

63D CONGRESS }
1st Session }

SENATE

{ DOCUMENT
{ No. 232

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 CUR-
RENCY, AFFORDING MEANS OF REDISCOUNTING COM-
MERCIAL PAPER, AND TO ESTABLISH A MORE
EFFECTIVE SUPERVISION OF BANKING
IN THE UNITED STATES, AND FOR
OTHER PURPOSES

IN THREE VOLUMES

VOL. III

(INDEX AT END OF VOLUME)

WASHINGTON
GOVERNMENT PRINTING OFFICE

1913

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 CUR-
RENCY, AFFORDING MEANS OF REDISCOUNTING COM-
MERCIAL PAPER, AND TO ESTABLISH A MORE
EFFECTIVE SUPERVISION OF BANKING
IN THE UNITED STATES, AND FOR
OTHER PURPOSES

IN THREE VOLUMES

VOL. III

(INDEX AT END OF VOLUME)

WASHINGTON
GOVERNMENT PRINTING OFFICE
1913

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.]

Aisthorpe, J. S. (vice president, Illinois Bankers' Association, Cairo, Ill.)	III, 2194-2202
Allen, William H. (New York, N. Y.)	I, 375-382
Alling, Newton D. (vice president, National Nassau Bank, New York City)	I, 406-456
Baldwin, W. W. (vice president, Chicago, Burlington & Quincy Railroad Co., Burlington, Iowa)	III, 2131-2137
Banfield, N. F. (vice president, First National Bank, Austin, Minn.)	III, 2449-2452
Barry, David (cashier, First National Bank, Johnstown, Pa.)	III, 2321-2334
Bassett, J. C. (president, Aberdeen National Bank, Aberdeen, S. Dak.)	II, 1657-1682
Berry, William H. (Chester, Pa.)	I, 560-582, 586-655
Blinn, Charles P. (president, Massachusetts Bankers' Association, Boston, Mass.)	II, 1178-1220
Bolton, J. W. (president, The Rapids Bank, Alexandria, La.)	II, 1571-1583
Bowman, Henry H. (president, Springfield National Bank, Springfield, Mass.)	II, 1225-1248
Bucholz, W. H. (vice president, Omaha National Bank, Omaha, Nebr.)	III, 2419-2432
Cannon, J. G. (president, Fifth National Bank, New York, N. Y.)	III, 2138-2191
Chapman, Joseph (vice president, Northwestern National Bank, Minneapolis, Minn.)	I, 187-192
Claffin, John (H. B. Claffin Co., New York City)	I, 543-550
Clark, Hovey C. (Minneapolis, Minn.)	II, 1059-1068
Comstock, A. H. (vice president, Marshall-Wells Hardware Co., Duluth, Minn.)	II, 1050-1059
Conant, Charles A. (New York, N. Y.)	II, 1378-1513
Coxey, Jacob S. (Massillon, Ohio)	III, 2967-2976
Crebs, John N. (Carmi, Ill.)	III, 2229-2232
Crozier, Alfred Owen (College Hill, Cincinnati, Ohio)	III, 2886-2905
Daniel, T. Cushing (Virginia)	II, 1159-1174; III, 3140-3152
Dawson, A. F. (president, First National Bank, Davenport, Iowa)	III, 2082-2131
Dickson, T. H. (secretary, Mississippi Bankers' Association, Jackson, Miss.)	II, 1645
Dos Passos, John R. (New York, N. Y.)	I, 491-497
Drury, F. A. (president, Merchants National Bank, Worcester, Mass.)	II, 1221-1248
Fisher, Edmund D. (deputy comptroller, New York City)	III, 2487-2513, 3138-3140
Fisher, Irving (Yale University)	II, 1129-1159
Flannagan, William W. (Montclair, N. J.)	I, 738-808; III, 2726-2729

LIST OF WITNESSES.

V

Footé, Francis W. (vice president, First National Bank of Commerce, Hattiesburg, Miss.)	ii, 1514-1532, 1613-1621
Forgan, James B. (president, First National Bank, Chicago, Ill.)	i, 25-42, 44, 125-189, 198-200, 201, 277-283, 304-306
Fowler, C. A. N. (Elizabeth, N. J.)	ii, 1863-1931
Frame, Andrew Jay (president, Waukesha National Bank, Waukesha, Wis.)	i, 674-738
French, Nathaniel (Davenport, Iowa)	ii, 2069-2082
Frenzel, John P. (vice president, Merchants' National Bank, Indianapolis, Ind.)	ii, 1533-1539
Frenzel, J. P.	ii, 1610-1613, 1628-1639
Gilbert, Alexander (president, Market & Fulton National Bank, New York)	iii, 2733-2834
Hallock, James C. (Brooklyn, N. Y.)	ii, 1684-1709
Harrington, Charles M. (Minneapolis, Minn.)	i, 960-966
Harris, B. F. (vice president, First National Bank, Champaign, Ill.)	iii, 2202-2215
Hill, E. J.	i, 283-287
Hulbert, E. D. (vice president, Merchants' Loan & Trust Co., Chicago, Ill.)	ii, 1094-1129
Ingle, William (vice president, Merchants & Mechanics National Bank, Baltimore, Md.)	iii, 2369-2419
Jenks, Jeremiah W. (New York University, New York City)	iii, 2552-2634, 3153-3196
Jewett, H. C. (Aberdeen, S. Dak.)	ii, 1682-1684
Johnston, John T. M. (president, National Reserve Bank, Kansas City, Mo.)	i, 109-123
Jones, Breckenridge (president, Mississippi Valley Trust Co., St. Louis, Mo.)	ii, 998-1038, 1048-1050
Jones, Gordon (president, United States National Bank, Denver, Colo.)	iii, 2250-2272, 2272-2281
Kenaston, F. E. (Minneapolis, Minn.)	ii, 967-998
Kent, Fred I. (vice president, Bankers' Trust Co., New York, N. Y.)	iii, 2977-3002
Larrabee, F. S. (Farmers' National Bank, Stafford, Kans.)	iii, 2356-2366, 3069-3071
Lassen, Alexander C. (president, Lassen Realty Co., New York, N. Y.)	iii, 3112-3125
Law, F. M. (First National Bank, Beaumont, Tex.)	iii, 2334-2337
Long, Richard H. (Framingham, Mass.)	iii, 2835-2849
McCaleb, W. F. (president, West Texas Banking & Trust Co., San Antonio, Tex.)	ii, 1591-1610
McCulloch, J. L. (president, Marion National Bank, Marion, Ind.)	ii, 1621-1628
McMorries, Edwin (president, First National Bank, Meridian, Miss.)	ii, 1583-1591
McRae, Thomas C. (president, Bank of Prescott, Ark.)	ii, 1275-1288
Maddox, Robert F. (vice president, American National Bank, Atlanta, Ga.)	i, 192-218
Marshall, F. E. (New York, N. Y.)	i, 456-491; ii, 1175-1177
Milliken, R. C. (monetary statistician, Washington, D. C.)	iii, 2453-2484
Moehlenpah, H. A. (president, Wisconsin Bankers' Association, Clinton, Wis.)	ii, 1539-1565
Montgomery, S. B. (Quincy, Ill.)	iii, 2192-2194, 2223-2225
Morawetz, Victor (New York, N. Y.)	iii, 2635-2720

