarded more highly in the country because over a billion dollars of gold is piled up in the Treasury and at least a billion dollars of our circulating medium is backed for 100 cents by gold?

Prof. FISHER. Perhaps, sentimentally; yes.

Senator REED. Well, suppose you take it out and you have no gold, and we wipe it out. Do you think our currency system would be anything like as stable as it is?

Prof. FISHER. You mean in case all the holders of certificates should redeem them and carry them in their pockets?

Senator REED. Oh, yes; if the holders of certificates were to cash in for this gold, and it was to be scattered throughout the country, would we be as secure as we are now?

Prof. FISHER. I do not know. We might then have the sentiment that we are carrying our certificates in our pockets. That is what the Englishman boasts.

Senator REED. So you really think the piling up of a gold reserve is not much use?

Prof. FISHER. I think it could be made of colossal security and of stability, because it would at any time be released to add to that 150 millions under an emergency act such as I described.

Senator REED. If you did not have it, you could not release it.

Prof. FISHER. No; as far as that is concerned.

Senator REED. Professor, do you think that this bill absolutely takes every dollar of the gold out of the Federal Treasury, or makes it possible to take it out?

Prof. FISHER. I do not think it makes it probable to be taken out, because our people will not carry it, and these Federal reserve banks will therefore not carry it either very much.

Senator REED. Let me state it to you.

Prof. FISHER. They will carry the yellowbacks instead.

Senator REED. This bill provides that after its enactment every dollar of money in the Federal Treasury except that which is held in special deposits shall be carried out of the Federal Treasury and put into these banks. It further provides that every dollar the Government gets, from any source, shall be carried over and put into the vaults of these banks.

Prof. FISHER. But I do not understand that it related to that one billion. That is a special deposit.

Senator REED. Wait; I am not talking about that. That removes, of course, all moneys they have now except the special deposits, and it absolutely stops the possibility of accumulating any future deposits.

We propose in this bill to issue asset currency to these banks based upon notes of hand which they may present to the Federal agent. Each time we issue a note for $1 we must put aside in the banks 33⅓ cents of gold. How long do you think the banks will be in taking these yellowbacks, as we have called them, down to the Federal Treasury and looting the Federal Treasury of that billion dollars of gold by having yellowbacks redeemed and the gold transported over to their vaults, and make up their 33⅓?

Prof. FISHER. Who has proposed that?

Senator REED. Why, the bill itself proposes that whenever we issue money to these banks on their assets they shall lay aside 33⅓ per cent in gold.

Prof. FISHER. No; I think not. Gold or lawful money.

Senator REED. Gold or lawful money.

Prof. FISHER. And that would be, so far as that is concerned—it would not be gold; it would be yellow backs except a little amount of till money in gold.

Senator REED. It would be yellow backs. Well, whenever the yellow backs were all gathered into the banks and set aside in the reserve, it would be exactly the same as if the gold had been physically transported?

Prof. FISHER. I think not, Senator.

Senator REED. Why not?

Prof. FISHER. It would be just a transfer of the ownership from the hands of the public to the hands of the bank of the title to that gold.

Senator REED. The banks would own this gold instead of the public.

Prof. FISHER. That is all.

Senator REED. The banks would get the gold.

Prof. FISHER. Oh, they would not any more than we would.

Senator REED. Possibly not; they might prefer the Federal Treasury.

Prof. FISHER. They would prefer what their customers preferred; and their customers will not have gold.

Senator REED. But the question is that the ownership—I do not care just where the physical gold is put—would be centralized in the bank and set aside as a reserve back of this asset currency.

Prof. FISHER. Yes.

Senator REED. And the Government could never accumulate in all its history under this bill another single dollar of gold to lay it aside, because it has to take every dollar as quick as it gets it and carry it over to the bank.

Prof. FISHER. Your question has no relation to this billion dollars of gold.

Senator REED. No; I am talking about future accumulations.

Prof. FISHER. The current funds.

Senator REED. Yes.

Prof. FISHER. Why, yes it could. It could accumulate future funds by issuing certificates for the gold that would come in to it from the banks.

Senator REED. But that is not this bill.

Prof. FISHER. Does not this bill permit that?

Senator REED. This bill provides that the Government of the United States shall hereafter deposit all of the moneys it acquires.

Prof. FISHER. With certain exceptions, of which this reserve for the yellowbacks is one.

Senator REED. No; that is not an exception.

Prof. FISHER. Then it should be put in it, if there is any difficulty about that, and there would be no more sense in exempting the present hoard than in exempting the future ones.

Senator REED (reading):

That all moneys now held in the general fund of the Treasury, except the 5 per cent fund for the retirement of outstanding national-bank notes, shall, upon the direction of the Tresaurer, within 12 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.

I call your attention to that.

Prof. FISHER. Mr. Senator, if that means that they must physically deposit any gold that floats into the Treasury, would it not still be possible under the bill for the bank which receives the gold, if it receive more than its customers wanted, which it very shortly would, to send it back to the Treasury in exchange for gold certificates? Is not that permitted stlll?

Senator REED. This bill as far as I noticed it with reference to this point does not make any such provision.

Prof. FISHER. It seems to me that would be automatic, under the existing law. Anyone having gold is now allowed to deposit with the Treasury in exchange for a warehouse receipt.

Senator REED. Under the present law?

Prof. FISHER. There is nothing to permit that under the law, is there?

Senator REED. If the bank wanted voluntarily to carry it over there, it could do it. You think they would not do it?

Prof. FISHER. I most certainly do. I think the banks do not want to use up their valuable storage room and iron vaults for carrying useless hoards of metal that they never could make any employment of.

Senator REED. Is not this the way that we have been able to accumulate gold and set it aside? We have a large circulating medium in this country that is not receivable for Government dues. Therefore while that serves the functions of money with the people generally, it can not be received at the customhouses or is not generally received there.

Prof. FISHER. I did not quite catch what it was that was not received at the customhouses, Senator?

Senator REED. National-bank notes are not a full legal tender at customhouses. That forces the payment of customs dues in gold, or the equivalent of gold. Therefore, there is a stream of gold pouring into the Treasury, and every time the Federal Government gets a gold dollar it can lay it aside and issue a gold certificate. That has been the method of accumulation. But if it is obliged to take that money as soon as it comes in and put it into the bank, it loses that advantage, does it not? I wish you would think about that a little.

Prof. FISHER. That is something for the committee to think of. If it is desirable, as I believe it is, to keep the physical hoard of gold in the Government vaults, it is very easy to remedy that provision in the bill, of course, by stating that the depositing of Government funds in the case of gold shall be regarded as accomplished if the deposit is made in the form of warehouse receipts for the gold.

Senator REED. In regard to the question of the amount of money which might be issued under this bill, there was some question raised here as to there being a natural or automatic regulation. I find in looking at the report of the comptroller that we had in the banks demand paper on June 14, 1912, 571 millions; on demand, secured by stocks, bonds, and other personal security, 985 millions; on time paper, without security, 1 billion 198 millions.

You do not see any difficulty, do you, if the banks wanted to do it, in their converting all of that paper into a class of paper which would come within the definition in this bill?

Prof. FISHER. I should think it would be extremely difficult to convert it all into that type of paper, because this type of paper is short-time paper.

Senator REED. The question of time enters into it. Do you think there would be any difficulty in the banks in a short time reducing this paper to short-time paper, and if they could use short-time paper to more advantage than the long-time, would they not naturally do it?

Prof. FISHER. I think they would. I think that would be an advantage.

Senator REED. It is entirely possible, then, that it all might be so converted and changed as to become legitimately the basis for the issuance of money? The aggregate of these items that I called attention to is $2,754,000,000.

Prof. FISHER. For what banks is that?

Senator REED. That is the national banks alone. I am not speaking now of the State banks.

Prof. FISHER. But their total loans must be bigger than that. You must have left out something.

Senator REED. Oh, yes. It is two classes that approximate the commercial paper and only require slight changes. As I figured it, saving 33 per cent reserve each time money was issued, there could be issued in paper money nearly six billions of dollars, and with the gold reserve of 33 per cent, that would be something like nine billions of money in the gold or paper in this country, provided you could get enough gold to make that kind of a reserve. Would that be a safe proposition without some regulation, some limitation?

Prof. FISHER. It would certainly be a great disaster to have such an inflation as that.

Senator REED. I am talking about the possibility of inflation. I may be in error. I have been asking my questions to get your view of this bill.

Prof. FISHER. I said at the start I was sorry I had not been able to make any detailed study of such calculations.

Senator REED. I wish you would give the committee the benefit of your thought on that. I would appreciate it. I do not mean at this moment, but that you should devote your thoguht to it and let the committee know the result. While there are many questions I would like to ask you I realize the time is short, and I will ask no more.

Senator HITCHCOCK. Prof. Fisher, you feel that it has been unfortunate for the country that we have had such a rise in prices, and you think the cause is due to the great increase in our circulating medium?

Prof. FISHER. Yes; that is the chief cause.

Senator HITCHCOCK. And do you not think that this bill will further increase our circulating medium?

Prof. FISHER. I think that ought to be avoided.

Senator HITCHCOCK. Is not the purpose of this bill to increase the facility of turning credit into currency?

Prof. FISHER. I did not understand the purpose of the bill was inflationistic but elastic.

Senator HITCHCOCK. It certainly is proposed as one of the prominent features of this bill to issue Government notes to the 12 reserve banks upon their request without any limit. Those Government notes are to circulate as currecny.

Prof. FISHER. But there is a provision for the retirement of the bank notes each year.

Senator HITCHCOCK. That is true for each year, but it is based on paper.

Prof. FISHER. Yes.

Senator HITCHCOCK. But that is simply substituting for a perfectly safe currency, a currency which has no strong degree of security. Do you think the effect of this bill will be to contract the credit and the currency of the country?

Prof. FISHER. It looks to me, as it now stands, as though it would expand it somewhat.

Senator HITCHCOCK. And yet you say you think it ought to pass at this session.

Prof. FISHER. Yes; I would like to take it, even with the inflation, in order to get rid of our present inelastic system, which is inviting to panic at this time. But I want to emphasize as a fact and to have it go into the record as emphatically as possible, that I am very much opposed to any tendency to inflate the currency, and that this bill ought to be carefully calculated. That is the reason I spoke of the possible retirement of the greenbacks, to give the Secretary of the Treasury discretion to get them out of the way. If they can be used as an endless chain again to export the gold, we ought to simply substitute an elastic currency and they ought to be retired. We ought to simply substitute an elastic currency for an inelastic currency, and we now have four or five rigid rocks in our currency—the bank notes, set at a certain fixed sum, and the greenback, and the silver. They are like three big chunks of ice in a pitcher of water. You have a little water around them. They can float, but the ice is absolutely rigid. But I will not pursue the simile any further.

Senator HITCHCOCK. Are you thoroughly convinced this currency should be elastic?

Prof. FISHER. Yes; I think we want an elastic currency.

Senator REED. Is not your simile rather a bad one?

Prof. FISHER. I will take back the simile.

Senator REED. The truth is, that your ice is circulating all the time, but it does not get any larger or any smaller.

Prof. FISHER. Yes.

Senator HITCHCOCK. You are thoroughly convinced we should have an elastic currency.

Prof. FISHER. Yes. In Germany, for instance, where they have a great deal of expert talent working on this proposition all the time, they go into great detail. When there is an unusual demand for currency they issue it without any penalty; if it is kept out any longer than for one quarter there is a penalty. So that the collections take place in volume of currency instead of its velocity. In this country we have the latter two instead of the first.

Senator HITCHCOCK. If you believe in an elastic currency you must have given the subject a great deal of study, and you must be able to tell the committee what percentage of elasticity we have.

Prof. FISHER. Well, elasticity to my mind is not measurable in a percentage.

Senator HITCHCOCK. But it is measurable. You can take the percentage in France or Germany or England every day, every year.

Prof. FISHER. My definition of a perfectly elastic currency would be one which varied with the demands of trade in such a manner as to maintain the price level constant.

Senator HITCHCOCK. Are you sure that there is such a variation in the trade of the United States as requires an expansion and contraction of the currency? Are you not really confusing expansion and contraction of the currency with expansion and contraction of credit?

Prof. FISHER. I am very glad you mentioned that, Senator, because while I think the expansibility and contractibility of the currency, of the money is important, the expansibility and contractibility of the credit is very much more important.

Senator HITCHCOCK. One is not coterminous with the other?

Prof. FISHER. No.

Senator HITCHCOCK. As a matter of fact, in a great country like the United States, with wonderfully diversified interests and business and occupations, and expansion of credit in one part may be at one season of the year, in another may be another season of the year, so that the same body of currency all the time may be sufficient.

Prof. FISHER. If it should happen to average all right, yes.

Senator HITCHCOCK. And are you not thinking only of the small European experience with a comparatively small diversity and where an expansive currency has been provided to meet their requirements. Their demands are quite regular and quite homogeneous from the whole country. I would like to ask you whether or not from the experience of Germany and France, supposing we were as small as they are and as lacking in diversity as they are, what degree of expansion between the minimum and the maximum would you think necessary. I am referring to currency and not credit.

Prof. FISHER. In the course of a year I should not suppose the expansion and contraction would be a very large per cent.

Senator HITCHCOCK. Could you estimate it?

Prof. FISHER. No; it would be just a matter of guesswork.

Senator HITCHCOCK. You think it would be very small, and yet you would be in favor of tearing our whole currency up by the roots, changing the whole system, when as a matter of fact, there only is a fluctuation of a small percentage on top that you want to get at.

Prof. FISHER. I said at the outset that I think the credit elasticity is the important thing to work at and that you at any rate ought not to adjourn without doing something in the nature of what I suggested to allow the utilization of bank reserves when they get below the legal limit.

Senator HITCHCOCK. That is another proposition.

Prof. FISHER. Yes; that is another proposition.

Senator HITCHCOCK. Yes; I agree with you on that policy; but suppose I tell you that the contraction and expansion of credit in France is only about 6 per cent. I mean the contraction and expansion of the currency in France.

Prof. FISHER. The difference between maximum and minimum in the course of a year——

Senator HITCHCOCK (interposing). Would you think that the experience there shows that the contraction and expansion of the currency for the whole country only amounts to about 6 per cent? Do you think it is necessary for us to discard our whole system and get a new system only to secure that trifling expansion and contraction?

Prof. FISHER. As I just said, Senator, I do not think that is the greatest object. I think that is a desideratum. But the greatest object of this bill is to secure what ought to be security and elasticity of credit.

Senator HITCHCOCK. Now, I want to ask you about another thing. You think this ought to be done in a hurry. My own judgment is that when it is done it is going to produce a tremendous contraction of credits for the reason that in our reserve cities there are 350 banks that must all during a short period of time produce about $400,000,000 of cash, and in order to secure that cash they have to call in their loans. I want to ask you this: Suppose that is done as far as the national banks are concerned, where are the State banks expected to get the cash? They must increase their reserves up to the requirement of the national bank act. Where are they going to get that additional reserve? The State banks now carry a much smaller reserve than national banks. Where are they going to get it?

Prof. FISHER. In the ordinary course of banking. I think that in view of the possibility of such a contraction the transition should be made slowly. I think that should be carefully calculated out. I greatly regret that I do not feel in a position to specifically say that should be done, but it seems to me it ought to be done. As to passing this bill in a hurry, I think it would be unfortunate to include anything in it which might by any possibility produce contraction, extension, or inflation. I will say that I think the bill ought to be reduced to its minimum of the things you are sure about—simplify the bill. Don't put too many powers into the hands of the Federal reserve board, etc. Then, after it is launched, the defects of omission can be readily corrected on the basis of experience, whereas defects of commission will make trouble for you.

Senator POMERENE. I would like to ask just one question. In your judgment, should these reserve notes be the obligations of the Government or not?

Prof. FISHER. You mean do I think they are now in the bill or they ought to be?

Senator POMERENE. No, should they be?

Prof. FISHER. Senator, I think there are many ways to kill a cat, and I think you can start out on a policy by which the Government guarantees all the currency; you can start out on a policy by which the Government delegates to the bankers. For my part I do not think there is so much to choose from. I do not really know which I prefer. I think I rather would prefer the Government should keep out of it as much as possible; but if the Government wants to go into it as much as possible I am willing to trust the Government.

Senator POMERENE. In view of your statement, let me ask you this: Will you state briefly the reason for making them the Government obligations, and the reasons for not so making them.

Prof. FISHER. Well, of course, if the Government is behind it public confidence is supposedly impressed with that fact; but if the Government is not behind it public confidence may be injured. It is the argument of confidence you can put on their side, according to how the thing stands.

Senator POMERENE. Well, with the securities that are provided in this bill for the retirement of these notes, would the Government be incurring a very great liability if it issued them as its obligations?

Prof. FISHER. Not very great. Not greater at any rate than in the form it now supposedly does?

Senator POMERENE. Yes.

Prof. FISHER. I do not think so; it does not impress me that they are more than nominally Government obligations. The Government puts the onus on the bank of maintaining reserves for their redemption, so that while the Government agrees to redeem, just as it does in the present bank system, it intends to compel the banks to do it as the regular thing.

Senator REED. Mr. President, before we adjourn I want to make a short statement.

The CHAIRMAN. Have you any further questions to ask Prof. Fisher? Professor, we are very much obliged to you.

STATEMENT OF T. CUSHING DANIEL, OF VIRGINIA.

Mr. DANIEL. Mr. Chairman, in order to establish a sound and safe monetary system in the interest of all the people in the United States, it is first necessary to explain the present gold-basis fallacy, the very foundation of the present money system and upon which all credit substitutes for money are issued by the Government and dealers in debts.

As J. Pierpont Morgan, Irving Fisher, Lawrence Laughlin, and many other professors of political economy in the great universities of the United States have indorsed this economic fallacy, it therefore becomes of paramount importance that it should be most carefully considered by your committee at this time.