Moses, E. R. (president, Citizens' National Bank, Great Bend, Kans.)	iii, 2366-2368
Mosher, Curtis L. (secretary, Citizens' League of Minnesota, Minneapolis, Minn.)	ii, 1091-1094
Newton, Oscar (president, Jackson Bank, Jackson, Miss.)	ii, 1639-1645
Peck, L. T. (cashier, First National Bank of Hawaii, Honolulu)	iii, 2875-2883
Perkins, James H. (president, National Commercial Bank, Albany, N. Y.)	iii, 2338-2349
Reynolds, George M. (president, Continental & Commercial National Bank, Chicago, Ill.)	i, 198, 199, 200, 224-257, 288-296, 297-306, 311-315
Rhodes, Bradford (president, First National Bank, Mamaroneck, N. Y.)	iii, 3003-3013
Rogers, George W. (cashier, Bank of Commerce, Little Rock, Ark.)	ii, 1565-1571; iii, 2247-2259
Scott, J. T. (vice president, First National Bank, Houston, Tex.)	ii, 1646-1656
Scudder, S. D. (vice president, Richmond Trust & Savings Co., Richmond, Va.)	iii, 2232-2247
Sexton, Henry D. (president, Southern Illinois National Bank, East St. Louis, Ill.)	ii, 2215-2223
Shibley, George H. (director, American Bureau of Political Research, Washington, D. C.)	ii, 1724-1827; iii, 2534
Shields, Edward E. (secretary, group 2, Pennsylvania Bankers' Association, West Chester, Pa.)	iii, 3092-3111
Simmons, W. D. (chairman, banking and commerce committee of Chamber of Commerce of United States, St. Louis, Mo.)	iii, 2484-2486, 2513-2519
Sprague, O. M. W. (Harvard University)	i, 297, 306-310, 358-373, 497-534, 551-560
Swinney, Edward F. (president, First National Bank, Kansas City, Mo.)	iii, 2037-2052
Syme, F. J. (New York, N. Y.)	iii, 2872-2875
Thomas, Charles Spalding (Senator from Colorado)	iii, 2432-2449
Tilton, McLane, jr. (president, First National Bank, Pell City, Ala.)	iii, 2306-2321
Tregoe, J. H. (secretary, National Association of Credit Men, New York, N. Y.)	ii, 1038-1048
Treman, Robert (president, Tompkins County National Bank, Ithaca, N. Y.)	iii, 2350-2356
Untermeyer, Samuel (New York City)	i, 808-942
Untermeyer, Samuel (New York, N. Y.)	ii, 1288-1369
Vanderlip, Frank A. (president, National City Bank, New York, N. Y.)	ii, 1933-2037, 2052-2069, 2911-2967
Varney, Justin E. (vice president and cashier, Bay State National Bank, Lawrence, Mass.)	ii, 1248-1264
Vinson, Taylor (Huntington, W. Va.)	iii, 2849-2871
Wade, Festus J. (president, Mercantile Trust Co., St. Louis, Mo.)	i, 125-186, 141-187
Wells, Edward B. (Minneapolis, Minn.)	i, 942-960
Wexler, Sol. (vice president, Whitney Central National Bank, New Orleans, La.)	i, 42-109, 201-212, 219-224, 315-358, 373-374
Wheeler, H. A. (vice president, Union Trust Co., Chicago, Ill.)	iii, 2519-2534
White, William C. (president, Illinois National Bank, Peoria Ill.)	iii, 2225-2229
Willis, Henry Parker (New York, N. Y.)	iii, 3013-3068, 3071-3088
Winston, F. G. (Minneapolis, Minn.)	ii, 1068-1076
Woodruff, George (president, First National Bank, Joliet, Ill.)	iii, 2281-2306

HEARINGS ON H. R. 7837.

WEDNESDAY, OCTOBER 8, 1913.

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

The committee assembled at 11.05 o'clock a. m.

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

The CHAIRMAN. Mr. Vanderlip, the committee will be glad to hear from you in regard to this bill, and I will ask that you give the stenographer your banking affiliations.

STATEMENT OF FRANK A. VANDERLIP, PRESIDENT OF THE NATIONAL CITY BANK, OF NEW YORK, N. Y.

Mr. VANDERLIP. I am president of the National City Bank, of New York. I have other banking affiliations as director. I suppose you only mean my official position?

The CHAIRMAN. I think that will suffice, unless the committee care to have the other affiliations. We will be glad to have your views on this bill.

Mr. VANDERLIP. I feel that there are two important things to be accomplished by any legislation—the mobilization of reserve and the creation of an elastic currency. I think this measure has gone a long way toward that, but has failed of accomplishing both of those things. I feel that the mobilization of the reserve has got to come about by what is practically a single reserve reservoir, and that the 12 reserve reservoirs which have been provided in the bill will not practically bring that about. I believe a single reservoir would be best, and any reduction from 12 will be an improvement. I think if you could reduce it to 4, it would probably work pretty nearly as well as 1, and would perhaps have some advantages over 1.

The CHAIRMAN. Is your reason for that because you think that if the regions were small the demands upon a particular region at seasonal periods would be too exacting on the local reserve bank?

Mr. VANDERLIP. Yes. There is no spreading of the conditions in the small regional reserve center. If the demands on all banks were of the same character and came at the same time there would be no object in having such an arrangement as we are here providing. The advantage of this comes through one bank having a strain on it at a time when another bank is flush, and an averaging of those conditions. It follows from that that if you establish a regional center in a geographical location, where all of the trade conditions in that circle are the same, where all the demands are coming upon the banks at the same time, and is of largely the same character, you will defeat your purpose. You will have a condition where there will be great danger of exhausting the resources of that bank, because conditions are the same throughout the territory of the bank.

Senator HITCHCOCK. Do you care to be interrupted as you go along, or do you prefer to complete your statement?

Mr. VANDERLIP. I am perfectly willing to be interrupted.

Senator HITCHCOCK. Then I would like to ask you whether it is not true that in all European systems—take, for instance, France—the conditions are practically the same throughout that country in which that central bank is the central reservoir. There is no diversity of interest there, where they have a very small geographical extent of territory.

Mr. VANDERLIP. There is diversity over the whole nation there, whatever it is, and it must be considerable. You can not say that France, speaking from the point of demands for borrowing at the bank, is an absolutely homogeneous country. There is the wine-producing district, the agricultural districts, the manufacturing districts, and their demands all come at different times and are of a different character. The one central bank there covers all those demands and has the advantage of a flush condition at one point and a strained condition at another and equalizes those conditions.

Senator HITCHCOCK. But geographically France is not larger than some of our States.

Mr. VANDERLIP. But in its business requirements it is certainly larger than any of them, and those requirements are very seasonal. With us, however, the seasonal variation is very pronounced according to geographical location.

Take the central bank established in the territory around New Orleans. The borrowing there will come from cotton raisers very largely. It will all come at the same time. The pressure on New Orleans comes at one season of the year. Now, if that can be equalized by including in the territory of the New Orleans bank territory that is not similar in its climatic conditions or in its industrial or manufacturing conditions, so that the pressure for loans in one part of that territory comes at one season and in another part at another, you will have a far sounder situation and a situation that a reserve bank can stand up under; whereas if you make these areas too small, in that they are too similar in condition, you will endanger the bank and make it almost certain that it will have to go to the larger banks for help.

Senator HITCHCOCK. The reserve bank still has the resource of procuring currency.

Mr. VANDERLIP. But it may be credit, not currency, that it wants, and it must have the reserve of gold to support the currency. If the bank loans down to 33 per cent it can not get any more currency until it gets some more gold.

It seems to me there are many impressive reasons why there should be a fewer number of reserve districts.

The CHAIRMAN. If there is a certain number, would you think it advisable to have a Federal reserve board with power to require one branch to accommodate another?

Mr. VANDERLIP. The power of the Federal reserve bank to force one bank to rediscount for another is obnoxious, but it is absolutely necessary if we are to have the benefits of the central reservoir and if you are to have a number of regional banks. A central reservoir is the desideratum. That is what we must have. You have planned here to organize 12 banks, and recognizing that after all 12 reser-

voirs will not do—that there must be one—then you undertake to pipe those 12 reservoirs together, and properly so. You must pipe them together. You undertake to pipe them together by giving control to this Federal board to force loans. I think the Federal board must have that authority, obnoxious as it is. The obnoxious character of it would disappear entirely with one central bank. It will disappear in a measure as you reduce the number of central banks. I believe that with four banks the management of those four banks would get together with a sufficient understanding of mutual conditions so that there would not have to be any arbitrary use of that power, but power must be lodged with the Federal board, because you must pipe the banks together, and you must make, in effect, one central reserve reservoir.

Senator HITCHCOCK. Would not that same argument go to show, really, there ought to be one central reservoir for all Europe, and that all those countries should unite?

Mr. VANDERLIP. It possibly might be better; but there are conditions of language and conditions of government which would prevent that. It would perhaps be better to have one government in Europe; but we would hardly undertake that.

Senator HITCHCOCK. Is it not a fact, however, that funds flow from one bank to another, according to the demands of trade and local conditions? If there is a stronger demand for money or credit in one country than another, is there not a tendency for the flow to go in that direction?

Mr. VANDERLIP. There is a tendency and it is a pretty free flow.

Senator HITCHCOCK. If that is the case in Europe, why would not that flow naturally result between these 12 banks if it is made voluntary instead of compulsory?

Mr. VANDERLIP. I think there would be very little likelihood of a voluntary flow for this reason: Let us say the condition at New Orleans, as we have been using that town as an illustration, becomes close, while in New York it is comparatively easy. The individual banks in New Orleans would then probably borrow from the individual banks in New York. I think the management of the Federal reserve bank in New York would say that that is the natural way for New York to relieve New Orleans; that is the natural channel through which credit should flow, from a community where the rate is low to a community where it is high, through individual banks. They would say, if the individual banks in their judgment did not think it wise to loan to the individual banks where the rate is higher, "then probably it is not wise for us, holding the reserves of the individual banks, so to loan." The individual banks would be perfectly free to loan to the individual banks in a high-rate community, if all the conditions of credit and business outlook were such as to warrant their doing so? Therefore the managers of the reserve bank in New York, or wherever a low-interest rate was prevailing, would feel, so far as it was wise, that the individual banks, members of their association, should make the loans to individual banks, members of the other association. But it would not be wise as a common practice for the managers of the reserve bank themselves to loan those funds and deplete its reserves for that purpose.

Senator HITCHCOCK. But you would empower a body to order it to do so?

Mr. VANDERLIP. I would; yes. I would do it with great regret. It is obnoxious to think of forced credit, but you have got to obtain, in effect, a central reservoir, and you can not obtain it unless you can bring the water level of the supply reservoirs together.

There are other reasons why I think there should be a fewer number of reserve banks. Some of the gentlemen here regret to see the importance of New York emphasized. To anyone holding that view I would like to call attention to the fact that the more reserve banks you have the more you will emphasize the importance of New York. New York has a fixed minimum of size. You can not very well divide New York into two central reserve banks, and the greater the number the smaller will be all the banks outside of New York and the more pronounced will be the predominance of New York. Then, I think there is this further argument: The Federal reserve board will presumably be subjected to some political pressure—not political pressure; I do not mean political pressure, I mean local pressure, pressure arising from local conditions. That pressure would be very much relieved if the Federal reserve bank covered a wide territory, and thus became subject to the pressure of diverse local conditions and harmonized that pressure. If there is a reserve bank, let us say, in New Orleans, with a territory in which conditions are uniform, the pressure from that locality upon the Federal reserve board to compel loans from other banks would be governed simply by their view of their own local conditions. Therefore, if that Federal reserve bank in which New Orleans is located took in a very large territory where there were varied conditions, the reserve bank instead of the reserve board would be subject to the pressure from these different localities, and they would be harmonized in the bank, and the reserve board here in Washington would only have to consider the larger and in a less degree these local conditions.

Senator HITCHCOCK. Now, Mr. Vanderlip, as it is now, the bankers of the central reserve cities, and especially the bankers of New York City, respond voluntarily to these various seasonal needs in various parts of the country. Why, by the same argument would not the reserve bank of New York City respond voluntarily, by analogy?

Mr. VANDERLIP. They respond now voluntarily, and they will continue to respond voluntarily to as great a degree as it is wise for New York to be depleted. But the managers of the New York bank, I believe, would feel that the judgment of how much New York should loan to other places should rest with the individual bankers. If these bankers reached a point where they would not loan any more, it would be hardly the part of the organization holding their reserves to deplete these reserves by loaning.

Senator HITCHCOCK. If it is the custom of the banks in New York City now to make these advances to the various parts of the country when the seasonal demands arise, it seems to me when these New York banks are united in a reserve bank, holding the stock in that reserve bank, they would have then, jointly, naturally the same power that they have now individually.

Mr. VANDERLIP. They are not united to do a general business; they are united to hold their joint reserves. General business will still be done by the individual banks. It is, I trust, no part of this plan that general business is to be done by these Federal banks. In normal times the Federal reserve banks ought not to have any large

amount of rediscounts. Their power should be conserved. They should run with very high reserves under normal conditions, and they should never have money making as a factor in their conduct. That point, by the way, I think is very important and if I may digress a moment, I believe the plan for dividing the earnings, after 5 per cent is paid upon the stock, in the proportion of 60 per cent to the Government and 40 per cent to the depositors of the bank, is absolutely wrong. There should be no division of earnings after the stock has received a proper dividend. It may be, and I believe it is, wise to give the stock 6 per cent instead of 5, but it should have no further participation in the profits. There should never be that factor in the management to make it endeavor to earn profits. The profits should all go to the Government after the interest has been earned on the capital stock for which the banks have subscribed. If there were to be a division, this method of division is wrong. It amounts to a payment of interest on deposits. The division is to be made of profits on the basis of the average deposit which a bank maintains. That is merely another way of saying we will give interest on deposits. You might find a bank under a strong incentive to work for profit in order to pay interest on its balances. The theory of the division is wrong, and any division at all is wrong.

Senator REED. You think, then, that after there has been a reasonable interest paid upon the money contributed by the banks, in the way of capital or reserves, all of the money should go to the Government?

Mr. VANDERLIP. I am perfectly clear on that. I believe a great element of danger will enter in the management of the banks if any other course is adopted.