I now quote from the sworn testimony of J. Pierpont Morgan, as a witness before the Money Trust investigating committee of Congress, December 19, 1912, Washington, D. C.

> Mr. UNTERMYER. Money is a commodity, is it not?
> Mr. MORGAN. Yes.
>
> * * * * * * *
>
> Mr. MORGAN. Money is gold and nothing else.

A few months later, Prof. Irving Fisher, of the department of political economy, Yale University, 1913, stated before the American Economic Association in Boston:

We so seldom see gold coin that we are apt to forget that the ultimate unit of money in the United States is a certain weight of gold. Many people are under the impression that a dollar is something created by Government fiat. It is, as a matter of fact, a unit of merchandise. Underlying every bank note, greenback, or other form of money which we handle daily is a gold dollar with which this other money is interconvertible with 25.8 grains of gold bullion; mere merchandise, fixes the purchasing power of the dollar. Every dollar must be worth what 25.8 grains of gold bullion is worth, no more and no less.

In New York, January, 1913, after Mr. Morgan had declared gold was a commodity and that gold was money and nothing else, Prof. Laughlin, department of political economy, University of Chicago, made the following statement:

J. Pierpont Morgan was correct when he said "Money is gold and nothing else."

In order to close the case against the people in favor of a gold basis for the redemption of credit money, issued by banking corporations and the manufacturers of debts, could a stronger trio be found to indorse this economic fallacy? A gigantic scheme to exploit the people. I want the people to realize the tremendous and far-reaching importance to them of this false basis of money—the very foundation upon which banking corporations, money lenders, and manufacturers of debt issue and draw interest on their credit substitutes for money.

Our whole system of money and currency is built upon this absolutely false foundation, which has and is now costing the people untold millions.

We are indeed fortunate in having these reputedly great authorities state unequivocally the economic basis or foundation of their money system. Especially true is it at this time, as the present administration at Washington is adopting this false system as the foundation of the money bill now being forced through Congress.

I will repeat those reputed authorities, J. P. Morgan, Prof. Irving Fisher, and Prof. Lawrence Laughlin, unreservedly hold, "that 25.8 grains of gold fixes the purchasing power of the dollar."

I will now show that this is an absolute fallacy and will first prove that the unit of value in the United States is the dollar and not the 25.8 grains of gold in the dollar.

The United States mint was established by the act of Congress of April 2, 1792, and it provides in section 9:

That there shall be from time to time struck and coined at the said mint coins of gold, silver, and copper of the following denomination, values, and descriptions:

Eagle: Each to be of the value of 10 dollars or units and to contain 247$\frac{4}{8}$ grains of pure standard gold.

Dollars or units: Each to be of the value of a Spanish mill dollar, as the same is now current, and to contain 371$\frac{4}{16}$ grains of pure silver.

Half dollars: Each to be of half the value of the dollar or unit.

SEC. 20. *And be it further enacted*, That the money of account of the United States shall be expressed in dollars or units, dimes or tenths, cents or hundredths, mills or thousandths: A dime being the tenth part of a dollar; a mill the thousandth part of a dollar, and that all accounts in the United States shall be kept and had in conformity to this regulation.

This act establishes $1 as the legal unit of value in the United States and then says that when gold is coined into a dollar or money unit it shall contain 25.8 grains of gold, and this gold shall be weighed according to the standard of weight used at the mints before being coined into money units or dollars.

The dollar or money unit is the creation of the sovereign power of the people and binds them and their property to protect its value and redeem it at par. In other words, it is a creation of law, lawful money of the United States, a legal tender for all things on sale, all services for hire, and the ultimate of payment for all debts, public and private.

This means that 96,000,000 people in the United States stand ready to receive it and redeem it at 100 cents on the dollar. In fact, its money value, its purchasing and debt-paying power, would be the same if it did not have one grain of gold in it.

Every legal-tender dollar or money unit is redeemable (continuously) in $134,000,000,000 of national wealth, including all the gold and silver that we now have, or ever will have, and the services of 96,000,000 of the most energetic, enterprising, and productive people in the world.

That money is a creation of law has been recognized by the leading and most reliable economists of the world from the days of Aristotle. This great thinker, whose complete neglect of artistic forms and his adherence to "essential, naked truths," induced Dante to speak of him as "The master of those that know," and placed him at the head of the philosophic family, speaking of money, says, in Ethics:

> Money, then, has been made by agreement, as it were, a substitute for demand, and is so called because it exists, not by nature, but by law, and it is in our power to change it and make it useless for the purpose. It is called "nomisma" (from "nomos," law), because money is not a natural product, but exists only through law, and it lies with us to change it and rob it of its utility as we will.

Paulus, the Roman juris-consult, incorporated in the Pandects of Justinian this economic fact:

> And this material—gold—stamped by the State, circulates with a power which it derives not from the substance but from the quantity. Since that time of the things exchanged one is called merchandise and the other is called price.

It is plain that the 25.8 grains of gold is not the unit of value of the United States, but that $1 is the unit of value and so declared by law.

I will now prove that the dollar puts the value into gold and not the gold the value into the dollar.

What would be the value of gold if demonetized?

The history in the fall in the price of silver when demonetized is the conclusive answer. The demonetization of silver started in 1873, at which time silver was worth $1.00368. Present price after being demonetized (i. e., denied the use as money), 54 cents.

Fix the basic fact in the mind, that value depends upon demand. No fair-minded man will contend that gold, if demonetized—or denied the use as money—would be worth more than 50 cents on the dollar.

Two-thirds of the present value of gold is based on demand (and is an artificial one) created by the law allowing it to be coined into money, only one-third of the supply being used in the arts. Its value as a metal has been entirely lost in a fixed value given it as money, allowing it to be coined into money.

I will now show that the purchasing power of the money unit, or dollar of the United States, does not depend, as stated, viz:

> On the 25.8 grains of gold that fixes the purchasing power of the dollar.

This conclusion is based on the exploded theory of intrinsic value in gold.

Let us analyze the value of this commodity, gold. Has it intrinsic value?

Our common sense at once tells us there is no such thing as intrinsic value, for the simple reason all value is relative. In order that there may be no remaining doubt on this, I refer to the following leading authorities:

Prof. Jevons, Essay on Value of Gold:

There is no such thing as intrinsic value.

John Stuart Mill, Principles of Political Economy:

There can not, in short, be intrinsically a more insignificant thing in the economy of society than money.

Prof. Perry, Principles of Political Economy:

This author is led astray by the worse than useless adjective "intrinsic," having never yet learned that there is only one kind of value in economics, namely, purchasing power.

Mr. MacLeod, speaking of the expression "intrinsic value" says:

This unhappy phrase meets us at every turn in economics, and yet the slightest reflection will show that to define value to be something "external," and to be constantly speaking of "intrinsic value," are utterly self contradictory and inconsistent ideas.

Thus over and over again it is repeated in economical treatises that money has intrinsic value, but that a bill of exchange, or bank note, is only the representative of value.

Money will exchange for anything—corn, houses, horses, carriages, books, etc.—and each of these is the value of the money with respect to that commodity. But which of these is its intrinsic value? The incongruity of these ideas is so glaring that it is only necessary to call attention to it for it to be perceived at once. "Yet from the very beginning of the science this phrase has infested it."

To say that money, because it is material, and the product of labor, has intrinsic value, and that a bank note is only the representative of value, is just as absurd as to say that a wooden yard measure is "intrinsic" distance, and that the space of 36 inches between two points is "representative" distance. It is of the first importance to economic science to exterminate this unhappy phrase "intrinsic value," which is clearly shown to be a contradiction in terms. (MacLeod: Theory and Practice of Banking.)

Thus having disposed of this transparent fallacy of "intrinsic value" used so successfully for many years by those advocating the gold basis for the redemption of credit substitutes for money issued by banking corporations and manufacturers of debts against the people, we are now prepared to annihilate the entire premises or foundation upon which the present false and infamous money system is established, advocated, and indorsed by J. P. Morgan et al.

Here is the crux of their economic conclusion on money:

The fact that every dollar, whether coin or paper, is practically interconvertible with 25.8 grains of gold bullion—mere merchandise—fixes the purchasing power of the dollar.

In other words this 25.8 grains of gold bullion constitutes the so-called gold standard of value.

There is only one standard of value in a money system, and it has long since been fully recognized and indorsed by leading economists and recognized authorities on money. Concisely stated, the standard of value in a money system is constituted by the number of dollars in the system. The value of the dollar is made by the demand for dollars, demand operating against the supply. Therefore, if the dollars are few and the demand great the standard of their value is high and their purchasing power great. And if the dollars are many and the demand small the standard of their value is low, and their purchasing power small.

Thus the value of the dollar or money unit is made by the demand operating against supply. I quote from John Stuart Mill, Political Economy:

> The value of money, other things being the same, varies inversely as its quantity; every increase of quantity lowering the value, and every diminution raising it in a ratio exactly equivalent.

John Locke says:

> The value of money in any one country is the present quantity of the current money in that country in proportion to present trade.

Sir James Graham says:

> The value of money is in the inverse ratio of its quantity. The supply of commodities remaining the same.

John Stuart Mill says:

> Alterations in the cost of the production of the precious metals do not act upon the value of money, except just in proportion as they increase or diminish its quantity.

Again: In the case of metallic currency the immediate agency in determining its value is its quantity, Prof. Stanley Jevons declares:

> There is plenty of evidence to prove that an inconvertible paper money, if carefully limited in quantity, can retain its full value. * * * Such is the case with the present notes of the Bank of France.

Prof. Fawcett says:

> By limiting its quantity (paper money) its value in exchange is as great as an equal denomination of coin or of bullion in that coin.

Alexander Baring, of Baring Bros., says:

> The reduction of paper would produce all these effects which arise from the reduction of money in any country.

Recardo states:

> A well-regulated paper currency is so great an improvement in commerce that I should greatly regret if prejudice should induce us to return to a system of less utility. The introduction of the precious metals for the purposes of money may with truth be considered as one of the most important steps toward the improvement of commerce and the acts of civilized life, but it is no less true that with the advancement of knowledge and science we discover that it would be another improvement to banish them again from the employment to which during a less enlightened period they had been so advantageously applied.

Having shown that $1 is the money unit of the United States and that money is the creation of law and that there is no such thing as real money, unless created by the sovereign act of the people, and that the standard of value or purchasing power of a dollar depends upon the present quantity of the current money in the United States in proportion to present trade, I will now show the exact position and how gold entered into our money system in order that there may be no more mystery surrounding it.

The Troy pound, to regulate the coinage of metal into money, was obtained from England in 1827. It is made of brass and now kept in the mint in Philadelphia and constitutes the standard weight by which our coinage is governed and the commodity gold, turned into money by the highest act of the sovereignty of a people, making it lawful money of the United States, a full legal tender for all debts, public and private, and a universal order for all things on sale and all services of the people.

I desire to make indelibly plain and rivet in the minds of the people that the Troy pound is simply a standard by which the metal, gold, is weighed when coined into a dollar, or measures how many grains of gold will be equivalent to a dollar, or money unit, according to law. It weighs this gold just as it would weigh any other material substance and just as the yardstick would measure 36 inches of cloth or anything else. The metal gold does not measure the value of the dollar. The purchasing power of the dollar is measured by the dollar and the price of the things it will buy.

The value of the dollar when compared to other things depends upon the quantity of dollars out. Therefore the quantity of dollars constitutes the standard, affecting general prices, and not the gold in or out of the dollar.

I repeat, if the dollars in a money system are few in number, the standard of their value will be high and the price or value of other things low. If the dollars be many, the standard of their value will be low and the prices of other things high. It is only necessary to state this to prove it.

This brings us to the inevitable conclusion: That the number of dollars, or money units, constitutes the standard of value of each money unit, or dollar, in a money system, and fixes the purchasing power of the dollar, or money unit. This absolutely annihilates the false conclusions dogmatically expressed by Morgan, Fisher, and Laughlin, viz:

> The fact that every dollar, whether coined or paper, is practically interconvertible with 25.8 grains of gold, mere merchandise, fixes the purchasing power of the dollar. Every dollar must be worth what 25.8 grains of gold is worth, no more and no less.

It would be just as logical to hold that a yardstick made of gold would make the gold in the yardstick a standard of length, instead of the 36 inches in the yard being the standard of the yard, as applied to length; or that if you destroy the gold yardstick and only had yardsticks made of steel the "standard" of length, 36 inches, would be destroyed. It would be just as reasonable to contend that the clock made of gold would constitute gold the "standard" of time or that the bushel measure made of gold would constitute gold as the "standard" of its cubical contents.

The yardstick in the Bureau of Standards at Washington is declared by law to be the model for all other yardsticks and is made of bronze, but bronze is not a "standard" of length. Stripped of sophistry, when applied to money, it means when gold, the metal, is coined into a dollar of the United States the said dollar shall contain in weight so many grains of gold.

The troy pound kept in the mint is simply the "standard" weight for weighing the gold bullion.

A dollar, or money unit, does not change. Fifty cents can not be \$1, or 200 cents be \$1, any more than 18 inches could ever measure a yard or 72 inches be less than two yards.

The professors of political economy in the great universities who advocate this false theory of money are confounding the idea of a dollar, or money unit, the legal creation of a sovereign power, with the "standard" weight, a material substance, used as a model by which gold is to be weighed. They are intellectually dishonest is the most charitable construction that can be placed upon the position they now take upon this most important economic question vitally affecting all the people.

I would earnestly impress upon the minds of this committee the vital importance of the difference between the dollar, or money unit, and the metal, gold.

The dollar, or money unit, is the creation of the sovereign power of the people, and binds them and their property to protect its value and to continually redeem it at par, or 100 cents on the dollar. In other words, it is a legal tender for all things on sale, all services for hire, and all debts, public and private. This means that 96,000,000 people in the United States stand ready to receive it at 100 cents on the dollar. In fact, its money value, which is its purchasing and debt-paying power, I repeat, would be the same if it did not have one grain of gold in it.

To say the equality, validity, value, or purchasing power of the full legal-tender dollars or money units of the United States, redeemable all alike, depend for their redemption at par upon the 25.8 grains of gold in the dollar or money unit is an unthinkable absurdity. Every legal-tender dollar or money unit in this country is redeemable in $134,000,000,000 of the national wealth, including all the gold and silver that we now have in the United States or will ever have, and the services of over 96,000,000 of the most enterprising and productive people in the world.

If our mints were closed to the coining of gold into money, you could weigh out 25.8 grains of gold and in six months thereafter it would not be worth 50 cents, yet the purchasing power of the dollar or money unit would be unchanged. When the sovereign power of the United States embodying the will of the people says this is a lawful dollar or money unit, and thereby pledge $134,000,000,000 in the national wealth and the resources of 96,000,000 people for its redemption at par, or 100 cents on the dollar, you have the best and soundest money unit in the world without one grain of gold in it.

To make it more explicit and so plain that no man can refute it, the lawful money of the United States is created by the sovereign power of its people, each dollar or money unit is complete in itself; each has the same value, the same purchasing and debt-paying power; their equality or parity is necessarily the same, as each has its redemption alike in all the property and services of the people without discrimination.

The parity or equality is cemented together by an unlimited and universal demand for dollars of the United States, all doing the same work and having the same purchasing and debt-paying power.

The demand for dollars of the United States is the greatest ever known in the history of the world—bringing a premium over gold money in Europe.

Ninety-six million people in this country place an incessant and unending demand upon them for their services and support.

Over 60 billion of debts demand them for payment; the perpetual call for interest demands them without end.

Twenty-five billion of internal commerce demand their services.

Europe demands hundreds of millions of our dollars to settle her balance of trade with the United States. It is conclusively shown in Daniels on Real Money that gold is a handicap instead of a help to international trade.

I would ask these jugglers of words, "Is not this demand sufficient to preserve the parity or equality of our dollars?"

In conclusion, I would impress upon the mind that a dollar is not a debt, but a redeemer of debt; therefore one dollar should not be redeemed in another dollar.

This idea is an invention of the money lender and manufacturer of debts: A reversal of all sound ideas of finance that ever existed. It is based on the absurdity that a dollar is a debt. A dollar has never been a debt. It is not made for redemption, but is made to be a redeemer.

If the paper dollar is treated as a debt, then the gold dollar must be treated as a debt, else the one dollar is not at a parity of function with the other dollar; then one has the quality that the other does not possess, and the two dollars are not treated on equal terms.

There is no sound and stable money system unless every money unit in that system is legally equivalent to every other money unit.

I would ask these gentlemen who say they believe that 25.8 grains of gold fixes the purchasing power of the dollar and constitutes the standard of value in the United States to answer the following questions:

First. If the $750,523,267 of nonlegal-tender bank notes—credit money—were withdrawn from the money system of the United States what would be the effect upon values? There is only one answer: Any man of average intelligence knows there would be a great contraction of the circulating medium, a consequent fall in prices, a tremendous increase in the purchasing power of the dollar, ending in a money panic.

Second. If the $727,886,731 of silver currency, now debts redeemable in gold, and the $344,221,741 of nonlegal-tender greenbacks were withdrawn, what would be the result? A money panic would follow sufficient to create financial ruin and repudiation throughout the country and the present standard of values would be absolutely destroyed.

Is there a man who still believes that if the silver currency, greenbacks, national-bank notes, all nonlegal-tender currency, were taken out of the money system of the United States there would be no fall in prices of other things, and that 25.8 grains of gold would still fix the purchasing power of the dollar or money unit? If so, no other term would describe him than a "gold monomaniac."

To demonstrate how this false economic theory of money has worked in the interest of those who created and maintain it, money lenders and manufacturers of debts, and to the greatest injury of the people, I call attention to the following statement from the last Report of the Comptroller of the Currency, 1912, page 50, viz:

June 14, 1912: Cash holdings of the 25,195 all reporting banks, $1,572,953,479.43.