Senator SHAFROTH. Do you believe that these reserve banks will earn anything above the 5 or 6 per cent?

Mr. VANDERLIP. I think it is impossible to calculate that. From such calculation as I have been able to make, I would rather doubt—well, no; let me say it is impossible to state. There are too many unknown elements. The Federal board is permitted to charge the banks interest on the Government deposits. How do we know what they will charge? They will pay it into the profits, whatever it is. The Federal board is permitted to charge so-called interest on the notes. What will the charge be? I do not know; nobody knows. It is impossible to figure the profits of these banks.

Senator SHAFROTH. It can be made profitable, or make really a very little profit, depending upon the administration they have?

Mr. VANDERLIP. Yes, sir.

Senator SHAFROTH. One person here the other day said it was impossible for any of these banks to make any money whatever, even to make the 5 per cent.

Mr. VANDERLIP. Well, that, of course, is hardly a correct view.

Senator SHAFROTH. Yes; it can not be, from the fact that the Government alone will have an account there, at the present time, of \$285,000,000. Then the reserves of the banks amount to \$400,000,000 or \$500,000,000, and then this capital which is paid in amounts to \$105,000,000. It is impossible to conceive that with \$700,000,000 or \$800,000,000 no return whatever can be made from them. But I would like to have your view; and, of course, as you said, it is a factor.

Mr. VANDERLIP. There ought to be no difficulty in earning the 5 per cent. It is conceivable that the earnings might be very much more than that.

Senator SHAFROTH. Would not the tendency to have a division of 60 and 40 per cent, as indicated in the bill, be to make these banks do business with the regional or reserve banks?

Mr. VANDERLIP. It will have the tendency to put the whole management on a money-making basis. Rather than have them stand in the attitude of conservation, it will put them into the open market for investments at times when they ought to be carrying a very large reserve. Suppose the country bank to-day finds it is in an easy money market. If its customers are not able to absorb its loanable funds it goes into the commercial-paper market and buys commercial paper. In a little while conditions change, and they come around with their hat in their hand and say, "We are sorry; we made a mistake. We ought not to have bought this paper, and we want you to take it off of our hands." Now, we do not want the reserve banks to get into that situation. We do not want them, in case they have 70 or 80 per cent reserve and are under a compulsion to make earnings, to feel they must invest that money, and therefore go into the market, and then, if a change comes, find themselves unable to meet the responsibilities that are really on their shoulders. I am very much opposed to the banks being run for profit.

Senator SHAFROTH. Now, Mr. Vanderlip, one of the great desires of this bank is to provide for the raising and the lowering of the discount in order to influence the flow of gold. Will you give us your opinion as to whether that is practicable under this bill, and whether it is not necessary for a bank to go out into the market and attempt to corral securities or corral money in order to establish a condition of that kind?

Mr. VANDERLIP. The bill is not clear in its definition of the power of the bank to go into the open market. I find two opinions as to what the power of the bank is in that respect. One holds that the bank may go into the open market and buy prime commercial paper, although I believe it says "banker's bill" in the law.

Senator SHAFROTH. What is a "banker's bill"?

Mr. VANDERLIP. "Banker's bill" is really an English term—a bill that has been accepted by a bank, a bill that is drawn against a bank and has been stamped with its acceptance, or a piece of commercial paper that has been indorsed by the bank.

Senator SHAFROTH. Is there much of that paper in this country?

Mr. VANDERLIP. There is none of it in just that form. We have not anything in this country that we could properly designate, I think, as a "banker's bill."

Senator HITCHCOCK. Is an acceptance a banker's bill in Europe?

Mr. VANDERLIP. If it is an acceptance by a bank.

Senator SHAFROTH. You New York bankers ought to know about the way to get this gold into this country better than anybody else, and I would like just to have your views as to how that ought to be done.

Mr. VANDERLIP. In the first place, I would like to see the law made clear as to what the powers are that are given to this bank. It will be very obnoxious to the member banks to have the reserve banks competitors in the open market with them. Possibly that is

necessary. I do not think it is myself, but, as I read the law, I have supposed that the banks could not go in the market and buy paper, except such paper as was indorsed by a member bank. But I am inclined to think I am in error on that point, as I find a good many other people who think the law provides that they could go into the market and buy your notes or anybody's note.

Senator SHAFROTH. I think the bill as originally framed did not take into consideration the necessity for going into the market in order to raise or lower the discount, and I think when attention was called to it they thought they could not establish a rate without that power.

Mr. VANDERLIP. The best way of doing that, in my opinion, has been suggested by Mr. Paul Warburg. He believes that a portion of the present 2 per cent bonds in circulation should be purchased by the Federal reserve banks, and the circulation retired; that these bonds should be converted into one-year notes of the Government, the banks agreeing always to renew those notes for 20 years on each maturity.

Senator REED. What banks do you mean?

Mr. VANDERLIP. I mean the Federal reserve banks. This would give the Federal reserve banks a large amount of one-year Government notes that would employ their money in times when otherwise they might have to compete in the market with member banks thus depleting their reserves, with the result that they would be able to meet their responsibilities properly when a strain did come. But it would give them this power: If they wanted to raise the discount rate, if they believed we were facing a dangerous situation, and that money rates were too easy and that a check ought to be put upon affairs and the discount rate raised, they would be able to sell those notes in the open market and deplete the open market of the reserves, drawing the reserve strength to themselves and disposing of those short-time notes. The effect would be immediate, and the discount rate would of necessity advance.

These notes would also be of great value in the period when gold exports were imminent or were going on and we did not want to lose gold. Such notes as these would be available in any market of the world at the very lowest possible discount rate, and if we were in a position where Europe could demand gold from us and we could not with ease part with the gold at the time, then the banks could sell these notes abroad and liquidate the pressing adverse balance, and in that way retain our gold and bridge over the strain. I believe something can be worked out in that direction which will give the banks the opportunity and the power to control the discount market to an extent. Of course it is only to a limited extent that the banks ever could control the discount market, but it will greatly assist them in controlling the gold movement.

Senator HITCHCOCK. That is a little after the English custom?

Mr. VANDERLIP. Yes; after the "exchequer bill" of the English Government.

Senator HITCHCOCK. Has the Imperial Bank of Germany that same method?

Mr. VANDERLIP. I can not answer positively. I think it has. I know the German Government issues short-term notes.

Senator HITCHCOCK. In the sale of those notes would not the reserve bank always suffer loss?

Mr. VANDERLIP. It would apparently suffer loss, but it would be able to recoup itself by the loans that it would be able to make at a higher rate on the basis of the increasing reserve which it would have. It would sell the notes and bring in the reserve. The result of that action would be the depletion of the reserves of the outside banks and the increase in the rate, and probably this would later compel the outside banks to borrow. The reserve bank would not have to borrow, because it had largely increased its reserve by the sale of the notes, and, I think, in the double operation would recoup itself for the apparent loss of interest on the notes it sold.

Senator NELSON. What rate of interest would you have on those notes?

Mr. VANDERLIP. Three per cent.

Senator REED. Mr. Vanderlip, at the risk of repetition, I want to be sure that I understand you. Your proposition is that the present 2 per cent bonds running now for 20 years should be converted into bonds running for one year—short-time bonds? That is the first proposition?