Of this amount, only $881,936,455 was gold, or legal money. It is shown on page 49, same report of the Comptroller of the Currency, that upon this narrow foundation of real money these banking corporations have invested $5,358,800,000 in bonds and other securities, and then have made loans and discounts to the people, aggregating the enormous sum of $13,953,600,000. In other words, these banking corporations, after investing in bonds and stocks more than five times as much money as they had in their business, used their bank-credit substitutes for money, and manufactured $13,953,600,000 of interest-bearing debts against the people, held alone by these banks.

I will now give a typical illustration of how it is done.

There is, we assume, $1,000,000 of actual cash money in circulation in a community. A bank is opened by a few men who say to the people:

More business can be done in this community, and you need more money with which to do it. Put your million dollars in our bank and we can arrange to accommodate this demand for more money with which to do it.

The $1,000,000 is deposited in the bank. Several of these men then apply to the bank for a loan to establish a cloth factory. The banker approves the loan, and requests them to leave their notes for the amount, and securities against the property, places the amount to their credit, and gives them a check book for them to check against the amount, to pay for their machinery, etc.

Now, since all classes in the community are depositing their money in the bank, little money will go out in payment for these checks. Thus a great many loans can be made in this way, and new enterprises started and men put to work.

Plans are then submitted to this banker for ironworks, lumber-yards, etc. They look to be safe and sound loans, and are made by the banker to the amount of half a million dollars, and they leave their notes and securities, and are allowed to check on the bank to that amount in payment for their needs in establishing these enterprises.

Everybody is now leaving their money and checks on deposit with the bank. The half a million of checks drift back to the bank in the course of a few days, and are not cashed, the money being left with the bank for safety.

More borrowers come in and leave their notes and mortgages and borrow, and the amount is placed to their credit in figures, and they also take their check book with them to check up on same.

The banker has now loaned out the $1,000,000, and only enough money has been taken out of the bank to meet the small necessities of those bringing in the checks, and while these small amounts of cash are going out other small amounts of cash are coming in, and the two about balance each other.

The banker has now loaned this million once, and drawing interest on it and still has it all in his bank, for the people who have brought in the checks against this million that had been loaned have not cashed them; in other words, have left them on deposit. So the banker when he makes up his "bank statement" for the United States Treasury Department reports that the bank has on deposit, not $1,000,000, but $2,000,000. And those who read this statement refer to this as evidence of the prosperity of their community, since the bank began doing business with them.

Other industrious and enterprising men come along to establish new enterprises, and borrow on stocks, bonds, and other securities. The banker sees they are good and makes the loans.

Checks are written to the extent of another million. They come back to the bank and are put on deposit, the cash going out being balanced by the cash coming in.

Now, the banker has loaned the million twice and is drawing interest on it twice at the same time. Another million is loaned in the same way. The third million is loaned, and only $1,000,000 is being used as the basis of all these loans, and the banker is drawing interest on the million dollars three times over at one and the same time.

In the bank's statement sent in to the United States Treasury it would now report deposits of four million. It makes no distinction between the deposits of actual cash and the deposit of checks drawn against the bank's credits.

These loans increase under this process until the bank draws its 6 per cent interest as much or more than 10 times over on every million dollars, or over 100 per cent on the actual money in the business.

While the people refer to the prosperity of their community as evidenced by the large deposits in the bank, the actual situation is this: The enterprises in this community have all been mortgaged by this process, and the people are working to pay interest and principal on these debts manufactured on them by these bank credits. They are, in fact, financially enslaved and working for the credit money lenders.

The banker or manufacturer of debts now grows most important, and talks about his manufactured loans out of nothing as "accommodations," and now advises and dictates to those doing the borrowing from his institution. Gets let in on the ground floor on promotion schemes, assumes a patronizing and advisory position to everybody else, considers everyone else's business his business and his own business no one's but his own.

In the larger cities the clearing-house association of banks is the modus operandi. The New York Clearing House is a typical illustration in its charging off of checks one against the other to avoid paying out money. Report of the Comptroller of the Currency, 1912, page 775: Clearing-house exchanges for year 1912, $96,672,300,864; balances settled in money, $5,051,262,292; the per cent of balances settled to exchanges, 5.22 per cent. Thus $100,000 of incoming checks on a bank is paid with only $5,200, and this is not paid out to the depositors, but transferred from one bank to another.

This is the process by which the banking institutions of the United States, with only $881,936,455, or less than $1,000,000,000 of real money in hand, have manufactured, by the use of their credit substitutes for money, nearly 14 billions of debts against the people, payable to these banks, principal and interest, in money.

Present monetary condition of the United States as developed by the dealers in debts: Total amount of legal-tender money, gold, in the United States, Report of Director of Mint, 1912, page 243, $1,616,538,976; debts, nonlegal-tender currency, redeemable in gold, $1,822,631,739.

On the gold-basis theory that every other dollar in the currency system is interconvertible with the gold dollar, these demand obligations would exhaust more than the entire gold supply. As the banking corporations have in their possession $881,936,455 of this gold, and $940,695,284 of this credit currency convertible into gold, it is evident that they control the entire money system of the United States. A mere statement of these facts proves this control. J. P. Morgan, the recognized authority among the bankers, practically admits this, as evidenced in his testimony under oath December 19, 1912:

Question. If a man controls the credit of a country, he would have control of all its affairs?

Mr. MORGAN. He might have that, but he would not have the money. If he had the credit and I had the money, his customer would be badly off.

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Mr. MORGAN. What I call money is the basis of banking.

Question. But the basis of banking is credit, is it not?

Mr. MORGAN. Not always. That is an evidence of banking, but it is not the money itself. Money is gold and nothing else.

He admits that those who have control of the credit of a country would have control of all its affairs. He then states that those who have control of the gold would have control of its credit, which is a self-evident fact.

Having shown that the gold basis of our money system is false, the whole system is false.

Restricting money to gold has been used successfully so far by dealers in debts as a subterfuge to prevent the Government from issuing its real money—redeemers of debts—in order that they might issue a cheap credit substitute to manufacture debts upon the people, and have the debts paid back in money.

It should be remembered that in the operation a debt is created against the borrower by loaning him the bank's credit instead of money, and that there is no corresponding amount of money in existence represented by this substitute in which the debt can be paid. Therefore the scarcity of money in comparison to the debts demanding payment necessitates constant borrowing, refunding, and multiplication of debts and interest and other charges on the people.

A counterfeiter is prohibited by law from creating that which he passes as money, because, in passing it to others, he is getting from them something of value for that which cost him nothing. Why, then, should banking corporations be allowed to create a substitute for money, bank credits, etc., which have cost them nothing, yet when loaned to the people can only be paid back, principal and interest, in money which the borrower has to obtain under the most adverse conditions before he can ever pay the debt, if at all, in money?

Under this debt-creating system, money, the medium of exchange, the most important factor in civilization, has been transformed into a gigantic system of oppression. It absolutely perverts the correct economic system, that money to circulate and not money to loan is what the industrial well-being of the world needs. Out of this perversion comes the pernicious and infamous theory that money shall be based on debts.

The following is the result of this false economic money system on the people of this country: Manufactured debts—National, State, municipal, corporate, real, and personal—amounting to not less than $90,000,000,000.

Upon a 5 per cent basis, this would be an annual charge of $4,500,000,000 a year upon the people in interest and dividend charges alone, to say nothing of payments on the principal. These interest and dividend charges of $4,500,000,000 can be paid only in two ways, viz: Adding it to the cost of the things that the people buy and use, or reducing the price of the labor which produces them. No other term can properly describe this system than as being a monumental fraud perpetrated upon an unsuspecting people that no power on earth can much longer conceal from them.

This false economic system of money has been maintained by the dealers in debts by assuming the intrinsic value of gold; then, the importance of maintaining the parity in value of gold and silver; next, the establishing of the so-called gold standard; and now the false contention that 25.8 grains of gold is the unit of value and fixes the purchasing power of the dollar. Having assumed these premises sound, they decline to discuss them further and proceed to reform the credit superstructure in which they are most interested, the banking and currency system, and object to saying anything about the false foundation upon which the whole system must rest.

In order to reform this banking and currency system, they again assume false premises, as follows: That a dollar is a debt, and has to be redeemed in gold alone in order to be a redeemable dollar; and that a dollar redeemable in over $134,000,000,000 of national wealth, including gold, is an irredeemable dollar. Also, that full legal-tender dollars, secured for their redemption upon the entire wealth and services of the people of the United States, and redeemable in everything they possess (including debts and gold), is fiat money, unless redeemable in gold alone. The logical deduction from this would be that, by lessening the security back of a dollar or money unit, its value would be increased.

This is all based upon the false theory that a dollar is a debt to be redeemed, instead of a redeemer. When you put a perfect circulating money unit of value in a money system, it is not a thing supposed to be redeemed in any one thing. It circulates and stays out, as a part of the circulating medium, redeemable in every thing.

To illustrate: A has a $100 legal-tender note. B has a horse, which A values at $100, and he closes the purchase. The horse redeems the $100 note, so far as A is concerned. B then desires to pay a debt of $100, and the $100 note is then redeemed by the debt so far as B is concerned, and the process goes on, ad infinitum, these legal-tender dollars being universal orders for all things on sale, all services for hire, and the ultimate of payment for all debts.

It should be remembered there can be no sound and stable money system unless every dollar or money unit in that system is legally equivalent to every other money unit. Therefore, all money issued by the Government should clearly be made a legal tender for private debts as well as for public debts. Otherwise, it places it in the power of the people to repudiate individually what they have done collectively, and they would not stand on the same footing with respect to their Government or to each other.

Money, to be real, must have upon it the impress of the law of legal tender, delegated to Congress by the sovereign States. This exclusive power to issue money as provided in the Constitution of the United States, is so imbedded in our democratic form of Government, and so essential to its perpetuity and the well-being of its people, that there would be little left if this highest act of sovereignty was destroyed or transferred to banks of issue.

The Supreme Court of the United States has long since decided this exclusive right of the Government, as applied to both coin and paper money, as follows (U. S. Rep., vol. 110, p. 447):

This position is fortified by the fact that Congress is vested with the exclusive exercise of the analogous power of coining and regulating the value of domestic and foreign coin; and also the paramount power of regulating foreign and interstate commerce. Under the power to borrow money on the credit of the States, and to issue circulating notes for the money borrowed, its power to define the quality and force of those notes as currency, is as broad as the like power over a metallic currency under the power to coin money, and to regulate the value thereof. Under the two powers, taken together, Congress is authorized to establish a national currency, either in coin or in paper, and to make the currency lawful money for all purposes as regards the National Government or private individuals.

The United States Supreme Court, speaking of the same power, declares (Legal Tender cases, 12th Wall.):

It was for this reason the power to coin money and regulate its value was conferred upon the Federal Government, while the same power, as well as the power to emit bills of credit, was withdrawn from the States. The States can no longer declare what shall be money, or regulate its value. Whatever power there is over the currency is vested in Congress.

By the self-confession of bankers and financiers who have grown rich during which time they have shaped all legislation on money, they now agree that the present system (which means a gold basis, with national banks of issue) is a dismal failure.

Under the operation of banks of issue and a gold basis for the redemption of credit money, promises to pay, we find all Europe staggering under a mountain of debt created through, and manufactured by, the use of credit substitutes for money devised by banks.

These debts are then made permanent and ever increased by the funding schemes put in operation, until there is little left in the way of an equity above the assessed value of their national wealth.

If a country, State, or Nation, be bonded for all the assessed value of its property, the bondholders, and not the people, own it.

The reason now given by bankers to reform the banking and currency system is the need of "more elasticity." Elasticity is the curse of the present credit money system, yet they want more of it, because it is most profitable to them.

It is now shown that with only $1,616,538,976 of real money (gold) in the money system they have, by the use of credit substitutes for money, pyramided $13,953,600,000 of debts against their borrowers, and with $750,472,349 of their credit currency (national-bank notes) injected into the system it can readily be seen that the whole system is made up of elastic inflation, invisible credit, and india-rubber currency.

By extending or calling in bank credits, they can inflate or contract the currency.

If they desire to create a fall in prices or influence politics, give an object lesson to an administration, it is only necessary for them to call in their bank credits and retire a part of their bank-note circulation and it is accomplished.

Having reached the limit of this credit inflation, and not yet being satisfied, they now demand an asset currency in order that they may have the use of more of this india-rubber money under the attractive plea of an elastic currency.

In the meantime the people are being deceived by official reports from the United States Treasury, circulated through the press, that the people have on deposit in the banks, June 14, 1912, $17,024,067,-606.89 of money, when, as a fact, it is almost entirely made up of debts owed the banks by the people, being the proceeds of loans entered on their books as if it were cash deposited in the banks by the people.

This immense sum of debts owed the banks by the people is used as an evidence of the great prosperity of the country; again used as an evidence of prosperity in making up the banking power of the United States to the grand total of $22,548,706,835 for 1912. Report of the Comptroller of the Currency, page 42, where he states:

> Since 1900 the banking power of the country has more than doubled, the increase being 111 per cent.

As the debts against the people increase and they become more and more financially enslaved, the banking power increases. Such a system is good for the banks and dealers in debts, but means untold suffering, poverty, bankruptcy, and ruin for the people.

I respectfully submit the following as absolutely essential to a proper reform of our money system on sound economic principles.

First. Absolute control of the monetary system by the Government.

Second. Government supervision over all banks and financial institutions doing business with the public and dealing in the circulating medium of the country.

Third. The issuing of money being a Government function means the issuing of full legal-tender money, not an asset currency or debts, redeemable in gold, as a circulating medium. The only effect of which would be the pyramiding of more debts upon the people by the use of credit substitutes for money.

It simply means the issuing of debts instead of dollars as a circulating medium.

Fourth. There shall be no further issue of circulating notes by any national bank beyond the amount now outstanding. The Government will offer to purchase at a price not less than par and accrued interest, the 2 per cent bonds held by national banks and deposited to secure their circulating notes. The Government shall take over these bonds and assume responsibility for their cancellation (upon presentation) of the outstanding notes secured thereby. The Government shall issue, on the terms herein provided, its full legal-tender notes, lawful money of the United States, as fast as the outstanding notes secured by such bonds, so held, shall be presented for redemption, and may issue other notes from time to time to meet business requirements, it now being the policy of the United States to retire as rapidly as possible, consistent with the public interest, bond-secured circulation, and to substitute therefor real lawful money of the United States in place of banks-of-issue promises to pay—credit money. All notes issued by the Government shall be full legal tender, and payable for all debts, public and private, and constitute a first lien upon all the assets and services of the people of the United States for their redemption.

Fifth. The following amendment:

And be it further enacted, That all the money heretofore issued by the Secretary of the Treasury of the United States, authorized by act of Congress, shall be substituted by lawful, full legal-tender money of the United States, thus destroying forever the operation of the endless-chain process upon the United States Treasury.

Sixth. That no banking or other corporations or association of men shall be allowed to issue any kind of money, currency, or any credit substitute for same.

I will now call attention to the warnings of our great statesmen, so long neglected by the representatives of the people:

1. William Pitt, chancellor of the exchequer of England, predicted this result when the First (so-called) Bank of the United States was established by Alexander Hamilton. He stated:

Let the American people go into their debt funding schemes and banking systems, and from that hour their boasted independence will be a mere phantom.

2. Thomas Jefferson declared of the money power of his day:

I hope we shall crush in its inception the aristocracy of our moneyed corporations which dare already to challenge our Government to a test of strength and bid defiance to the laws of our country.

The great founder of Democracy declared:

"Carthago delenda est"—bank paper must be suppressed and the circulating medium must be restored to the Nation, to whom it belongs. Let banks continue if they please, but let them discount for cash alone or for United States notes.

3. Salmon P. Chase, ex-Secretary of the United States Treasury, knew the present conflict would come, and said:

My agency in procuring the passage of the national-bank act was the mistake of my life. It has built up a monopoly that affects every interest in the country. It should be repealed. But before that can be accomplished the people will be arrayed on one side and the banks on the other in a conflict such as we have never seen in this country.

4. Horace Greeley saw the pernicious principle concealed in the system, and said:

We are careful to conceal the ugly fact that by our iniquitous monetary system we have nationalized a system of oppression more refined, but none the less cruel, than the old system of chattel slavery.

5. Abraham Lincoln clearly anticipated present conditions. He said:

I see in the near future a crisis arising that unnerves me and causes me to tremble for the safety of my country. As a result of the war, corporations have been enthroned, and an era of corruption in high places will follow and the money power will continue its sway by appealing to the people until all wealth is aggregated in a few hands, and the Republic destroyed. I feel more anxious for the safety of my country than ever before, even in the midst of war.

6. Henry Cernusche, years ago, denounced this gold-basis system by saying:

Pernicious in Europe, pernicious in America, pernicious in Asia, the monometallic gold scheme has produced, and can produce, nothing but disaster.

The time has at last come to establish a money system on sound and correct economic principles. Bankers, money lenders, dealers in debts, should not be taken as authorities on this subject. Their personal interest in the banking and currency system should disqualify them as witnesses. It is obvious that their interest and those of the people in establishing a money system are absolutely antagonistic.

If any of the members of the committee would ask those representative bankers whether they were in favor of reforming the money system to enable the people to pay off their debts, their logical answer would be no, for the reason that their business consists in dealing in debts, and the more debts the more money they obtain from the people.

Is there anything in the record of these high financiers, or the methods they have adopted in manufacturing debts upon the country, calculated to inspire the confidence of the people in any money system that would meet with their approval?

There is no mystery surrounding an honest money system established on sound economic principles. The mystery and dishonesty begins when one dollar is made the basis for creating from eight to ten imaginary credit dollars, drawing interest from the people and controlling the money system of the country in the interest of manufacturers and multipliers of debts.

The ruinous effects of this system can no longer be concealed from the people, who now feel daily the intolerable burden in the high cost of living. The great sovereign power of the 96,000,000 people must now be felt and reckoned with. No more makeshift legislation on money can save the people's representatives from their direct responsibility, and their votes will now determine whether they are with or against the people.