Mr. VANDERLIP. My proposition is that a portion of them should be converted; some two or three hundred millions should probably be.

Senator REED. Then you doubt that the banks would agree to reconvert them into long-time bonds?

Mr. VANDERLIP. No, sir; that they, equally with the Federal reserve banks, should agree to accept the one-year notes at each maturity, not to demand payment, but accept in payment the new one-year notes.

Senator REED. That would be all right, as long as the Federal reserve banks hold these notes. But when they sold these notes in Europe to get gold, of course, the notes would then go into the hands of outside parties. What sort of plan would be devised then to avoid compelling the Federal Government, at the maturity of this bond, this one-year bond, from having to go into its Treasury to pay them?

Mr. VANDERLIP. The Federal reserve banks must be under contract to protect the Government from that. They must always stand ready to take new one-year notes to the amount which is necessary to redeem those maturing.

Senator REED. Then, the plan amounts to nothing more than this, that the Federal Government would issue these one-year notes and give them to the banks as a matter of accommodation, to be used by the banks, and the banks be, in turn, compelled to protect the notes at maturity and renew them indefinitely, so long as the Government desired?

Mr. VANDERLIP. Yes. The advantage of that to the bank is that the one-year note of that character would be the very highest type of banking security, whereas the 20-year bond would be an investment security, not a banking security.

Senator REED. I see. Now, how would you first get these bonds into the possession of the banks? The Federal Government now has 2 per cent 20 year bonds out; most of them are held by the banks, and most of them have been utilized for currency issues. What would be the method you would suggest?

Mr. VANDERLIP. The Federal banks would buy at par a certain amount of these 2 per cent bonds that are now owned by the national banks and are at the Treasury as security for national-bank-note circulation.

Senator REED. Would they then retire the national-bank circulation?

Mr. VANDERLIP. They would probably substitute the new notes that are provided under this law.

Senator REED. I will call them asset notes.

Mr. VANDERLIP. Very good. They will substitute those notes. At first they might not have any commercial paper to secure such an issue of notes and they would put these new one-year Government notes under the—

Senator REED (interposing). But we still have not got the one-year Government notes; that is the first step.

Mr. VANDERLIP. Let me see if I can trace the matter. The Federal bank will buy from the national banks some of those 2 per cent bonds.

Senator REED. You mean the National Government?

Mr. VANDERLIP. No; the Federal reserve bank will buy some of the 2 per cent bonds the national bank now holds and has deposited with the Treasury to secure national-bank circulation.

Senator REED. Instantly, then, the currency that was issued upon that bond will have to be retired?

Mr. VANDERLIP. At that moment; yes. It might also be provided at that moment that the Federal reserve bank can take out these new notes, using either the 2 per cent bonds it has just bought as a basis to secure them or a new one-year note, into which it, at the moment, exchanges the 2 per cent bond—the one-year note of the Government.

Senator REED. That goes into the custody of the Government?

Mr. VANDERLIP. Goes into the custody of the Federal agent in the same way as commercial paper.

Senator REED. The one-year Government bonds or the old 20-year Government bonds into the custody of the Federal agent?

Mr. VANDERLIP. Yes. Now, as fast as the Federal reserve bank accumulates commercial paper it could substitute it in the hands of the Federal reserve agent for these one-year notes, leaving the one-year notes free in its hands, where it would be in a position to put them out when it wanted to raise the discount rate.

Senator REED. I am coming to that next step.

I have cleared up in my own mind this method. We have your suggestions on that. Now, the gold is flowing out of the country; we will assume the gold reserves are getting low here. Then you would simply take these one-year notes and send them to Europe and sell them, getting gold and bringing it back in?

Mr. VANDERLIP. Gold, but more probably exchange, which would amount to the same thing, and would stop the flow of gold.

Senator REED. And, then, you would put money in your bank, in the reserve bank, and the reserve bank would raise its rate of interest to the member banks desiring to borrow from it to a point that would recoup any such loss it had suffered by reason of purchasing this gold?

Mr. VANDERLIP. In that particular case it might or might not have a loss. It might be able to sell those on a 3 per cent basis, or it might

not. If Europe was strong and was importing gold it is possible it could sell those notes for less. It would recoup just as you suggest.

Senator REED. You have got the Government one-year bond—that is the proper name by which to call it, I suppose—bearing 3 per cent interest, and it is now sold to a banking house in London, and it draws 3 per cent interest. It is simply the credit of the Government loaned to the Federal banks, extended to it.

Mr. VANDERLIP. Yes, sir; instead of a 2 per cent bond that the Government formerly was obligated to pay.

Senator REED. Yes. Now, does the Government pay that 3 per cent interest or does the bank pay it?

Mr. VANDERLIP. The Government would pay it.

Senator REED. Then the Government would have to stand the additional rate of interest under that plan. Do you think that would be just and equitable to the Government?

Mr. VANDERLIP. It does not make any difference whether the Government or the bank pays it. Let the bank pay it, if you prefer, because it comes out of the Government. I mean it only reduces the profits the bank will eventually turn in to the Government. Let the bank pay it, if you like.

Senator REED. Your plan would involve the banks taking care of the principal of that bond at its maturity and also taking care of its interest?

Mr. VANDERLIP. And the bank would be in a position to make a profit because it was able to lend the notes it had secured upon these new one-year Government notes, and receive interest on those notes. It would therefore be in a position to recoup the Government.

Senator SHAFROTH. Mr. Vanderlip, would the withdrawal or the refusal of the reserve banks to renew the 90, 60, and 30 days paper upon which they had advanced money or loans, have a tendency to control the flow of gold?

Mr. VANDERLIP. I do not think I quite comprehend your question.

Senator SHAFROTH. We will suppose there is a flow of gold to Europe, and there are notes that have been presented by the individual banks or drafts which have been discounted, and the regional banks desire to stop the flow of gold. Would there be a tendency to stop that flow by the banks saying they would not issue any more currency?

Mr. VANDERLIP. Anything that will raise the interest rate will tend to check the flow of gold.

Senator SHAFROTH. Well, will not the tendency to stop having so much circulating medium have that effect?

Mr. VANDERLIP. Any reduction of the circulating medium other than the normal redemption of bank notes would raise the rate of interest and would tend to check the flow of gold.

Senator SHAFROTH. Could it become effective, do you think, by the exercise of that power alone, on the part of the reserve banks?

Mr. VANDERLIP. No. The interest rate would have to be advanced too violently. It would have to be advanced too far, and even within any reasonable limits might not check the flow of gold. If European nations are in an exchange position to demand gold, even though the rate were very high here, they might still demand it, and the ability of the bank here to sell something abroad and produce a credit to meet exchange demands which the European nations hold against us

is the effective way to stop the flow of gold. You can not stop a flow of gold permanently. If we buy more than we sell we have to pay for it some time. For a season, for a brief time, we can prevent that flow of gold. Or at a time when a depletion of our reserves is going to come with great severity upon us, we may be warranted in going to unusual measures to check the flow of gold at that moment. But we can not check the flow of gold for a long period if balances are against us.

Senator HITCHCOCK. Will you explain the exact method which the bankers in New York now adopt to check the flow of gold?

Mr. VANDERLIP. They have absolutely no method, Senator. We can advance the rate of interest a little, but we have no joint way of doing that. We may not legally even confer on the subject. New York City is the greatest free-gold market in the world. Anybody with credit in New York can get gold, and there is no way at all of effectively checking it.