A majority of the 6,500,000 people who voted for Bryan believed the issuing of money to be a Government function.

The 4,000,000 people who voted for Roosevelt indorsed the plank in the Progressive Republican platform declaring that the issuing of money is a Government function.

The great army of real workers, the American Federation of Labor, believes the issuing of money to be a Government function.

The vital question is, Shall the Government any longer issue debts redeemable in gold as a circulating medium and allow banking corporations to issue their credit substitutes for money; or shall it exercise its sovereign power, as provided in the Constitution of the United States, and issue real money and regulate the value thereof in the interest of all the people?

Having exposed this gold basis scheme upon which banks issue their credit substitutes for money, in the name of the American people I call upon Congress to do away with this gold basis credit money system, establish property as the thing of value, money as the medium of exchange, make man the master above the dollar, free the people from financial bondage, and save this Republic.

The CHAIRMAN. We will now adjourn until 11 o'clock to-morrow morning.

Senator REED. I want to make a statement before we adjourn. There is a little paragraph in the afternoon Times that reads this way:

SAYS CURRENCY BILL CAN NOT BE RUSHED.

Declaring that the currency bill was too important a piece of legislation to be rushed through Congress at the fag end of a special session, Senator Reed, of Missouri, insurgent Democratic member of the Senate Banking and Currency Committee, to-day predicted that the measure would not become a law until next session. Reed called at the White House to-day, but did not see the President.

Now, Mr. Chairman, I am not given to denials of newspaper statements, but I do not want an article of that kind to go out without correction. I want to be very kindly in what I am going to say about it at this time.

I made no such statement; I made no statement that could fairly be construed to mean what is contained in this article. I said, when I was asked how long the committee would consider this bill, that I could not state, but that the measure was important, and that the committee would give it due consideration; that I could not tell when they would conclude their labors; that I knew that all of the committee were willing to sit here to the extent of their physical powers to consider this measure and report a currency measure as soon as they could, having due regard for the importance of the subject.

I hope that I am through with this sort of denials. I want to say now and here that no newspaper man has any right to characterize me as an insurgent Democrat. I am saying that to the members of the press and the gentlemen who are present here to-day because I hope it will not be repeated.

(The chairman presented the following additional statement of Mr. F. E. Marshall, of New York, N. Y., with the request that it be incorporated in the record:)

The important, and to the minds of many, the doubtful and unwise provisions of this bill is that part which refers: First, to note issues; second, to the reserves; and third, to rediscounts.

My apprehension at first was that the provisions of the bill would cause immediate contraction of credit. In other words, it would make the banks contract and call loans faster than conditions would justify and that this contraction and the possible easy credit, about which much has been said, would bring about inflated currency. I will admit that both of these were uppermost in my mind, but I am glad to say that after reading the bill and also the many speeches, I have been able to construe it with a clearer vision and to adjust it to conditions, I believe, with more definite and safer results. For the past few days I have read the speeches of different Members of the House with much interest and profit, and especially those of Mr. Glass and Mr. Hayes, representing opposite sides of the House, and I am much pleased to see that they are not far apart.

I am sorry to see, from the figures presented by Mr. Glass, that it will be necessary for the banks in the reserve cities and central reserve cities to become borrowers, in order to comply with the provisions of the bill, but it is much better that these banks should become borrowers than the country banks, for it is easier for them to adjust themselves to conditions and their assets are more liquid than the country banks. These figures, however, are based on the theory that the transfer is to be made at once, but in order to make it easy and step by step, the bill gives three years for the banks to adjust themselves. From my knowledge of the assets of the city banks, I feel safe in predicting that they will meet the requirements, without borrowing and without great inconvenience and that they will continue to do business in the future as in the past.

It has been said about mobilizing reserves, but the past justifies the remark in saying that that is really the big trouble, the reserves have been mobilized too much, and especially in New York City, where, when trouble comes, it is big trouble, and when New York gets in trouble she has nowhere to go for help and her only recourse is to close down and say "no," and when they do so, it seems necessary for every bank throughout the United States to do the same thing; therefore, the necessity for returning the reserves to the different parts of the country where they are owned and belong. I am prepared to believe that it is the first step in the right direction, in more ways than one. Among them, I might say, that it will have a tendency to squeeze out the money now absorbed in loans carrying common stocks, issued without value and now listed and traded in on exchanges for the purpose of giving them a borrowing value. If the money now absorbed in loans of this character can be distributed in the legitimate channels of business, I feel certain that we will never have to resort to the provisions of this bill for note-issuing purposes, except a possible rare occasion of extreme stress, certainly not for the ordinary business—even during crop-moving season.

If, after this important bill becomes a law, you gentlemen can find a way to stop the issue of securities, the value of which is "wind and water," and I will go further and say, cancel many now issued or assess them on the ground of impaired capital, so as to have the dollar value behind all issued securities, you will have placed our country as your debtors for many years to come.

I am firm in the belief that this bill, while not perfect, wisely administered is safe and sound. The only argument that seems to be put forth as to the doubt of it being wisely administered is the Government control, and although I am a banker, I freely admit that this is one of the safe and wise provisions of the bill. In the recent investigations I believe it was generally admitted that the concentration of money and credit in New York, if it had not already reached the danger point, that it had gone far enough, and if I remember rightly some one stated, that especially it would be dangerous if it should get out of the hands that are now in control. I believe also some one of the New York bankers admitted that the cause of this concentration of both money and credit was the fault of our currency laws. If that is a fact, then it should be corrected, and the sooner the better, even though it may cause a little trouble and inconvenience, but this we are all used to. It occurs to me to say that every time we get in trouble we have enough confidence in the Government, whichever party is in control, to run to them for help, and we have never called in vain. Therefore, if the Government is to be depended upon by us and become responsible in a way in times of trouble, why not take them in partnership with us and ask them to travel with us during times of peace and plenty? I believe the shareholders of the reserve banks should have representation on all boards, advise with and become responsible with the Government's representation for the business management. To carry out the business, as provided for in this bill, is simply a business transaction, and I have full confidence that the men who may be selected by the President of the United States and the shareholders of the Federal reserve banks will meet the responsibility with that care and cautious wisdom that is necessary to all successfully managed businesses, whether banking or otherwise.

Now, Mr. Chairman, with these remarks on the bill in general I am going to ask the liberty of making a few suggestions in the way of changes in the detailed operation of the bill and also to ask a few questions for my own information.

SEC. 7. *Division of earnings.*—Dividends at 5 per cent until surplus equals 20 per cent of the capital, then dividends at the rate of 6 per cent per annum. Balance of earnings to be equally divided between the United States and the depositors, as provided in the section. I, however, think it would be well to create an undivided profit account, in addition to the surplus fund—say to the amount of 10 per cent of the capital. It would also seem but fair to me that the surplus and undivided profit account should one-half belong to the stockholders and should be so divided in case of liquidation.

SEC. 11. *Federal reserve board.*—I suggest that this board consist of seven members, composed of the Secretary of the Treasury and four members to be chosen by the President of the United States, at least two to be experienced bankers and two members to be chosen by the stockholders of the Federal reserve bank, all to be with the advice and consent of the Senate. This will give the Government five members and the shareholders two; the Government, however, having a majority of the board, but the shareholders would have representation, which would seem to be but fair. In the board of directors of the Federal reserve banks, the shareholders elect a majority, six to three. In this case the shareholders have a majority, but all have representation. This change would drop the Secretary of Agriculture and the Comptroller of the Currency from the Federal reserve board. While I fully realize that their presence on the board is desirable, yet I also fully realize that the gentlemen compo ing this board hold a very responsible position and it will justly require all of their time and attention. They will, no doubt, find it necessary to visit the different reserve banks from time to time and will find it advisable to make their stay long enough to become acquainted with the conditions and detailed operation of the banks, and I very much doubt if the positions now held by the Secretary of Agriculture and the Comptroller of the Currency would admit of them giving the time to this position that it will require of each and every member of the board.

SEC. 13. *Federal advisory council.*—It seems to me that this is unnecessary and not required. The close and active relations of the Federal reserve board and the board of directors, it would seem, meets this requirement, especially if the shareholders have two members on the Federal board.

SEC. 16. The Government should not charge interest on deposits, but should accept division of profits in lieu of interest, the same as other depositors.

SEC. 17. Page 30: Collateral security to protect issue of notes should have 20 to 25 per cent margin, and it would seem to me that this security should include United States bonds and other securities that might be held by Federal reserve banks.

In this section, page 31, it refers to the redemption of note issues that shall be charged against Government deposits. I would not give this privilege, as it seems to me no bank should be given the privilege to make a charge against a Government deposit account. The 5 per cent redemption fund with the Government for the redemption of note issues I would have in addition to the 33⅓ per cent required reserve to be carried in the vault.

Page 33, line 13: Collection of checks and drafts. I predict this will be a very heavy and expensive operation and will absorb a large amount of money.

SEC. 20. *Bank reserves.*—Is it permissible for a member bank to keep an active account with a Federal reserve bank? In other words, a regular checking deposit account? Or, is the reserve deposit account to remain stationary and not subject to check of the member bank?

SEC. 21. *Five per cent redemption fund.*—If this is not to be accounted as a reserve in the future, will it not be reasonable to reduce it, say, to 2½ per cent? I suggest condition of redemption fund be looked into.

SEC. 23. *Examinations.*—Line 8, insert "Comptroller of the Currency" before "Federal reserve board"; also, after "Secretary of the Treasury," line 10.

Line 19: Salaries to be fixed by Secretary of the Treasury and Comptroller of the Currency.

Line 22: "Comptroller of the Currency," instead of "by the board."

Line 26: And also lines 1, 2, and 3 to be eliminated. Not reasonable or practicable.

Also, following lines 4, 5, and so on to be eliminated.

My idea being that all examinations of Federal reserve banks and member banks and national banks should be made by direction of and to the Comptroller of the Currency. All requests for special examinations by the Federal reserve board to be made to the Comptroller of the Currency, who shall have charge of all examiners and their work and the supervision of all banks. Regular examinations not oftener than twice a year. Special examinations as often as necessary and as requested by the Federal reserve board.

SEC. 25. *Transfer of stock.*—Line 15, page 43: It seems to me this should refer not to all stockholders, but only to officers and directors, without regard to limit of time of transfer.

SEC. 26. *Farm loans.*—Is this limitation of real estate loans to apply also to State banks and trust companies that are member banks? I am not exactly satisfied that the term of real estate loans should be 12 months. It will hardly meet the conditions, for such loans are usually made for a term of three to five years. I, however, am not prepared to recommend that commercial banks make any class of loans for this length of time.

SEC. 27. *Savings department.*—I would not have a separate capital for the commercial and savings department, but would have a regular savings department, with proper books and provide special investments for savings funds and reports should clearly set out the amount of savings deposit and the amount of investments carried for account of savings, but one capital should be liable for all deposits, both commercial and savings alike. I think it would be complicated otherwise.

QUESTIONS.

Are Federal reserve banks to be examined by the Comptroller of the Currency the same as national banks?

Page 26: *Discount of acceptances.*—Is this in addition to regular discounts?

Are all discounts to be passed on by the Federal reserve board, before they are taken by the Federal reserve bank?

Why not Federal reserve banks buy and sell first mortgage railroad bonds, and the same to be acceptable as security for note issues?

SEC. 18, page 34. *Circulation.*—Do I understand that national banks, organized in the future, are not required to buy Government bonds and take out circulation? If so, it would seem to conflict with section 19, refunding bonds, page 35, line 24. "Meanwhile every national bank may continue to apply for and receive circulating notes, based upon the deposit of 2 per cent bonds," etc.

Also referring to the latter part of the section, page 36, concerning clearing house and loan certificates. Would this apply and prohibit State banks and trust companies from issuing clearing house and loan certificates?

(Thereupon, at 5.20 o'clock p. m., the committee adjourned to meet to-morrow, September 26, 1913, at 11 a. m.)

FRIDAY, SEPTEMBER 26, 1913.

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

The committee assembled at 11 o'clock a. m.

Present: Senators Owens (chairman), Hitchcock, O'Gorman, Pomerene, Shafroth, Hollis, Nelson, Bristow, McLean, and Weeks.

The CHAIRMAN. Mr. Blinn, the committee will hear you now. Please give to the stenographer your proper address, and your banking connections, so that it will appear in the record.

STATEMENT OF CHARLES P. BLINN, JR., OF BOSTON, MASS., PRESIDENT OF THE MASSACHUSETTS BANKERS' ASSOCIATION.

Mr. BLINN. My name is Charles P. Blinn, jr. I appear here as president of the Massachusetts Bankers' Association, and my banking connection is vice president of the National Union Bank of Boston.

Mr. Chairman, and gentlemen of the committee, a committee of four appear here from the Massachusetts Bankers' Association to-day by authority of the executive council of that association, which has had this currency matter under consideration. This committee has been appointed to present the views of the State, and in presenting the views of the State we in fact present the views of New England.

I had the privilege of attending the Chicago conference a few weeks ago, and that I might fairly present the views of my constituents, I addressed a letter to each member of the association. I embodied in it the letter which I had received from the chairman of the currency commission of the American Bankers' Association, and then went on to say:

> Your president will attend the proposed meeting and wishes to be in a position to express the views of all Massachusetts bankers upon the currency bill. Will you therefore let this matter have your immediate consideration and write the undersigned, giving an expression of your opinion of the bill, paying especial attention to the following features: First, organization and management; second, rediscount plans; third, reserve plans; fourth, note issues; fifth, provision for refunding United States bonds now held to secure circulation and United States deposits; sixth, does the bill meet existing defects in our credit and currency facilities; and, seventh, what will be the effect of the bill if enacted in its present form?

At the present time I should like to read to you some of the replies I received. The number was not large, but those that were received were fairly representative. The first letter I wish to read is from the Boylston National Bank of Boston, which is as follows:

> I have made an attempt to cover your seven points as follows:
>
> 1. Organization and management: Bankers should have a strong hand in the management.
>
> 2. Rediscount plan: I see no objection to the rediscount of notes having four months to run.
>
> 3. Reserve plan: Banks should be compelled to keep not more than one-half the amount specified in the bill with the reserve association without interest.
>
> 4. Note issues: The reserve association should issue the notes.
>
> 5. Provision for refunding United States bonds now held to secure circulation and United States deposits: Scheme for retirement of national bank circulation within 20 years accompanied by a substitution of 3 per cent bonds for twos is good, provided threes sell for par in the open market.

6. Does the bill meet existing defects in our credit and currency facilities? Fairly well in these two particulars.

7. What will be the effect of the bill if enacted in its present form? It would drive many national banks out of the system and prevent many State banks from coming in.

The First National Bank of Gardner, Mass., replies:

In reply to your circular letter of August 8 I would say that my opinion of the proposed currency bill is decidedly unfavorable. It seems to be premised on the theory that all national banks are borrowing all the time and although filled with the fear of centralization, it strangely arranges that the power of the system be centralized with a very few men, the majority of whom will be politicians.

I can not see why one central reserve bank operating under Government control would not fill the bill exactly as well as 12 or more regional reserve banks.

The plan for rediscount does not appear to me to be at all practical. When we have to borrow, we do so of our correspondent bank, which always accommodates us with absolutely no loss of time. In all probability we should never borrow of a regional reserve bank if we went into the system, preferring the present arrangement. The reserve plan will work immense injury to the country banks, actually depleting their loanable funds as well as their earnings.

As for the note issues, I doubt whether many banks would avail themselves of this method of increasing their funds; it would cost too much and take too long. It would seem as if the Government were in honor bound to redeem its 2 per cent bonds at par, as the necessity of holding them for circulating purposes is unquestionably the one reason for selling at par. On the whole, I should say that the bill was designed to prevent evils which are largely imaginary.

While there are undoubtedly some good features which should be incorporated in legislation, the inevitable effect of its passage will be to compel country national banks to surrender their charters and be reincorporated under State laws. That any action by the Government supposed to be favorable to institutions of its own creation should compel those institutions to surrender their charters would surely seem to be ill-advised and subversive of the general good of the financial community.

I have talked with a good many men in banking business regarding this bill and have yet to find any one who is favorably disposed toward it, notwithstanding some of those expressing the opinions were and always have been Democrats.

From the replies I received one was favorable, which I will read with your permission. It is from the Worcester Trust Co., of Worcester, Mass., and reads:

Replying to yours of the 16th relative to the proposed currency bill, would say that I think that the proposed bill is an improvement upon the existing law, and while it is not perhaps what many of us would like, it seems to me that under existing condition it is probably as good a law as we are likely to see passed, and I think it would be better for the bankers to assist in pushing the bill through than it would for us to oppose it, consequently I am in favor of the administration bill.

That was the only favorable reply that was received. I will not bore the committee by continuing to read these unless it is desired.

Senator NELSON. I ask that the letters may be incorporated in the record without reading.

The CHAIRMAN. Without objection, that will be done.

(The letters above referred to are as follows:)

No. 589.

THE ESSEX NATIONAL BANK OF HAVERHILL, MASS.,
Haverhill, Mass., August 14, 1913.

No. 1. Serious objection to selection of members. Banking and politics do not mix well. Power of Federal reserve board is too arbitrary.

No. 2. The rediscount plan on the whole seems to be acceptable and should be of great importance to the banks.

No. 3. Will curtail the ability of country banks to extend accommodations to their customers.

No. 4. Better for the banks to provide the paper circulating medium under proper Government supervision.

No. 5. The provision of the refunding of the 2 per cent bonds will not be acceptable to the banks as there seems to be no guaranty that the 3 per cent bonds will be worth par.

No. 6. The bill does not meet existing defects in our credit and currency facilities.

No. 7. Believe it will drive many banks out of the national system.

CHAS. A. PINGREE, *President.*

THE MERCHANTS NATIONAL BANK,
Newburyport, Mass., August 11, 1913.

Mr. CHARLES P. BLINN,
President Massachusetts Bankers' Association, Boston, Mass.

DEAR SIR: Replying to your circular letter of the 8th instant, we are not favorably impressed with the proposed currency legislation.

We think the plan a clumsy one and likely to cause great inconvenience to the banks and their customers as well. We think the management should not be so largely political.

With regard to rediscounts, we feel that the short-time limits proposed will largely interfere with the efficiency of the plan. With regard to reserve, we are very much opposed to the program as outlined, believing that more discretion should be given the banks as to the percentage of deposits with the reserve association.

We believe that the note issue should be made by the banks under the supervision of the Government. We also feel that some provision should be made for refunding United States bonds now held to secure circulation and United States deposits, so as to avoid such serious losses on the part of the banks.

We have not completed our consideration of the bill, but think the carrying into effect of the provisions as originally announced would seriously interrupt the usual course of trade and so far interfere with the banking business as now conducted as to make it questionable as to the number of national banks that would remain in existence.

We should much prefer no change whatever to the enactment of the bill in its present form.

Respectfully, yours,

WM. ILSLEY,
Cashier.

MERCHANTS NATIONAL BANK,
Salem, Mass., August 9, 1913.

Mr. C. P. BLINN, Jr.,
President Massachusetts Bankers' Association, Boston, Mass.

DEAR MR. BLINN: I have your circular letter of the 18th instant, regarding the currency bill.

I have read so many views about the bill that I am afraid my mind is in as great a state of confusion as the bill itself seems to be. I find it difficult, therefore, to answer your questions definitely by number, but will try to give you a slight hint of my views.

No. 1. It would seem to be clear to almost any business man that the organization and management of any Federal reserve bank system should be kept out of politics and handled by men who are familiar with banking practice.

No. 2. It seems to me that rediscounts should be made voluntarily and not forced, and that the rate of interest should be fixed by conditions existing at the time and at the place where such rediscounts are made or needed.

No. 3. While I do not feel that the criticism of the bill as to reserve plan should be too rabid, yet the present plan of reserve agents and central reserve agents seems to have worked pretty satisfactorily for half a century.

No. 4. I believe that note issues should be made by the banks and not by the Government.

No. 5. Such provision should be made for refunding United States 2 per cent bonds as will insure that the banks shall receive at any time, now or hereafter, their full face value, and the provision should be such as will insure the market value of the two to be maintained at par.

No. 6. It does not seem to me that the bill is drawn with sufficient care or experience to be certain it will meet the existing defects.

No. 7. Heaven knows; I am apprehensive.

I hope you will be able to attend the conference, and I know that Massachusetts bankers will feel safe in your hands.

I realize that what I have said above is very inadequate, but I am sure that the conference will lead to some conclusions as to which are the best points to urge and which to avoid discussing with the administration.

Yours, very truly,

H. M. BATCHELDER, *President.*

MERCANTILE NATIONAL BANK,
Salem, Mass., August 12, 1913.

Mr. CHARLES P. BLINN, Jr.,
President Massachusetts Bankers' Association, Boston, Mass.

MY DEAR MR. BLINN: Replying to your circular letter of August 8, requesting an expression of opinion on the provisions of the currency bill, I will say that I have examined the bill somewhat carefully and have noted the published amendments as they have appeared.

In regard to the first point, it seems to me that the radical defect in the bill is that they propose to have a governing board made up of politicians instead of bankers, and the affairs of the banks are to be administered by those who have no responsibility to the stockholders.

It also seems that the reserves are too much scattered, but possibly that would be offset by the absolute control of the governing board.

In the rediscount plan I see there is an amendment to the extent of increasing the length of time of maturing paper to 60 days. It would seem as if 90 would be fairer to the banks, and with this rediscounting privilege perhaps the required reserve might be reduced to 12 per cent, to be divided between the Federal reserve bank, cash in vault, and other reserve agents, especially if the redemption fund is not to be counted as a part of the reserve.

In regard to the note issues, the plan to retire them gradually would perhaps create the least disturbance. The Government should provide some way to pay the 2 per cent bonds at par either at once or during a term of years, and it would seem as if some provision should be made whereby national banks which prefer to surrender their charters could turn in the bonds against outstanding circulation.

It seems to me that the bill as drawn offers nothing of advantage to country banks at least, and it would be a matter of serious consideration with many of them whether to reorganize under a State charter rather than to subscribe so large an amount to the capital stock of a Federal reserve bank which will be of little or no benefit to them.

Very truly, yours,

LELAND H. COLE, *Cashier.*

THE FIRST NATIONAL BANK,
Greenfield, Mass., August 20, 1913.

Mr. CHAS. P. BLINN, Jr.,
President Massachusetts Bankers' Association, Boston, Mass.

DEAR MR. BLINN: Your circular letter and your subsequent personal request for my opinion on the currency bill came during my absence. I do not think you have suffered by not having my views, but I should regret very much to have you feel that I neglected to do anything that you might request in such a matter.

You are on your way to Chicago ere this, I have no doubt, and will not see this until you return.

The things that I do not like about the currency bill are the political control, which, I am afraid, will eventually put the banking business of the country into the same sort of a strait-jacket that the railroads are now in, and the reduction in profits which I believe will result from the general working of the scheme, and which the country banks at least will find it difficult to make up from any advantages that the bill may give them.

In a general way the bill seems to me to follow the Aldrich bill, but the spirit of the thing is entirely different, endeavoring as it does to take the control of the banking business from the bankers and putting it into the hands of the politicians.

Some of the amendments that have been made, as reported by the newspapers, have improved it from the original form.

I hope your meeting in Chicago will result in some suggestions that may be accepted by Congress to the improvement of the bill.

Regretting that I am derelict in this matter, I am,

Sincerely, yours,

J. W. STEVENS.

No. 1260.

THE PITTSFIELD NATIONAL BANK,
OF PITTSFIELD, MASS.,
Pittsfield, Mass., August 19, 1913.

CHARLES P. BLINN, Jr., Esq.,
Union National Bank, Boston, Mass.

DEAR MR. BLINN: I beg to acknowledge receipt of your favor of the 16th, and in reply would say that I rather hesitate to express any opinion on the currency bill. There are many requirements for the country banks which can not possibly meet with their approval.

It seems to me that the bill as it now stands would inflict many hardships to the country banks and that there are many phases that would bring pretty serious results.

Yours, very truly,

GEO. H. TUCKER.

THE SPRINGFIELD NATIONAL BANK,
SPRINGFIELD, MASS., *August 18, 1913.*

Mr. CHARLES P. BLINN, Jr.,
Vice President, National Union Bank, Boston, Mass.

MY DEAR SIR: I do not know what became of your earlier communication, but Mr. Alden has handed to me your favor of August 16.

It is impossible to discuss in all its windings the contemplated currency bill without going into a very careful analysis of the entire proposition, which from beginning to end, with few exceptions, seems to have been born of ignorance and suspicion.

The assurance with which men unfamiliar with banking conditions or who have made a mess of financial legislation in their own State undertake to tell us what will answer our national requirements would be absurd if it were not so serious.

That there is need of such legislation no one will deny. It is the most important thing before the country, not excepting the tariff bill, but to unduly hasten its enactment into law would be, it seems to me, little short of a calamity. We do not at all approve a good many of its features, notably that which is to compel us to invest 20 per cent of our capital in an organization controlled by political appointees with extraordinary powers and without banking experience, and upon which we can never receive exceeding 5 per cent per annum and may not receive so much.

I could go on indefinitely, but have said enough in a general way perhaps to show you that in this matter we are opposed to the present bill and in accord with what we believe to be the most intelligent banking sentiment in this country.

Yours, very truly,

H. H. BOWMAN, *President.*

MERCHANTS NATIONAL BANK,
Worcester, Mass., August 11, 1913.

Mr. CHARLES F. BLINN, Jr.,
Vice President, National Union Bank, Boston, Mass.

DEAR SIR: Referring to your circular letter of August 8, and answering in the same order, I would say that I believe:

First. The organization and management should be maintained so that the advisory board of bankers should have the initiative, and that the political board of managers should only regulate and reject or confirm the action of the advisory board.

Second. Bills of longer maturity than 45 days should be discounted. I should think they ought to be as long as 90 days.

Third. Either the Federal reserve bank should pay some rate of interest on the reserve deposit with them by the national banks or they should be allowed to keep part of the reserve with their correspondents and reserve cities where they could get interest.

Fourth. I think the circulating notes should be issued by the central organization, not by the branches, and that the gold reserve should be held back on these notes, but not for a fixed amount, so that in times of stringency more notes could be issued with less reserve than when there is a plethora of money.

Fifth. The United States bonds held in circulation by the national banks and also held to secure United States deposits should be refunded in such a manner that the banks should receive at least par for their bonds, and should not have to wait 20 years in order to have them all refunded.

Sixth. I think the bill, with proper changes, will meet many of the existing defects in our present system and facilitate business, although it is not the ideal bill. It would be much better if there were one central bank with branches.

Seventh. If the bill is enacted in its present form, I am afraid many of us would prefer to take trust company charters rather than continue under the national bank system.

Very truly, yours,

F. A. DRURY.

THE WORCESTER NATIONAL BANK,
Worcester, August 18, 1913.

CHARLES P. BLINN, Jr., Esq.,
Care National Union Bank, Boston, Mass.

DEAR MR. BLINN: In reply to your letter of the 16th instant, I assume that you do not want a criticism of the minor details of the Owens-Glass bill. Like everyone else, I think the fundamental objection is in the matter of the control of the Federal reserve board by political appointees of the President. I think that bankers should be a majority on the board. I assume that this is impossible in the present frame of mind of the administration, but I should try to have the bill so modified that the presidential appointees would have a majority of but one. I think that the banks' representation should be based on some combination of the regional reserve banks into groups, so that one director would represent interests of geographical areas with similar needs and somewhat similar business activities. I think that the proposed advisory board is much better than the original proposition, but I should push very hard to have the banks have a real and active voice.

In the second place, I think that in every point where it can be done, the managing powers of the Federal reserve board should be curtailed. That this should be a critical and administrative board to supervise the carrying out of the law, rather than one empowered to transact the business of the banks.

Third, that the currency issued under the bill should be issued by the banks and should be entirely divorced from any governmental guaranty. The Government should not be a party to these obligations at all, and there should appear nothing on their face to lead people to believe that they are obligations of the Federal Government. I am not clear in my mind as to how the subdivisions of the reserves, as now planned for, will work out, but you people in the reserve cities doubtless know very much better than we country banks the pros and cons of that side of the bill.

I almost wish that I was to be in Chicago on Friday. I think it ought to be a very interesting meeting.

With kind regards, I am, yours, very truly,

ALFRED L. AIKEN.

Senator SHAFROTH. How many did you send out?

Mr. BLINN. I sent out about 300. I received 14 or 16 replies. I find that the bankers hesitate to express an opinion on matters of this kind.

The CHAIRMAN. You say you sent out 300 and only received 14 or 16 replies?

Mr. BLINN. Yes, sir.

Senator POMERENE. You say bankers hesitate to express their opinion?

Mr. BLINN. Yes, sir; for two reasons. With a great many country bankers, I am frank to say, I do not think they fully understand the workings of the bill as well as they should.

Senator POMERENE. What portion of them?

Mr. BLINN. It is impossible for me to say. Any estimate I might make would be conjecture.

Senator POMERENE. You make that as a general observation?

Mr. BLINN. I make that as a general observation; yes. For that reason they are reluctant to express their opinions, first, from lack of ability; and, second, from lack of their ability to express themselves properly if they do have concrete ideas on the subject.

Senator POMERENE. That is one reason. What other reasons are there?

Mr. BLINN. Those are the only ones, I should say. Those are the only ones that occur to me.

I have made a close analysis of the bill from the standpoint of figures, and I should like to show the committee how, in my opinion, the plan will work out. I have taken it from a practical standpoint, as a banker will look at it who is obliged to make payments to the Federal bank. I start with the country banks, whose reserve requirements are cash 5 per cent, deposit with the Federal bank 5 per cent, and 2 per cent additional, which will be divided either cash or deposits in Federal banks. In actual practice I am assuming that 2 per cent will be evenly divided, 1 per cent in cash and 1 per cent in the Federal banks. The comptroller's report shows net deposits, August 9, 1913, of $3,595,700,000.

Senator NELSON. That is with country banks?

Mr. BLINN. Yes; deposits with country banks. Under the proposed plan, they will give up United States deposits, which, at the time of making the report, August 9, amounted to $25,100,000. After taking this out the deposits would amount to $3,570,600, which will remain with them.

Their reserve requirement with the Federal bank is 6 per cent, which is $214,236,000. Their capital stock subscriptions to the Federal banks on a capital of $611,628,000, at 10 per cent, will be $61,162,000, and the United States deposits which they must pay over are $25,100,000, making a total payment to regional banks, combined, of $300,498,000.

I estimate that payment to be made by country banks as follows—these figures are all the result of the comptroller's report of August 9: Present cash holdings, $250,702,000; their new cash requirements, $214,236,000; the difference between the two figures is $36,466,000,which is the excess which the country banks can deposit with the regional banks. That leaves a deficit of $264,032,000, and I figure the country banks in making payments would draw drafts on their correspondents to make up that deposit.

Their present balances on deposit with agents is $501,297,000. Withdrawn for Federal banks, $264,032,000, which would leave an excess balance on deposit with agents of $237,265,000 still to their credit with reserve banks. That $237,000,000 is 47 per cent of the amount which they now carry there.

(The above statement, in tabulated form, is as follows:)

COUNTRY BANKS.

Reserve requirements:	Per cent.
Cash	5
Federal banks	5
Cash or Federal banks	2
Total	12
Net deposits (Aug. 9, 1913)	$3,595,700,000
Less United States deposits	25,100,000
Net	3,570,600,000

		Per cent.
Reserve of 6 per cent with Federal banks		$214,236,000
Subscription to stock of Federal banks (10 per cent on capital of $611,628,000)		61,162,000
United States deposits		25,100,000
Total payment to Federal banks		300,498,000
Payment estimated to be made as follows:		
Cash (see below)		36,466,000
Drafts on:		
Central reserve agents	$132,016,000	
Reserve agents	132,016,000	
		264,032,000
Total as above		300,498,000

Present cash holdings	$250,702,000	Present balances with agents	$501,297,000
New reserve requirements (6 per cent)	214,236,000	Withdrawn for Federal banks	264,032,000
Excess available for Federal banks	36,466,000	Excess balances with agents available for business needs (47 per cent of present balances)	237,265,000

Reserve summary.

	Present law.	Under proposed bill.
Requirements:		
Cash	$214,236,000	$214,236,000
Agents	321,354,000	
Federal banks		214,236,000
Excess reserve:		
Cash	36,466,000	
Agents	179,943,000	237,265,000
Federal banks		
Total	751,999,000	665,737,000

Next, turning to the reserve banks, their net deposits on August 9, 1913, were $1,881,600,000. They will pay to the regional banks $21,800,000 and draw on country banks drafts to the extent of $132,016,000. That is one half of the $264,032,000 previously referred to, so that their deposits will be reduced $153,816,000, leaving net deposits, on which they must carry a reserve of $1,727,784,000. Now their reserve requirements are, cash 9 per cent, 5 per cent with the Federal banks, and 4 per cent which can be either in cash or Federal banks. I have estimated that 2 per cent will be in cash and 2 per cent deposits with Federal banks. They will carry a reserve of 8 per cent with the regional banks, or $138,222,000. Their capital stock subscription at 10 per cent on a capital of $262,067,000, will be $26,206,000, and they will have to pay over United States deposits of $21,800,000, making a total payment on their own account of $186,229,000. To that must also be added in country bank drafts of $132,016,000, making a total of $318,245,000 to be provided for by them.

Now I estimate that payment to be made as follows: Present cash holdings, $240,947,000; new reserve cash requirement, of 10 per cent, $172,778,000, or $68,168,000, which will be free, and that excess can be paid into the regional banks. There still remains to be paid in $250,076,000, and I estimate the reserve banks will draw upon the central reserve agents for that amount, making a withdrawal of $250,076,000 out of their present balances with reserve agents of $267,916,000. So the burden of the cash payments will all fall upon the reserve cities. After the reserve banks have paid the amounts required to the regional banks, they will have left a credit with central reserve agents of $17,839,000, or 6½ per cent of their present balances. That, in my opinion, is not adequate for them to conduct their business, and in actual practice that would probably be increased by methods I will later describe.

(The above statement, in tabulated form, is as follows:)

RESERVE BANKS.

		Per cent.
Reserve requirements:		
Cash		9
Federal banks		5
Cash or Federal banks		4
Total		18
Net deposits (Aug. 9, 1913)		$1,881,600,000
Less United States deposits	$21,800,000	
Less country bank withdrawals	132,016,000	
		153,816,000
Net		1,727,784,000
Reserve of 8 per cent with Federal banks		138,222,700
Subscription to stock of Federal banks (10 per cent on capital of $262,067,000)		26,206,700
United States deposits		21,800,000
Payment on own account		186,229,400
Add payment account country banks		132,016,000
Total payment to Federal banks		318,245,400
Payment estimated to be made as follows:		
Cash (see below)		68,168,600
Drafts on central reserve agents		250,076,800
Total as above		318,245,400

Present cash holdings	$240,947,000	Present balances with agents	$267,916,000
New reserve requirements (10 per cent)	172,778,400	Withdrawals from central reserve agents	250,076,800
Excess available for Federal banks	68,168,600	Excess balances with agents available for business needs (6½ per cent present balances)	17,839,200

Reserve summary.