Senator HITCHCOCK. You do adopt some methods occasionally?

Mr. VANDERLIP. No; we really adopt no method. If gold is going out and our reserves become impaired, if they fall below the legal limit, naturally, the interest rates will rise and the rise in interest rate tends to check the gold movement.

Senator HITCHCOCK. Can you explain how it tends to check the gold movement? What is the exact operation by which the movement is checked?

Mr. VANDERLIP. If funds are worth much more in New York than they are in London the banks, or the individual with funds, which they can have in either place, will choose to keep some part of their funds in the higher interest community. There would be the tendency to draw from New York, if the exchange situation warrants Europe in drawing, but to some extent this would be counteracted by the attractiveness of the rates in New York. If a bank can loan money in New York at a very high rate it will not draw it home at a low rate.

Senator NELSON. You mean a foreign bank?

Mr. VANDERLIP. A foreign bank; yes, sir. I mean if an English bank finds money at 6 per cent in New York and 3 per cent at home, and has a credit in New York, and believes the New York loan is secure, it will leave at least some portion of the money it could draw at the New York bank there in order to take advantage of that high rate.

Senator HITCHCOCK. What I want to find out is how the London bank maintains those funds in New York. Are they on deposit with the New York bank?

Mr. VANDERLIP. They are on deposit in the New York banks, and the New York banks have a fluctuating rate of interest, according to the call-loan rate. A London bank may also loan in the call-loan market in New York through its New York correspondent.

Senator HITCHCOCK. How many banks, international banks of that character, are there that use New York as a loaning market?

Mr. VANDERLIP. I am unable to say exactly, but a large number.

Senator HITCHCOCK. A large number?

Mr. VANDERLIP. Yes. Nearly every important European bank has a New York correspondent.

Senator HITCHCOCK. Is that merely for the purpose of exchange, or for the purpose of taking advantage of the high rate in the New York market?

Mr. VANDERLIP. It is more for the purpose of exchange. They do, however, permit exchange to accumulate during a period of high-interest rates.

Senator SHAFROTH. You say that this is a fluctuating rate. Is your payment of interest to outside parties a fluctuating rate?

Mr. VANDERLIP. Not to domestic banks; it is to European banks.

Senator SHAFROTH. So that your rates may be 2, 2½, or 1 per cent, varying each day?

Mr. VANDERLIP. Hardly each day. We would vary it, perhaps, fortnightly.

Senator HITCHCOCK. Can you give us any idea of the amount of European capital that is in use at any one time in that way?

Mr. VANDERLIP. I could not say exactly the amount.

Senator HITCHCOCK. Does it vary?

Mr. VANDERLIP. Undoubtedly.

Senator HITCHCOCK. It is varying with the exigencies of trade?

Mr. VANDERLIP. It varies with the exigencies of trade and the demands for money. If there is not a keen demand for money abroad, and if there is a keen demand for money in New York, a portion of the funds will stay in New York and be loaned there, and vice versa. We have in New York frequently loaned very large amounts to Germany in the last two or three years. Germany has paid 7 or 8 per cent—that is, the first-class banks there—and we have permitted funds to accumulate there and made loans because we could get a higher rate of interest there.

Senator HITCHCOCK. Are those funds in the shape of deposits?

Mr. VANDERLIP. Sometimes, and sometimes in actual collateral loans.

Senator HITCHCOCK. Do you think a regional bank located in New York would have a better opportunity to control that international situation than the New York banks now have?

Mr. VANDERLIP. Undoubtedly.

Senator HITCHCOCK. It would unify them?

Mr. VANDERLIP. Yes.

Senator HITCHCOCK. Why are they not united now in that matter?

Mr. VANDERLIP. The Sherman antitrust law may be one reason. I know of no business whatever where the competition is keener or more complete than it is in the banking business to-day. We are as keen to compete in order to get the other man's customer and secure the deposits as you will find in any business whatever.

Senator HITCHCOCK. There has been some testimony here and before other committees in Washington to the effect that there really was no competition on a large transaction in New York; that there was a combination among the great New York houses, by which if one named a rate or terms the others abided by it, and the man or a concern was unable to get credit elsewhere.

Mr. VANDERLIP. I think that is wholly without foundation. It is true that a banking house which has been doing the financing for a corporation, and has carried that corporation along through bad years and good years, furnished them money when they could not sell

bonds, and generally fathered them in a financial way—such a banking house feels that the financing of that corporation is its business and that other banking houses or banks ought not to interfere with it. To an extent that is respected. Your statement in regard to credits, however, I do not think holds good at all, because there is the keenest sort of competition, perfectly open competition, among the banks to gain deposits and credit.

Senator HITCHCOCK. There is a system of interlocking directors to some extent?

Mr. VANDERLIP. To some extent.

Senator HITCHCOCK. And a joint ownership in some other cases?

Mr. VANDERLIP. Yes.

Senator HITCHCOCK. Now, surely that would result in rather a community of interest among those banks.

Mr. VANDERLIP. Even in those cases the keenness of the competition is surprising, as I have pretty good personal knowledge. I am on the boards of some other banks, but I know that the National City Bank will go after the business, and the other banks will go after the same business. Competition is very keen, and while there may be some community of ownership and some interchange of directors, it does not extend to the officials of the banks. They are working for the banks by which they are employed, and working very hard and very keenly.

Senator HITCHCOCK. Is there a standard rate of interest in New York as there is in London, fluctuating from time to time?

Mr. VANDERLIP. No, sir. There is a standard rate of interest that is paid by banks on the balances of other banks—the reserve deposits of other banks. That is 2 per cent. There is another rate of interest; that is the call-loan rate. That is the rate that money is loaned at on the stock exchange to the members of the stock exchange on stock-exchange collateral.

Senator HITCHCOCK. How is that rate fixed?

Mr. VANDERLIP. By competition, just as the price of stock is fixed. Brokers go in there and offer money to brokers who want to borrow it, and they compete for it.

Senator HITCHCOCK. Then, there are other rates besides that?

Mr. VANDERLIP. That rate fluctuates daily. Then there is the time rate on stock-exchange collateral, and the commercial-paper rate, the rate to commercial borrowers. Of course one of the great things for legislation to accomplish is to make it unnecessary for us to have to go into the call-loan market.

At the present time the one place that we have in this country to loan money to-day and get it back to-morrow, if you want it, is in the New York call-loan market. Call loan means a call loan in New York. Practically it does not mean a call loan anywhere else. In New York it means a call loan repayable at the option of the lender. If you make a call loan in New York to-day, you can call it to-morrow without any compunction.

Senator WEEKS. It is equally true that it is payable at the option of the borrower if he sees fit?

Mr. VANDERLIP. I mean that in New York a loan is payable at the option of the lender; elsewhere payment is theoretically at the option of the lender, but practically at the option of the borrower. It is the

one place you can lend money and be certain you will get it back, and you can not always be absolutely sure then, because there are certain times when you can only get it back where the loan is shifted, and the loan can not be shifted.

Senator REED. Why is that system in existence in New York and not elsewhere?