	Present law.	Under proposed bill.
Requirements:		
Cash	$232,475,000	$172,778,400
Agents	232,475,000	
Federal banks		138,222,700
Excess reserve:		
Cash	8,472,000	
Agents	35,441,000	17,839,200
Federal banks		
Total	508,863,000	328,840,300

Now turning to the central reserve banks, they have a reserve requirement of 9 per cent cash, 5 per cent with Federal banks, and 4 per cent cash or Federal banks, which I have again divided 2 per cent cash and 2 per cent Federal banks. The net deposits August 9, 1913, were $1,619,300,000. After making the payments which they are to make of United States deposits $4,458,000, withdrawals by country banks of $132,000,000, and withdrawals by reserve banks of $250,000,000, their net deposits will be reduced to $1,232,000,000. Against that they must carry a reserve of 8 per cent in Federal banks, making $98,619,000, capital stock subscription to said Federal banks at 10 per cent on a capital of $182,650,000, or $18,265,000, and United States deposits which they must pay over of $4,458,000. That makes a total payment on their own account of $121,342,000. In addition to that there must be added payments on account of country bank drafts, $132,016,000, and payments on account of reserve bank drafts, $250,076,000, making the total reserve required for them in the regional bank of $503,435,000.

Now we will see how they will make it: Present cash holdings $407,519,000; new reserve requirements, 10 per cent, $123,275,000, leaving an excess of $284,244,000, which can be paid to regional banks. There is a deficit in the amount required of $219,191,000, to be provided by loans by the central reserve banks. They must either contract their loans to the extent of $219,000,000, or must make rediscounts with the regional banks of that amount.

(The figures for central reserve banks in tabulated form are as follows:)

CENTRAL RESERVE BANKS.

Reserve requirements:		Per cent.
Cash		9
Federal banks		5
Cash or Federal banks		4
Total		18
Net deposits (Aug. 9, 1913)		$1,619,300,000
Less:		
United States deposits	$4,458,000	
Withdrawals by—		
Country banks	132,016,000	
Reserve banks	250,076,800	
		386,550,800
Net		1,232,749,200
Reserve of 8 per cent with Federal banks		98,619,900
Subscription to stock of Federal banks (10 per cent on capital of $182,650,000)		18,265,000
United States deposits		4,458,000
Payment on own account		121,342,900
Add payment on account country banks		132,016,000
Add payment on account reserve banks		250,076,800
Total payment		503,435,700
Payment estimated to be made as follows:		
Present cash holdings	$407,519,000	
New reserve requirements (10 per cent)	123,275,000	
Excess available for Federal banks		284,244,000
Deficit to be provided by loan, contraction, or rediscounts		219,191,700
Total payment as above		503,435,700

We will assume they will make rediscounts. So the recapitulation of all these figures will show the following: That the regional banks will have a capital of $105,633,000. That the various classes of banks will pay into them as deposits on reserve $451,000,000; United States deposits now in banks, exclusive of what is kept in the Treasury, amounting to $51,000,000, making the total assets received by regional banks $608,000,000.

Senator NELSON. That is of the 12?

Mr. BLINN. I am combining the 12 banks as one. They will acquire $388,000,000 in all forms of money, and will be obliged to rediscount $219,000,000. They will have a reserve of 83.81 per cent.

Senator WEEKS. You do not attempt to say in what form that reserve will be, whether gold or silver or greenbacks or something else.

Mr. BLINN. It will be all forms of money.

Senator NELSON. Eighty-three and one-third per cent?

Mr. BLINN. No; 83.81 per cent.

Senator HITCHCOCK. What do you mean when you say they will be required to rediscount $219,000,000?

Mr. BLINN. Because the central reserve banks will be required to put up $121,000,000 on their own account. The drafts that will be drawn out by country bank correspondents and reserve bank correspondents, the cash they must put in on account of their own requirements under the new plan, will be $382,000,000, which will make the total payment $503,000,000. The cash excess available for Federal bank reserve requirements under the new plan will be $284,000,000, so that means they will be required to pay—they will be short—that $219,000,000. Therefore, the banks will be required, in theory, to rediscount $219,000,000. In actual practice I do not believe the central reserve banks will rediscount. I think the shifting of loans to that extent will take place.

(The recapitulation of figures, in tabulated form, is as follows:)

Recapitulation.

PAYMENTS TO FEDERAL BANKS.

	Capital.	Reserve.	United States deposits.	Total.
Country banks	$61,162,000	$214,236,000	$25,100,000	$300,498,000
Reserve banks	26,206,700	138,222,700	21,800,000	186,229,400
Central reserve banks	18,265,000	98,619,900	4,458,000	121,342,900
Total	105,633,700	451,078,600	51,358,000	608,070,300

HOW PAID.

	Cash.	Withdrawn from agents.	Loan contraction or rediscounts
Country banks	$36,466,000	$264,032,000	....
Reserve banks	68,168,600	250,076,800	....
Central reserve banks	284,244,000	....	$219,191,700
Total	388,878,600	514,108,800	219,191,700

Statement of Federal reserve banks.

Cash	$388,878,600	Capital	$105,633,700
Loan	219,191,700	Deposits:	
		Bank	451,078,600
		United States (exclusive of cash now in Treasury)	51,358,000
Total	608,070,300	Total	608,070,300

Cash (not gold) reserve, 83.81 per cent.

Senator HITCHCOCK. Will you explain what you mean by "shifting loans"?

Mr. BLINN. Transfer of loans. I will explain that. We have grown up under a system whereby it is looked upon as an element of weakness for a bank, especially in a central reserve or reserve city, to rediscount. Banks in reserve centers will avoid rediscounting, so that the banks in my opinion in the central reserve cities, will not rediscount to make the payment required of them under this plan, but they will contract their loans. They are loaning to day on the stock exchange collateral. They have provisional commercial paper of concerns all over the country which they have purchased from brokers in the outside markets. As that matures, they will ask to have it paid. They will call their stock exchange loans and will acquire the $219,000,000 by contracting their loans.

Senator HITCHCOCK. What you speak of as stock exchange loans does not apply to the western banks. The banks of the reserve cities of the West have no money out on stock exchange loans. When they contract their loans, they will have to contract their loans to resident customers.

Mr. BLINN. In referring to central reserve cities, I am referring to New York, Chicago, St. Louis, Kansas City, Omaha, and other reserve cities.

Senator POMERENE. Let me ask you right there: You say pretty positively that if this law goes into effect they will contract their loans.

Mr. BLINN. I do not say so, sir.

Senator POMERENE. Was not that your statement?

Mr. BLINN. No, sir. I say they will be obliged to provide $219,000,000 in some way.

Senator POMERENE. Your statement was there was an objection to rediscounting and therefore they would contract their loans.

Mr. BLINN. I say we have grown up under a system whereby they look upon rediscounting as an element of weakness, and that in my opinion the banks in the central reserve cities will not rediscount.

Senator POMERENE. You assume they will do so. Is there objection to it?

Mr. BLINN. It will take years to overcome the objection.

Senator POMERENE. That is, for the bankers to overcome the objection?

Mr. BLINN. Yes, sir. It is an objection which has existed, and we must live it down.

Senator POMERENE. You speak of contracting of the loans. Is that feeling general among the bankers?

Mr. BLINN. I am simply presenting figures, sir, showing how the plan will operate.

Senator POMERENE. That does not answer the question. My question is, is that feeling general among the bankers?

Mr. BLINN. There is some feeling among the bankers; yes.

Senator POMERENE. Have they that object in view?

Mr. BLINN. Of contracting loans?

Senator POMERENE. Yes; in the event that this bill passes?

Mr. BLINN. That I can not say.

Senator HITCHCOCK. I can answer the Senator, and say they are already contracting loans in anticipation of it.

Senator NELSON. As I understand him, Senator Pomerene, he says they have got to raise this money in one of two ways—either to rediscount or else contract their loans—and then goes on to state there is a prejudice existing, or has existed, against rediscounting. And he says on that account it is probable they will resort in the contraction of loans. Is not that it?

Mr. BLINN. Yes, sir; the essence of it.

Senator POMERENE. The impression that was produced on my mind was even if this system is changed this prejudice would continue.

Mr. BLINN. I do not wish to leave that impression with the committee, sir. I say the prejudice will be overcome, but it can not be done in 30 days or in 60 days, or it can not be done in a year. The condition is that the central reserve cities have a large amount of free assets not loaned to their customers, but invested in more profitable fields where they will earn the bank an income. Now, the commercial paper that is bought in the outside market, as a business proposition for the bank, there is no reason why the banks should continue to hold that any longer than they wish to. They have other needs for the money. These regional banks call upon them to pay in $219,000,000, and therefore they ask the man whose note they hold to pay that note, so as to enable them to pay this $219,000,000 which they are obliged to do under this plan. The man who makes the note must provide to pay it in one of two ways—either by borrowing elsewhere, from his local bank, or contracting his business, liquidating his merchandise. He can probably borrow that from the local bank if he is not overextended to-day. The local bank will extend him the facilities, and the notes of the local bank will be rediscounted; but the banks of the central reserve cities who have bought his note as a pure investment will ask that it be paid that they may provide for paying the $219,000,000 that is necessary to be paid into these regional banks.

Senator HOLLIS. Mr. Blinn, do you believe eventually, under a good law, it is desirable to become accustomed to the rediscount feature?

Mr. BLINN. It is the scientific plan; yes.

Senator HOLLIS. And you would approve of that if it is decided upon?

Mr. BLINN. Yes.

Senator SHAFROTH. What remedy do you suggest for this condition that may occur in the transition?

Mr. BLINN. Well, of course I take the plan as it will stand at the end of the 38 months. I think in the period of 38 months the whole thing will take place. Slowly the banks will gradually come to use the new order of things. They will at the end of 38 months have worked out this thing without any difficulty. I do not look for any difficulty.

Senator SHAFROTH. Have you any suggestions to avoid this contracting you think might possibly occur?

Mr. BLINN. It can not be done. The fact is the central reserve banks have certain obligations thrust upon them by this bill. They are compelled to meet those obligations. As I said before, they will have to meet the obligations in one of two ways, and it is for the directors of those banks to determine which of the two ways they will meet the payment.

Senator SHAFROTH. There will be no objection, except as a sentimental objection, to rediscounting paper in the regional reserve banks?

Mr. BLINN. There would not, but a bank does not care to rediscount any notes. A bank rediscounts only when customers are calling for funds, when the demands upon it are more than its own resources will permit. In the case of the central reserve banks that condition does not obtain. The central reserve banks being custodians of the reserves of the country have been compelled to carry in addition to the 25 per cent required by law a reserve of 35 or 30 per cent more. They carry, the central reserve banks, loans which are quickly convertible, and that is why they have grown into making stock exchange loans. There is a preconceived idea that the New York banks loan on stock exchange collateral because the managements of the banks are interested in the stock exchange. They loan on stock exchange collateral because that offers them the best form of reserve.

Senator NELSON. Is not that a most dangerous kind of loan in time of a panic?

Mr. BLINN. It is.

Senator NELSON. It is no more liquid than any other loans?

Mr. BLINN. The stock exchange loan is liquid as long as the borrower can borrow elsewhere; but when a panic comes and he can not borrow elsewhere, the machinery stops.

Senator NELSON. And really the only liquid loans are bill of exchange drawn upon the commercial commodities—wheat, flour, or something like that?

Mr. BLINN. I am not ready to admit that, sir. In the panic of 1907 not only the stock exchange loans were not paid, but commercial paper all over the country was not paid.

Senator NELSON. It was not paid in the interior because our money was locked up in New York.

Mr. BLINN. I would like to combat that statement, Senator, by showing——

Senator NELSON. New York swallowed, in that panic, over $40,000,000 of Government money, and imported over $90,000,000 of gold for bills of lading for merchandise and wheat.

Mr. BLINN. Where did it go?

Senator NELSON. It was swallowed up in the stock exchange business of New York.

Mr. BLINN. I beg to differ with you, and would like to prove by statistics of the Comptroller of the Treasury just what the condition was. In the comptroller's call of December 3, 1907, the legal reserve of the national banks throughout the country——

Senator NELSON. On what day?

Mr. BLINN. December 3, 1907. That was the midpanic call, the only figures available for this purpose. That shows that the legal reserve of the country was 21.31 per cent. On August 9 it was 20.72, or 0.4 of 1 per cent lower than it was in the panic of 1907. You say, Why don't the same difference prevail? It don't prevail for this reason, that on December 3——

Senator NELSON. What good do those figures of reserve do when the banks in New York had shut up shop?

Mr. BLINN. I am trying to show you where the money was.

Senator NELSON. Where was it?

Mr. BLINN. The reserve in the New York banks December 3, 1907, was 21.89 per cent, or more than 3 per cent below their requirements. The reserve of Chicago was 24.21. On August 9 it was 22.94. It was higher in the panic than it is to-day, or, I should say, on August 9. The St. Louis reserve was down to 20.38 per cent.

Now, let me give you the figures of some of the other cities. The banks at Minneapolis had a reserve of 26.24 per cent. To-day, August 9, they have a reserve of 25.05. They were higher than they are to-day. St. Paul had 27.94.

Senator HITCHCOCK. They had 26 per cent in the Minneapolis banks, including what they had on deposit in New York.

Mr. BLINN. They did; yes.

Senator HITCHCOCK. And that of course was locked up.

Mr. BLINN. I can not tell how much cash they had in New York. I can not tell you that. The legal reserve of Minneapolis is 26.24. Their actual reserve was 28.92, indicating their cash was 14.68 per cent and that their New York reserve was 14.24 per cent.

The banks of St. Paul had a legal reserve of 27.94 and an actual reserve of 31.51, indicating——

Senator NELSON. You know all those figures are deceptive for this reason: All our western banks keep a lot of their money in New York and Chicago for exchange purposes—always more than their legal requirements.

Mr. BLINN. I am trying to show you where the cash was.

Senator NELSON. It was not only their reserves that were tied up, but all other money.

Senator HITCHCOCK. It is very strange. The Ohio bankers had the same view Senator Nelson had. The fact is they could not get the money on deposit in New York.

Senator NELSON. Give us how much all the New York banks carry of bankers' deposits outside of reserve, not reserve only.

Mr. BLINN. These are the only figures obtainable, in this report.

Senator WEEKS. Mr. Blinn will quite likely be able to correct me if these figures are not substantially correct. When the panic broke in New York, at the end of October, the total deposits in the New York national banks were $1,200,000,000. It was necessary them to have $300,000,000 of reserve on hand.

Mr. BLINN. Yes.

Senator WEEKS. And they had it?

Mr. BLINN. Yes.

Senator WEEKS. The figures show they had their legal reserve at that time. Now, of that $1,200,000,000 deposits about $550,000,000 were bank deposits.

Mr. BLINN. Yes.

Senator NELSON. That is it.

Senator WEEKS. Having $550,000,000 of bank deposits, they had to have $3,000,000 reserve on hand, which was the legal requirement. Now, it was not possible if all the banks in the country called for their money, for the New York banks to supply it?

Mr. BLINN. That is correct.

Senator WEEKS. Of course, it could not supply more than 55 per cent if they paid it all out.

Mr. BLINN. That is correct.

Senator WEEKS. The New York banks had no way to recoup themselves except to import gold or get gold from the Government. That was the situation, and that was the reason the New York banks could not possibly respond to the demands of the banks all over the country.

Mr. BLINN. That is correct.

Senator WEEKS. It was a physical impossibility.

Senator NELSON. And that plan indicates one thing, that the most liquid and best paper in the case of a panic is bills of exchange drawn upon commodities. During the panic the banks of New York imported over $90,000,000 of gold on bills of lading for merchandise, wheat and flour, produced by the farmers. That is what brought the gold in. It was not brought in on finance bills, but it was brought in on bills of lading for goods.

Senator HITCHCOCK. Can you tell us how much of that $550,000,000 due the banks of the country the New York banks paid out during the 90 days following October 26?

Mr. BLINN. I do not believe such figures could be obtained except at the counters of the particular banks. I am trying to show by the presentation of the figures the requirements that existed, and that the banks were clamoring for cash and criticizing the reserve centers because they would not furnish the cash, and that they themselves, at that time, had more cash than they have now and much more cash than they have now.

Senator HITCHCOCK. I think you are correct in that from my knowledge of the western banks. There is a good deal of truth in that statement.

Mr. BLINN. The banks of Omaha had a legal reserve of 33.60 and an actual reserve of 34.33. That means that Omaha's cash reserve was 21.10 against a 12.5 per cent requirement, and their reserve in New York was less than 1 per cent above the requirement. They were locking up cash they did not need.

The banks of Denver had a legal reserve of 30.90, with an actual reserve of 31.38.

San Francisco had a reserve of 34.16 in both places. There it would be impossible for me to tell you, by calculation, how much was cash and how much on deposit. San Francisco to-day has 26.14 as against 34.16 during the panic.

The CHAIRMAN. You had better put that table in your remarks and let it be considered as part of your statement.

Senator SHAFROTH. That is in the comptroller's report?

Mr. BLINN. These are abstracts of statistics that I keep, all from the comptroller's reports.

Senator SHAFROTH. They can not be found in any one table in the comptroller's reports?

Mr. BLINN. No, sir. As each comptroller's report comes out, I set down these figures so I can run back over a series of years.

Senator NELSON. From the annual reports?

Mr. BLINN. The statements that come out five times a year.

Senator NELSON. Now, can you tell us what the reserves are behind what we call the country banks?

Mr. BLINN. At this time?

Senator SHAFROTH. During the panic.

Mr. BLINN. During the panic; yes, sir.

Senator NELSON. Country banks as distinguished from banks in reserve cities and central reserve cities.

Mr. BLINN. The figures that I gave you before were for the reserve cities. The figures for the country banks give, December 3, 1907, 19.17 per cent legal reserve.

Senator NELSON. That is away above the requirement?

Mr. BLINN. Yes. The actual reserve which includes the New York cases, which can not be counted legal reserve, was 24.97, where to-day it is 21.57, proving conclusively my opinion that the cash was in the country in 1907. It was not in New York. The New York banks paid out as fast as they could.

Senator SHAFROTH. Mr. Blinn, you said awhile ago that banks never rediscounted paper unless there was a demand among their customers for more money.