Mr. VANDERLIP. Because the New York Stock Exchange offers the one great market for collateral security. If we loan on a stock actively traded in on the New York Stock Exchange, we know that the borrower can be forced to pay the money, because he can sell. We demand a margin of 20 per cent between the market price and what we loan, and under almost any conceivable conditions there will not be a drop of 20 per cent before you could compel the borrower to sell the collateral.

Senator REED. Do you regard that system of loaning large sums of money upon that class of security as an element of safety or of danger in the banking system?

Mr. VANDERLIP. An element of danger and unsound banking, but the soundest banking we can do under our present system.

Senator REED. If it is unsound, it ought to be stopped?

Mr. VANDERLIP. It ought to be, and no one is more anxious than the great banks of New York to aid in that situation.

Senator REED. Why do they not voluntarily stop it?

Mr. VANDERLIP. Because they have nothing to take its place. We have got to have a large amount of loans that we can certainly get when we want the money.

Senator REED. In other words, you feel that in order to make money that you must keep your capital employed up to a certain limit, and here is a place where you can employ more of it because you can demand it back quickly; is that the thought?

Mr. VANDERLIP. The bank of which I am president has \$200,000,000 of net deposits; it must keep 25 per cent of that in cash. It pays interest on a large amount of deposits and upon all deposits obtained from other banks. It must therefore employ those funds in order to get an interest return. It keeps 25 per cent in cash, and it keeps a secondary line of reserve, amounting to 60 or 70 or 75 millions of dollars in demand loans, in loans that we can get back, unless the whole machinery of doing business on the stock exchange is clogged.

Senator REED. Now, Mr. Vanderlip, you say this is bad banking, but that it is necessary, however, under our present system, but that it ought to be done away with, and that implies, of course, something substituted in lieu of it. What is the system that could be substituted in lieu of it?

Mr. VANDERLIP. It implies a bank of rediscount, where banks can be certain that under any conditions they can rediscount their paper. That converts commercial paper into a quick asset, and permits it to take the place of call loans. If such a bank can be had, it will turn several hundred millions of dollars that are now employed in call loans and other stock exchange loans, into commercial channels. It will be of vast benefit to the commerce of the country.

Senator REED. Then, if I am not interrupting you?

Mr. VANDERLIP. Not at all.

Senator REED. I thought you had completed your answer.

Mr. VANDERLIP. Yes; I had.

Senator REED. Then, if you had a place where you could take paper and get money on demand, you would loan your money out on 30, 60, and 90 days, and in that way use that part of your funds which you now loan on call loans?

Mr. VANDERLIP. Exactly.

Senator REED. And the thing that is necessary is some machinery whereby you can certainly turn a 30, 60, or 90 day piece of paper into cash at once?

Mr. VANDERLIP. That is the thing that is necessary.

Senator REED. Before I ask you as to the method, I want to have you tell us just what element of danger there is in the banking system, in your judgment, arising out of the present method of loaning money on call, and having it used on the exchange?

Mr. VANDERLIP. There is a disadvantage in that a very great sum of money, several hundred million dollars that ought to be devoted to the commerce of the country, is employed in carrying securities. That is a disadvantage and not a danger. The danger is that we are depending solely upon these call loans as our secondary line of reserve. Everything works all right so long as those loans can be liquidated, and they can be liquidated as long as they can be shifted from one bank to another, but there is nothing of a liquidating character about a loan on stock exchange collateral.

The ideal security for a bank is a self-liquidating loan. A loan to a merchant for goods that can be sold is a self-liquidating loan. Making self-liquidating loans is the business a bank ought to do. It ought not to loan on real estate, and it ought not to loan an undue amount of its funds on the securities of corporations, for they will not liquidate themselves; the only way the bank can get the money is to shift that loan to some other bank or have the owner of the security sell that security to somebody else.

Senator REED. Then, when trouble comes what happens to the bank which has a large amount of money loaned upon these call loans, the proceeds of which have been utilized upon the exchange?

Mr. VANDERLIP. When trouble comes the bank forces the borrower to sell. He must sell, perhaps at considerable sacrifice. All investors are disconcerted by this fall of borrowing needs; all investors are upset because the price of the securities has declined, and there is a general demoralization of the security market, which involves many people who have had nothing at all to do with the original loan.

Senator REED. It becomes a center of disturbance which may develop into a financial cyclone?

Mr. VANDERLIP. Yes, sir; and it is certain to extend to the commercial borrower.

Senator REED. And to what extent do you think that factor contributed to the trouble of 1907?

Mr. VANDERLIP. It was undoubtedly a considerable factor. Of course, the trouble in 1907 was occasioned by the banks, but really caused by our system of disconnected reserves which forced the banks to seek, properly enough, to protect themselves—for no one else was going to protect them—and they drew to themselves undue reserves. I am speaking of the country banks. They drew to themselves more reserves than were necessary, because they became alarmed. They

put an impossible burden on the central reserve city banks, a burden that could not be borne under our system. The central reserve city banks did deplete their reserves; they did everything that was humanely possible under the system, but the system broke down and there was general suspension.

Senator REED. Then, of course, if there had not been this deposit by one bank with another, a large part of it finally terminating in New York City; if the money had not been there to have gone down, of course you would not have had that money to loan, you would not have had it out on call, and therefore, if the reserves had not been there in the first place—

Mr. VANDERLIP (interposing). You think the trouble would have been avoided? No, sir; it would not have been avoided unless you had had a central reserve reservoir; if you had had a law—

Senator REED (interposing). Would you not have avoided at least a part of it? Would it not have been minimized?

Mr. VANDERLIP. It would have been minimized. But if you had had a law requiring every bank to keep all its reserve in its own vault, the same sort of trouble might have occurred. That is, every bank would still have drawn to itself an undue amount of reserves at the expense of its neighbors, and would still have created—might largely have created—just the same situation.

Senator REED. You said "reserves." You mean it might have drawn to itself an undue amount of money?

Mr. VANDERLIP. Yes, sir.

Senator REED. Over and above the reserve?

Mr. VANDERLIP. Over and above the legal reserve; yes, sir.

Senator REED. But to the extent that the banks had their reserves in New York, to that extent this trouble was increased, because they had that much more money there to pull away from you at the very hour when you needed it? That is correct, is it?

Mr. VANDERLIP. That is correct. . . And I will say that I believe the reserve system provided for in this measure is superior to the existing system.

Senator NELSON. I am glad to hear you say so; that is my view.

Mr. VANDERLIP. I will say that although it means the loss of \$50,000,000 deposits to the bank I represent, I believe it is sounder economically than the existing system, and I would be glad to see it in force.

The reduction of reserve which is provided, from 25 to 18 per cent, is essential and is not too much.

Senator REED. Why is that essential?

Mr. VANDERLIP. The reserve of 25 per cent has been carried because we carried the reserves of larger banks. If we are no longer to carry the reserves of larger banks, there is no longer the necessity for us to carry that excess reserve. As a matter of fact, if we no longer carry the reserves of larger banks I can see no reason why a city bank should carry more reserve than a country bank.

Senator BRISTOW. That is what was in my mind.

Mr. VANDERLIP. A city bank has more liquid assets than a country bank. It is in a position to recoup itself for any loss of cash more quickly. It has far more facilities, and why there should be any classification into country banks and central reserve city banks if

the central reserve city bank is to carry no country bank reserves, I am unable to see.