Mr. BLINN. Yes, sir.

Senator SHAFROTH. And is that likely to prove a check upon rediscounting with the regional reserve banks?

Mr. BLINN. No, sir; as I said before, under this bill we must get used to the new order of things.

Senator SHAFROTH. It will until the new order comes about. That is the practical effect.

Mr. BLINN. Yes, sir. Bankers must become educated to the new plan.

Senator SHAFROTH. Do you believe such an amount of currency can or will be kept out under this system as would be sufficient to take the place of the national bank notes of $740,000,000?

Mr. BLINN. Not immediately; it will in the end.

Senator SHAFROTH. Will not the matter of depositing and rediscounting 90-day, 60-day, and 30-day paper have a tendency to retard the issuance of a currency sufficient to take the place of the national bank notes?

Mr. BLINN. I shall have to ask you to repeat the question.

(At the request of Senator Shafroth, the stenographer read the last two preceding questions and answers.)

Mr. BLINN. My answer to that question is this, that there will be just as many of the Treasury notes issued as the demands of trade call for, and that they will be issued if currency is needed for circulating purposes. Those notes will be issued in one of two ways: Either against the rediscount of commercial paper, or at the request of a bank having a deposit with the regional bank whereby the deposit liability is converted into a note liability. And, to repeat, the volume of the Treasury notes will depend upon the demands of trade, which is the scientific method.

Senator SHAFROTH. Your reference to reserves held by the central reserve city banks and the reserve city banks and the country banks indicates that the panic was really due to the fact that they could not draw on those reserves, does it not? If each bank had been permitted to use its reserves in paying out moneys there would have been a sufficient volume to prevent the panic.

Mr. BLINN. If the banks over the entire country had done that, yes.

Senator SHAFROTH. Now, what do you think about a provision that would permit any national bank anywhere to convert its cash reserve into a note reserve or a collateral reserve in times of panic, with the consent of, say, these regional reserve banks?

Mr. BLINN. I should not favor that. I believe the reserves should be in gold.

Senator SHAFROTH. The very object of reserves, as they are now used, is not to help a bank to pay out in times of panic but is really a kind of asset in case the bank closes its doors and there has to be a receiver appointed. That is about the only use of a reserve, is it not?

Mr. BLINN. A currency bill will change conditions. Under existing conditions, in times of crisis, bank managers looking at it only from the selfish point of view believe that it is their duty to lock up all the cash they can in their own vaults, thereby strengthening their condition regardless of their neighbors.

Senator SHAFROTH. But that only makes the panic worse.

Mr. BLINN. It does. Now, give us your central bank of rediscount, with the volume of Treasury notes dependent upon two things; first, the amount needed in the channels of trade, and, secondly, the reserve which is carried against those notes. Bank managers will see that they can get their cash and there will not be that wild scramble that now exists under our present law. It will obviate the objection I believe you have in your mind.

Senator SHAFROTH. Yes. Now, take the panic of 1907. If the banks over the country had been permitted, under regulations of some kind that would make it safe to use their reserves instead of locking them up, and to substitute for the same first-class, prime commercial paper, the banks would have been just as solvent in either case, and yet the strain for currency would have been relieved.

Mr. BLINN. Let me ask you this question: Would you, as a depositor, wishing to draw out $500, be satisfied to receive the note of a local dealer of your town?

Senator SHAFROTH. No; it is not that. The object of this would be to let the cash be paid out, and either the Comptroller of the Currency or these regional reserve banks to hold this collateral security in the vaults of the bank, or to put it in a trusteeship so as to make the bank solvent, whether the reserve is in cash or in prime commercial paper.

Mr. BLINN. What happens if your cash is exhausted?

Senator SHAFROTH. Just the same as when the cash down to the reserve is exhausted. You can not use the reserve, as I understand it in the payment of drafts upon the bank. As one witness said:

As soon as I draw any money lower than that I go to the penitentiary, because I am paying out money of an insolvent institution and keeping the doors open after it is insolvent.

Mr. BLINN. I think conditions of panic really compel bankers to do things they would not do at other times.

Senator SHAFROTH. That is very true. But, if there were some system devised which would permit these reserves, or the cash for these reserves, to be liquidated so as to be paid out instead of being held in the vaults of the bank, it seems to me it would relieve the situation often in panicky times.

Mr. BLINN. Do you realize that in the comptroller's reports beginning September 1, 1909, down to date, the banks in Chicago have been above their requirements only twice?

Senator SHAFROTH. That may be.

Mr. BLINN. The banks of Albany——

Senator SHAFROTH. That, to my mind, simply shows the necessity of going into these reserves and paying them out and having a substitute for them in the case of prime commercial paper.

Mr. BLINN. Why a substitute? They have commercial paper right in their vaults.

Senator SHAFROTH. The object of the reserve is not to have the money there to pay out. It is a kind of security in the case of the failure of the bank?

Mr. BLINN. No, sir.

Senator SHAFROTH. Because, if the reserve is to be kept and not to be paid out the very locking up of that much money is what precipitates the panic and makes it worse.

Mr. BLINN. Let us take a bank statement—a bank with $10,000,000 total surplus and with cash holdings, we will say of $1,000,000, and a loan of $9,000,000. If that cash goes down to $700,000 the loan goes up to $9,300,000. In other words, the amount of notes and the amount of cash, other items being eliminated, always equal the total assets, so the cash goes down and the loan goes up. Why should not the bank take and hold its notes, and what are you gaining by putting those notes with the Comptroller of the Currency?

Senator SHAFROTH. Only in order that if the bank closes its doors they will be that much of an asset.

Mr. BLINN. If the bank closes its doors to-day, it liquidates and pays its creditors. You do not gain a thing.

Senator SHAFROTH. The object of this is to let the reserves in times of panic, or at the discretion of either the Comptroller of the Currency or one of these regional reserve banks use that reserve instead of holding it there, which, in my judgment, precipitates the panic and aggravates it.

Mr. BLINN. It does pay out to-day——

Senator SHAFROTH. Below the reserve?

Mr. BLINN. Below the reserve.

Senator SHAFROTH. Well, a limited amount, but nobody thinks of paying out on a 25 per cent reserve down to 5 per cent.

Mr. BLINN. Senator Shafroth, I went through the crisis of 1907. I was the treasurer of a $25,000,000 institution in Boston. Currency goes to a premium, and you would be surprised at the number of people that come around and try to get currency over the bank's counters without any object except to sell that currency at a premium. Some of the country banks went insane—perhaps I should not say insane; rather they lost their heads. They demanded more cash than they needed, and the banks in the centers that had to handle this situation were the trustees of the Nation.

Senator SHAFROTH. But that was due to the fact that so much of this money was locked up in reserves. If it had been loose there would not have been that demand.

Mr. BLINN. Where was it locked up?

Senator SHAFROTH. In the reserves all over the United States.

Mr. BLINN. That is it.

Senator SHAFROTH. It was not any more in New York than in the other cities.

Mr. BLINN. I am trying to demonstrate it was not in New York but in the interior.

Senator SHAFROTH. Yes. But don't you think that the provisions of the European banks have an advantage over ours? They have no maximum reserve that is bound to be kept. They simply permit their banks to pay down to the last cent if it is necessary.

Mr. BLINN. But banking here is done under different conditions.

Senator SHAFROTH. That is true, but is not that an advantage? Does not our reserve and the holding of it in cash absolutely increase panics instead of decreasing them—the intensity of them? And would not the relieving of those banks by the substitution of some other currency alleviate conditions in times of panic instead of aggravating them?

Mr. BLINN. I am sorry I can not agree with you, Senator. I do not see anything to be gained by the substitution.

Senator SHAFROTH. The only thing is, you release millions and millions of coin.

Mr. BLINN. You release it just the same. Why substitute coin——

Senator SHAFROTH. Because you can not use it. The New York bank would have to close its doors in a minute if it were to go to a 5 per cent reserve. There would not be a single one of them that would keep open.

Mr. BLINN. It depends upon the character of their assets.

Senator SHAFROTH. No; I think not. In fact, it would be a cause for closing the doors.

Mr. BLINN. Yet the New York banks are criticized for permitting their reserves to run below 20 per cent.

Senator SHAFROTH. That may be. I think the reserve is intended simply as a security to the creditors of the bank, and that being the case, why, in times of panic, should it be held in cash instead of being held in good security notes, or discounts, or bonds, or anything of that kind——

Mr. BLINN. There is one point you and I differ on, and that is this: As I judge, you believe that the substitution of notes—prime commercial paper—for cash is the solution of the problem.

Senator SHAFROTH. One of the solutions. I agree with you that that is obviated very largely if you have a central place to go to and get paper discounted, but we do not know what is going to be the result of all this deliberation on the question, or whether that would be an ameliorating act.

Mr. BLINN. The paper you speak of is now in the hands of the banks for the benefit of the creditors if the banks close their doors. I do not see that you gain a thing by taking that paper and depositing it with the Comptroller of the Currency for the benefit of the depositors.

Senator SHAFROTH. Can not we do this: Why can not you hold it in the vaults of the bank, under a requirement, or under the permission of somebody, that prime commercial paper may be substituted in times of panic for this gold?

Mr. BLINN. I do not think it is economically sound. I should not favor that plan, Senator.

Senator SHAFROTH. That is all.

The CHAIRMAN. Have you finished your statement?

Mr. BLINN. I have a few more things I should like to say. I should like to ask a question of the committee about one section of the bill. That is section 15. I am not clear upon it, and others that I have talked with are not clear upon it. The section reads as follows:

> 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——

"Prime bankers' bills." Do I understand that the regional banks under that section are permitted to go into the market and buy commercial paper? By "prime bankers' bills" do you mean commercial paper?

Senator SHAFROTH. I think that was put in for the purpose of letting these Federal reserve banks control the rate of interest, and they could not control it except by going into the market.

Mr. BLINN. Do you intend to permit them to buy commercial paper?

Senator BRISTOW. To buy anything.

Senator SHAFROTH. To permit them to buy anything. The privilege is supposed to be exercised only at times when there is a change in the rate of discount. And in order to control the market, which is necessary to be done, in order to establish and make effective your rate of discount, this power was considered necessary.

Senator NELSON. My construction of those words "prime bankers' bills" is this: It is a foreign term injected into the bill, from the terms they use in England and other foreign countries. A good deal of their loans are in the form of bills of exchange instead of notes, are they not?

Mr. BLINN. They are: yes, sir.

Senator NELSON. And they are called "prime bankers' bills." Now, our bills of exchange are usually—except what we call finance bills—drawn upon bills of lading, against shipments of goods; and then we have domestic drafts drawn upon notes in banks here, which are somewhat similar to finance bills in one respect. But the term "prime bankers' bills" is applied to a species of paper they have in foreign countries that we have not here. When they go to borrow money there it is in the form of a bill of exchange, and they have a drawer, a drawee, an acceptor, and a payee all in one, and they are called "bankers' bills." I do not think it is appropriate to our system of doing business.

Senator BRISTOW. I was talking to a gentleman who claimed to know why that was put in the bill. He said it was for the purpose of permitting these regional reserve banks to deal directly with the public so as to regulate the conduct of their banks. A citizen that had something to sell in the nature of a security, if the other banks would not take it, could go to the regional banks themselves.

Senator NELSON. What does the term "prime bankers' bill" mean? The next phrase "bills of exchange," that we all understand, but "prime bankers' bills," what kind of paper is that?

Senator BRISTOW. This gentleman understood it meant almost anything.

Mr. BLINN. The way it is expressed, sir, it would mean a bill of exchange. A bill of exchange is an instrument drawn by one party ordering a second party to pay. Prime commercial paper is the promise of the maker himself to pay. The two things are distinct. We do not have in this country the prime commercial paper they have in Europe. We have in this country so-called accommodation paper, or the promissory note of the maker with signers, where the maker is the man to pay the instrument.

Now, believing that you meant "prime commercial paper" instead of "prime bankers' bills," I should like to say a word on that subject. Under this plan you are providing a place of rediscount where the existing national banks which will create these regional banks can go and obtain a rediscount in times of need. You should not, in my opinion, permit these banks to enter the market in open competition with existing banks which have created these regional banks. Not only that, but if you do you are taking away the assets and the reserve supply of these regional banks for which they are being created. They are being created to furnish a big central reservoir for existing banks to draw upon in times of need. You provide a reserve of 33⅓ per cent, which, in my opinion, is not adequate, but the managers of the banks should not permit that reserve to come down to 33⅓ per cent or anywhere near it. They should run a reserve at all times of 50 or 60 per cent. The Bank of England to-day has 60 or 70 per cent. We have deposit banking here in this country that has not been perfected on the other side as it has been here.

Senator SHAFROTH. Now, if your objection to this should be effective, how could the central reserve bank make the raising and lowering of their rate of discount effective without that provision?

Mr. BLINN. In this way: It should work in conjunction with the open market. I do not think the regional bank should control the discount rate. I think the discount rate should fluctuate according to business needs. I do not think you want to leave it to the arbitrary control of the regional bank. I think it is better to leave it to the law of supply and demand. Now, if the existing banks require accommodation they will apply to the regional banks. If the national banks are applying for rediscounts to an unusual extent, so that the liabilities of the central bank are increasing without the gold supply correspondingly increasing and the reserve is going down, then is the time for the regional bank to increase its discount rate and thereby check rediscounts.

Senator SHAFROTH. Do you believe the Bank of England serves a good purpose in having the right to raise and lower the rate of discount?

Mr. BLINN. It does, and I want you to——

Senator SHAFROTH. Do you think the Bank of England could do so without having the privilege that is given in this provision? They have a right to go up into the market whenever they wish to, and in that way they can raise the rate or throw money into the market, and therefore, by dealings with private parties——

Mr. Blinn. Yes, sir; but there again you have a different condition. In London you have a loan made up, not of loans made to London dealers, but of loans representing the indebtedness of all nations. London is the bank of the world, and the obligations with which they deal are the bankers' bills representing the foreign commerce—bills drawn against the importation of goods to a large extent. They do not have, in my opinion, as I understand the situation, in London the large volume of local credits that we have here.

Senator Shafroth. Then you do not believe the central reserve board should have the power to make effective their rate of discount?

Mr. Blinn. Not through open-market operations; no, sir.

Senator Shafroth. Can they, without having open-market operations?

Mr. Blinn. I believe they can.

Senator Shafroth. How can they do it?

Mr. Blinn. Take this statement which I have before me, showing a reserve of 83.83 per cent. If they decide they want to loan to reduce their reserve to 50 per cent, they can go into the open market and buy paper, so that their liabilities have increased to an extent that the cash, which remains constant, is a reserve of 50 per cent upon the increased liability. In doing that they will decrease the rate of discount to such an extent that there will be an expansion. The rates will become lower here than abroad, and the expulsion of gold may result from natural economic conditions.

Senator Nelson. Could not it be done in this way—I am simply asking for information: Instead of having made this rule of issuing currency by these regional reserve banks upon the face value of the commercial paper, issue it upon the discount value.

In other words, the amount of currency that would be issued on the paper discounted at these regional banks would be regulated, to some extent, by the rate of discount. If the discount was low, they would get more currency, and if it was high, they would get less.

Mr. Blinn. I do not believe that would be sound. I would not favor it.

Senator Nelson. It would be measured by the proceeds that a man got. If instead of bills, if a bank takes its notes, if a member bank takes its note to a regional bank——

Mr. Blinn (interposing). You mean its own note?

Senator Nelson. Yes. The member bank takes its own paper to a regional bank to be discounted; instead of asking for the bills of the regional bank, it wants money. Now, the amount——

Mr. Blinn (interposing). You mean a loan?

Senator Nelson. Yes. The amount of money it will get will depend on the rate of discount. If the rate is only 3 per cent, it will get more than if it is 5 per cent; the proceeds of the note will bring more cash.

Mr. Blinn. I should not favor that, Senator.

Senator Nelson. You say you should not favor it, but that does not answer my question. Would it not bring more money?

Mr. Blinn. You do not want more money.

Senator Nelson. That does not answer the question.

Mr. BLINN. I do not quite get your question.

Senator NELSON. I say if a member bank goes to a regional bank with, say, $100,000 of commercial paper, and the banker says: "I want to discount this paper, and I want the cash for it."

Mr. BLINN. Yes.

Senator NELSON. Would not the amount, the quantity of cash that that bank gets for that paper, depend on the rate of discount?

Mr. BLINN. No, sir.

Senator NELSON. Why not? Does it not make any difference if I go to your bank and have a note discounted at 5 or 3 per cent?

Mr. BLINN. It does, as to the proceeds.

Senator NELSON. And would not that same rule apply to the discounting of the notes of a member bank by a regional bank?

Mr. BLINN. I should say it did not. In other words——

Senator NELSON (interposing). Will you not kindly answer the question? Would not the same principle of business apply, that the amount of the proceeds of the paper would depend upon the rate of discount?

Mr. BLINN. It would, but the difference is so small as to be insignificant.

Senator NELSON. It may be a great deal; it may run from 3 to 6 per cent.

Mr. BLINN. I understand that is the plan. I understand that under the present bill the bank which discounts will receive only the proceeds of discounting and not the face of the note.

Senator NELSON. If that is the case, if it is the proceeds of the discounting that they receive, then the amount of currency they can get on that discounted paper will be contingent, to a limited extent, upon the rate of discount?

Mr. BLINN. It will, but the difference is insignificant.

Senator NELSON. Well, if it is insignificant, it is no more insignificant than the rate at which the different banks discount. I suppose the banks discount paper at a much lower rate in Boston than we do out West?

Mr. BLINN. A $10,000 note discounted at 6 per cent, having 60 days to run, will have a discount of $50 on that $10,000.

Senator NELSON. But on a four-month paper?

Mr. BLINN. There would not be very much of that class of paper rediscounted.

Senator NELSON. There would not be?

Mr. BLINN. As I read the bill, that would be on short-time paper.

Senator WEEKS. I want to ask a few questions about controlling the rate of interest, because this an important question which the committee will want to consider with a good deal of deliberation; whether the regional banks are to go into the open market in competition with other banks or not, or whether it is necessary for them to do it in order to control the rate of interest. Now, the Bank of England, as I understand it, controls the rate of interest, and does it effectively by simply an announcement that it raises the rate of interest one-eighth, or lowers the rate one-eighth. It is not the amount that is raised or lowered, but it is the warning to which the business world pays attention, and everybody recognizes the Bank of England as a standard, in touch with all the world; and being in touch with all the world, they immediately say, when the Bank of

England raises the rate, that there is quite likely some trouble somewhere, or there is an unusual demand somewhere, and that they had better be conservative and therefore where the increase in the rate amounts to practically nothing, as a warning it is of value to bankers not only in England but all over the world?

Mr. BLINN. That is correct.

Senator SHAFROTH. But the Bank of England deals with the individual in order to accomplish that?

Senator WEEKS. Not in order to accomplish it.

Senator SHAFROTH. That is my understanding.

Senator WEEKS. Not in order to accomplish the purpose of controlling the rate, but it is the policy over there to accept the Bank of England's statement. The very announcement of an increase in the rate, in the Bank of England's rate, is sufficient to warn the whole world that they had better be a little more conservative, and a decrease in the rate announces to the world that conditions are easier and the Bank of England believes that a further inflation is not only desirable but is reasonable. Is that your understanding?

Mr. BLINN. That is my understanding, exactly, Senator.

Senator WEEKS. I do not believe that the resources of the Bank of England would be sufficient to enable it to actually control the rate by the purchase or sale of paper.

Senator SHAFROTH. All the books I have read on that say that is the reason, and that is their practice.

Senator WEEKS. If you will take the resources of the Bank of England and the joint-stock banks of England, you will find that the Bank of England's resources would not make that practicable.

Senator SHAFROTH. There is a limitation, to some extent, but at the same time, at times you could not raise it without having the power of the Bank of England exerted in that behalf.

Senator WEEKS. The question we will have to decide is whether it is necessary, in order to control the rate, to go into the market and buy and sell paper.

Mr. BLINN. In my opinion, it is not.

Senator HITCHCOCK. If the regional bank at Chicago establishes a rate for discounting paper to the banks of Chicago and other banks in that region of, say, 4 per cent, would it not be true that those banks who have the privilege of discounting the paper at that rate are in competition with each other?

Mr. BLINN. Yes.

Senator HITCHCOCK. And any demand for loans would naturally go to one or the other, or perhaps a number of those banks?

Mr. BLINN. Yes.

Senator HITCHCOCK. If there is real competition between those banks, would not that competition result in practically establishing the rate of the regional bank?

Mr. BLINN. I think the inverse would be true. I think if the Federal bank at Chicago, say, increases its rate from 4 to 4½ per cent immediately the open rate would be increased. The purpose of increasing the rate is to shut off credit, because transactions that are profitable at 4 per cent are not profitable at 4½ per cent. When the rate gets to 6 per cent naturally credit is denied, or, rather, enough credit is not applied for, so that a bank is unable to take care of the demands upon it with this kind of resources. That is the purpose of increasing the rate of interest—to shut off credit and minimize the demand. The purpose of decreasing the rate is to invite demands for money. Transactions that would not be profitable at 4 per cent would be profitable at 3½ or 3 per cent.

Senator HITCHCOCK. Now, then, the point I am getting at is to inquire whether the rate established by the regional bank would practically go into operation by reason of the competition of the member banks with each other?

Mr. BLINN. I do not think it would result in competition. The market rate is established, and while banks do compete with one another we all know the prevailing rate, and the prevailing rate would be the same, because if we have a customer who is also a customer of another, bank a competitor of ours, and the customer comes in to us and we quote him a rate of 5½ per cent, he will immediately say, "I was at the blank bank this morning and borrowed $5,000 at 5 per cent" and we will say, "All right," and we will have to meet that. If our competitor banks loan money to our customers at 5 per cent, we must meet that rate in competition.

Senator HITCHCOCK. Would not the question as to whether the rate in the regional bank be established or not depend on whether it was a practical rate?

Mr. BLINN. It would; that is something for the directors to decide.

Senator HITCHCOCK. In other words, if the regional bank in Boston found that it had $2,000,000 available cash, and it reduced its rate one-half of 1 per cent, and if your bank is able to take advantage of it——

Mr. BLINN. It would be opening another; yes.

Senator HITCHCOCK. A customer's going from one bank to another to ascertain the low rate would ultimately result in establishing the rate of the regional bank?

Mr. BLINN. It would.

Senator HITCHCOCK. Now then, let me ask you this question: Suppose the regional bank undertakes to push loans upon the public that are not spontaneously desired. What would be the result?

Mr. BLINN. Direct expansion, and inflation of gold.

Senator HITCHCOCK. That would be the inevitable result of such a policy?

Mr. BLINN. Yes, sir.

Senator HITCHCOCK. And the very purpose of the bill is not to crowd loans upon the public, but to give the banks facilities to respond to the natural demand?

Mr. BLINN. That is it exactly.

Senator HITCHCOCK. Awhile ago you told of the inevitable contraction of credit which would result at the time this bill should become a law. I think you confined yourself to the central reserve cities?

Mr. BLINN. Yes.

Senator HITCHCOCK. And you found a contraction of probably $200,000,000?

Mr. BLINN. Yes.

Senator HITCHCOCK. Would there not be a contraction of credit in the 48 reserve cities of a corresponding size?

Mr. BLINN. There would be, to a small extent. So many questions came in at that time that I did not finish what I wanted to say in regard to that particular point.

Senator HITCHCOCK. I understand there are about 48 reserve cities?

Mr. BLINN. Yes.

Senator HITCHCOCK. And in those cities there are about 350 banks known as reserve banks?

Mr. BLINN. Yes.

Senator HITCHCOCK. They hold approximately $350,000,000 of deposits of country banks?

Mr. BLINN. Yes.

Senator HITCHCOCK. When those country banks take down those reserves and transfer their funds to the reserve banks, what would be the resources of those 350 banks in the 48 reserve cities to secure the necessary money to make that transfer?

Mr. BLINN. They would have $68,000,000 in cash, above their new cash reserve requirements.

Senator HITCHCOCK. $68,000,000? But the new reserve requirement does not go into effect until the bill is in operation?

Mr. BLINN. My figures are the figures in connection with the result of the plan at the end of 38 months.

Senator HITCHCOCK. But, in my opinion, the contraction is going to occur at the initial stage, because the new reserve does not go into effect until after the plan is in operation, and the present reserve remains in effect for perhaps a year or two, so that I think you are in error in regard to your $68,000,000 of safety.

Senator NELSON. It takes 38 months, you know.

Mr. BLINN. Yes. I have no figures giving the detailed operations at the end of 60 days, but I am confident the plan would operate in the two or three other stages along the general principles of those figures, although I have not gone any further than that.

Senator HITCHCOCK. I will let you go ahead now, Mr. Blinn, and not interrupt you any more at this time.

Mr. BLINN. The reserve banks in 48 reserve cities would not be obliged to contract loans or rediscounts unless they decided that the balances remaining at their credit with central reserve agents, which I figure to be 6½ per cent at present—if they decided they must increase their balances with the central reserve agents for the conduct of their business, then it would require that they should contract loans to some extent, or rediscount.

Now, the central reserve banks would be obliged to rediscount or contract loans to the extent of $200,000,000, but I want to make it very clear to the committee that if rediscounts are made, and the regional banks discount those rediscounts, the regional banks will still have a reserve of 83 per cent.

Senator HITCHCOCK. Take my town of Omaha. My recollection is that the banks there have $20,000,000 on deposit belonging to country banks. A large part of that must be checked off and transferred to the regional reserve bank of that district.

Mr. BLINN. Yes.

Senator HITCHCOCK. Say, I do not know what quantity it would be, but estimate it to be about $14,000,000.

Mr. BLINN. Yes.

Senator HITCHCOCK. I have failed to find in the statement of the banks how they can raise that money except by calling the loans of their customers to a considerable extent.

Mr. BLINN. Their reserve requirements are materially decreased.

Senator HITCHCOCK. They will ultimately be, but are not now, because the new banks would not be organized for some time.

Mr. BLINN. At the end of 60 days—I have no figures upon that, and I can not answer your question at this time.

Senator HITCHCOCK. That is disturbing all the banks in the Central West at the present time, how they are going to be able to procure that large sum of money without contracting other credits and calling their loans. I think some of the very conservative ones have already begun calling in loans in anticipation of hasty action.

Senator SHAFROTH. Can they not get all there is of it by going to the reserve bank and saying we will take our paper to another bank?

Senator HITCHCOCK. There are two reasons why they can not do that. The reserve banks will not be ready for business until over a year. In the second place, we have a lot of gray-haired bankers in the West who abhor rediscounts, and who will not be driven into rediscounting unless it is necessary to save the bank. They will not loan money on a small margin and then sell the paper where they may be called upon to make good.

I believe ultimately these bankers may be converted to the European practice of rediscounting, but I am very certain that a great many of them look on it with a good deal of aversion to-day, and they are going to be slow in taking it up.

Senator BRISTOW. It is very difficult to change habits and customs by a resort to legislative action.

Senator HITCHCOCK. You do not consider, Mr. Blinn, a contraction resulting from a transfer of the reserves in the reserve cities as serious as you do in the three central reserve cities?

Mr. BLINN. I do not; no. Under the plan, as originally introduced, the reserve bank would have been obliged to rediscount or contract 113 millions. The central reserve banks would have been obliged to contract or rediscount 259 millions, making a total rediscount or contraction of 372 millions, against 219 millions under the present plan. As a result of the recommendations of the Chicago conference, the bank would have started without a dollar of rediscount, and had assets of 500 millions, with no loans.

I have one more point I should like to speak of, and that is the question of drafts or bills of exchange, as it appears on page 26 of the bill:

> Any national bank may, at its discretion, accept drafts or bills of exchange drawn upon it having not more than six months' sight to run and growing out of transactions involving the importation or exportation of goods.

I have tried to figure out how a bank would accept on an export transaction. I do not believe it would be used on an export transaction. It would be used particularly on import transactions, and I should like to suggest that that section be amended to permit banks to accept on domestic transactions not involving importations of goods. For example, the southerner selling his cotton to the northern mill may desire—the mill in buying that cotton may desire additional credit facilities. If it would arrange with its local bank to accept drafts drawn for the shipment of that cotton, drafts drawn by the sellers, they will materially aid the financing of cotton sales. Those are the only suggestions I have to make.

Senator SHAFROTH. The theory under which I understand that was put in was to give the American business man the advantage of that six months in order to compete with the uniform practice which exists, as I understand, in London, and to allow discounts for that length of time, and the reason it has not been extended to domestic exchange drafts, as I understand it, is because it would affect the liquidity of the assets of banks if all domestic transactions were included; that it might make it undesirable to have so much of the assets in six-month paper.

Mr. BLINN. Yes; it would furnish a most excellent form of a commercial bill that banks buying paper in the outside market would be only too glad to obtain. Such paper would be very liquid. Perhaps the length of time would be objectionable. In fact, I think, on domestic transactions, the time should be reduced to 60 days.

Senator SHAFROTH. Then you would not have this six-month provision extend to the domestic institutions?

Mr. BLINN. I think it is fully long. I think four months would be sufficient to cover practically all transactions.

Senator BRISTOW. Why should you give more respect to a shipment to the Orient than to notes given out in Minnesota, for instance?

Senator SHAFROTH. They claim they will not be able to do that at all in this country because six months' time is required to get the products here.

Senator BRISTOW. We have evidence here that it is required in Minnesota——

Senator SHAFROTH (interposing). But the point of the bill is that our domestic drafts are to be kept short in order to make them liquid, and that is the reason the witness believes in making the time 60 instead of 90 days.

Senator BRISTOW. That will do, perhaps, for a certain kind of paper handled in the East, but it is of no account in the West at all.

Senator NELSON. I want to call your attention to a provision on page 30 of the bill, commencing on line 4, with the word "such." That relates to the plan for this regional currency, this reserve currency, and it says:

> Such application shall be accompanied with a tender to the local Federal reserve agent of collateral in amount equal to the sum of the Federal reserve notes thus applied for and issued in pursuance to such application.

I do not see how you can infer from that that it is limited to the discount value of the paper. Would it not be the par value of the paper?

Mr. BLINN. That is on page 30 you say?

Senator NELSON. Yes; beginning on line 4.

Mr. BLINN. Yes; I see that now. Yes, it becomes necessary for the discounting bank to send the Federal bank its check in payment for the discount.

Senator NELSON. This would imply that they would be entitled to regional notes, notes of the regional banks to the amount of the face value of the notes, would it not?

Mr. BLINN. It would; yes, sir.

Senator NELSON. Now, I will put a concrete case to you, for the purpose of showing, to my mind, a method by which you could prevent inflation. Suppose you are a regional bank, and I am a member bank. I come to you with a bundle of notes and bills. I want them discounted and I want your currency. You say that your discount rate is 7 or 8 per cent, and I shake my head and say I do not want any of your currency if your rate is as high as that. If you tell me your rate is 3 per cent, I will say give me your currency. Would that not be a way of checking the inflation of the currency, to allow the regional banks to fix the rate of discount, as against paper that was presented to it for note issue?

Mr. BLINN. That is the purpose of the bill.

Senator NELSON. No; never mind what the bill is. I am putting this question to you. I am putting this concrete case to you.

Mr. BLINN. I may be dense. I do not get your point of view.

Senator NELSON. Just imagine that you are a regional bank and I am a member bank. As a member bank I come to you with $100,000 in commercial paper that you are authorized to discount. You say to me, "I can only discount that paper and give you bills at the rate of 7 or 8 per cent." I say, "If that is your rate I do not want it," and I leave your bank and I do not take out any notes. But if you say, "I will discount that paper and issue notes to that extent at the rate of 3 per cent," I will say, "Here are my notes; give me your currency." Would that not be a way in which to regulate to some extent the issue of the currency and prevent inflation?

Mr. BLINN. I do not think the actual transaction that you have described would make any difference. I do not think it would. The rate of discount, the prevailing rate of discount, would, of course, affect the volume of notes.

Senator NELSON. That is what I mean.

Mr. BLINN. It certainly would. In other words, with a prevailing rate of 8 per cent there would be fewer calls for notes than if the rate were 3 per cent.

Senator NELSON. That is what I mean exactly. So, would the volume of the notes not be regulated in that way?

Mr. BLINN. It would be one of the factors; yes, sir.

Senator NELSON. That is the point; that is what I mean. Could you not in that way regulate, indirectly, the rate of interest?

Mr. BLINN. That is one of the contributing factors.

Senator NELSON. And might you not let them, instead of issuing the par value—let them issue bills, and by that I mean new notes—issue bills for the discount value of the paper, not the face value, and by giving the regional banks that power indirectly it would affect the rate of interest, and indirectly it would put a limited brake upon the volume of the currency?

Mr. BLINN. It would; it would be one of the contributing factors.

Senator NELSON. That is what I mean.

Senator SHAFROTH. Can you not leave the tables that you have and let them go into the record?

Mr. BLINN. Yes, sir; I can leave them with the committee.

Senator NELSON. I ask that they go into the record. They are very valuable tables.

Mr. BLINN. Do you wish the abstract of the comptroller's reports?

Senator NELSON. Yes; and the letters which you have there ought to go in.

Mr. BLINN. Those which I have read have already been put into the record.

Senator HITCHCOCK. The chairman requested that the computations which you have made should go into the record.

Mr. BLINN. I am perfectly willing to have that go in. They have been published. That is simply an assembling of the figures.

Senator NELSON. There is one more question I would like to ask you. Do you not think the bill ought to be amended in order to have the reserve for the note issue of 33⅓ per cent absolutely in gold and not "gold or other lawful money"?

Mr. BLINN. I intended to say in the beginning that we have three other members of the committee present, and we have divided the discussion of this subject, and one of the other members of the committee will take up that phase of the matter. That is why I have avoided discussing it.

Senator WEEKS. I want to get one matter clear for the record. I think it is not clear now. That is what you have stated in regard to the necessity for contraction in central reserve cities. You mean that the contraction will be necessary unless it is possible for the banks in the central reserve cities to rediscount?

Mr. BLINN. I do not mean just that, Senator. I mean this: That a condition confronts them whereby they must realize $219,000,000 to enable them to make the payment required of them for the regional banks. Two ways are open to them, one to take their paper and rediscount it with the regional bank; the other method is to ask concerns whose paper they hold which has been purchased on the outside market to pay those notes as they mature. In other words, realize upon their assets.

Senator WEEKS. What I mean to say is that if it were possible for them to rediscount the $219,000,000, or whatever the amount is, with a reserve bank, then there would not be any contraction of the credits would there?

Mr. BLINN. There would not be.

Senator WEEKS. Therefore, if the reserve banks were in condition to commence business on the day it is necessary to pay this money over and install the new paper and rediscounting could be commenced at once, it would prevent the necessity of contraction would it not?

Mr. BLINN. It would; yes, sir.

Senator BRISTOW. Well, Senator Hitchcock asked you your opinion as to what contraction there would be in the preliminary period. Would it be possible, under the bill, to change from one method to the other without contraction?

Mr. BLINN. If the bank will rediscount freely and not ask for the payment of obligations in their hands.

Senator BRISTOW. How is the regional bank to rediscount when it has nothing to rediscount with? Where is it going to get the money to rediscount?

Mr. BLINN. You do not propose under this plan to have $105,000,000 put in and hold it for any long time without using it.

Senator BRISTOW. It is to be paid in. Where is the money to come from to be paid in?

Mr. BLINN. Why can not it be paid in, sir, in the form of cash or rediscount. If you operate this bank and ask for the payment of