Senator HITCHCOCK. While you may not have the reserves of these banks under the new system, you still have large country balances subject to withdrawal.

Mr. VANDERLIP. I doubt it, sir. I can see no reason, if the national clearing-house feature works, why one bank need keep a balance with another bank.

Senator HITCHCOCK. You still continue to pay the 2 per cent interest on balances?

Mr. VANDERLIP. Yes; but they will not keep it for that alone.

Senator HITCHCOCK. Is it not a fact that they have in New York all the time a much larger amount of money than in country banks and larger than the law calls for?

Mr. VANDERLIP. Yes, sir; because of the collection system. If you have a national collection system, a national clearing house, there will be very little, if any, need for one bank to keep a deposit with another. I believe that for a good while the small borrowing banks will prefer to do business with their old friends, and banking relations rather than go to the new reserve bank to rediscount, and there will be a tendency to continue the old relationship. And there may be, therefore, some considerable balances, but I look for the almost complete elimination of national bank balances with other banks.

Senator HITCHCOCK. Now, Mr. Vanderlip, is it not a fact that you pay 2 per cent on country balances?

Mr. VANDERLIP. Yes, sir.

Senator HITCHCOCK. If the law prohibited you from paying 2 per cent on country balances, would there not be a very material reduction in the amount of balances that the country banks would keep in New York?

Mr. VANDERLIP. With the existing reserve provision?

Senator HITCHCOCK. Under the existing law; yes, sir.

Mr. VANDERLIP. There would be a considerable reduction.

Senator HITCHCOCK. Can you estimate how much that would be? What per cent it would be?

Mr. VANDERLIP. I would hardly want to venture a guess without giving it more consideration.

Senator HITCHCOCK. Does not that fact prove it is to secure the 2 per cent interest that the large balances are kept and that the New York banks give the 2 per cent in order to get the balances to use in New York?

Mr. VANDERLIP. No; it does not prove that, I think. It proves that the country bank is doing with its balance just what we are doing in the call market; it is providing a secondary reserve upon which it gets a low rate of interest, but which it can call and turn into money at any time it wants to. That is what we do with call loans; we sacrifice the interest rate to immediate availability, and the country bank keeps a balance at a lower rate than it could get otherwise, and even a higher balance than is made necessary by the legal requirements in order that it may get it quickly if it should want it.

Senator REED. Mr. Vanderlip, this bill provides for these reserve banks. It is safe to assume that one of them would be located in New York.

Mr. VANDERLIP. I have not known whether it was safe to assume that or not. I am glad to hear it.

Senator REED. I think it is a reasonably safe assumption. Now, if that were done and this bill were enacted into law and that bank established, do you think, after a study of the bill, that that would provide a safe means, practical working means by which the banks of New York and that region could obtain money in time of necessity, so that it would take the place of your call loans and the system which is now in vogue? Would a bank have enough money? Would it have enough facilities?

Mr. VANDERLIP. There are two fundamental shortcomings in the bill that will prevent it working successfully to accomplish what you outline. The one is—a subject I have referred to—the fact that you have not got a central reservoir; you have 12 reservoirs. I believe that will work very much against its successful operation. The other is that you have not provided an elastic note issue. That is just a question of mathematics. Not to go into the subject of whether the Government or the bank should issue the note, I will say parenthetically I am perfectly clear in my mind that the bank and not the Government should issue the note. But passing that, you have provided that the 2 per cent bonds now in circulation can be redeemed, 5 per cent a year, into threes, and there has been a presumption that the bonds would be so redeemed and the \$741,000,000 of national-bank notes would be retired.

I challenge that assumption. The 2 per cent bonds with the circulation privilege will be worth more than the 3 per cent bonds without the circulation privilege. A bank buying 2 per cent bonds at par, taking out circulation and losing from its reserve the 5 per cent redemption fund as the bill provides, will still make a profit of 1.18 per cent if it can keep the circulating notes out. That, with the 2 per cent the bank gets as interest on the bond, makes a return of 3.18 from the 2 per cent bonds, whereas the return from the 3 per cent bond is only 3 per cent. It is just a question of mathematics. The twos will sell higher than the threes. If the twos will sell higher than the threes they will not be exchanged; they will continue as a basis for the existing national-bank-note circulation. That existing circulation of nearly \$750,000,000 is irreducible, and you will have no room for an elastic note issue. You will have to reduce the present national-bank notes in order to make room for elasticity. We have circulation enough now for any ordinary conditions. It is only under extraordinary conditions, or at least under the conditions of special claims of crop-moving periods, that we need any more than we have now. We probably have really a redundancy, and there will be no room for expanding and contracting currency until we retire some of the present national-bank notes and replace them with the note issue that will respond to the demands of commerce. Therefore, I say you have not provided an elastic currency, which is one of the essentials of a good measure.

Senator REED. I am not sure that I followed your mathematics on the 2 per cent and 3 per cent bond question. The present 2 per cent bond, of course, pays its 2 per cent, and then currency is issued upon it. Then the currency can be loaned out—

Mr. VANDERLIP (interposing). And we pay a tax on the currency of half of 1 per cent and we pay certain expenses of the comp-

troller's office, and we have to put up, under this law, a 5 per cent redemption fund, which will not count as reserve. Therefore, on \$100,000 of twos we would get \$95,000 of loanable currency. The result of taking out the currency and loaning it in that way is a profit of 1.18. A bank buying twos at par, taking out circulation, depositing a 5 per cent redemption fund with the Treasury and not counting that in its reserves will make a total equivalent of 3.18 per cent on the bond.

Senator SHAFROTH. You deduct also the one-half per cent tax?

Mr. VANDERLIP. I am deducting also the one-half per cent tax.

Senator HOLLIS. What rate do you assume you will loan at?

Mr. VANDERLIP. Five per cent.

Senator REED. Following that suggestion of Senator Shafroth's, the interest rate, of course, varies?

Mr. VANDERLIP. I am assuming a 5 per cent interest rate.

Senator REED. If you take the 3 per cent bond, of course, you do not get any currency upon it?

Mr. VANDERLIP. You just get your straight 3 per cent.

Senator REED. So, you say, the present 2 per cent bond, with the circulation privilege, is a more valuable investment than the 3 per cent bond without it?

Mr. VANDERLIP. Yes, sir.

Senator REED. By 0.18 of 1 per cent?

Mr. VANDERLIP. Yes, sir.

Senator WEEKS. That is, to the bank?

Mr. VANDERLIP. To a bank; yes, sir.

Senator REED. Of course, that would indicate then—your objection is that this plan retires the national-bank note?

Senator NELSON. No; that it does not.

Mr. VANDERLIP. My objection is that it does not retire the national-bank note, which should be retired.

Senator REED. In other words, you mean the national-bank note should be issued upon the 3 per cent bonds?

Mr. VANDERLIP. No, sir.

Senator REED. Issued upon what?

Mr. VANDERLIP. I mean that at least some portion of the present mass of national-bank circulation should be retired. To do that you must refund or buy some portion of the 2 per cent bonds that are now under the national-bank note circulation.

Senator REED. This bill provides for the retirement of those bonds—

Mr. VANDERLIP (interposing). In 20 years. That is not soon enough.

Senator REED. Five per cent a year.

Mr. VANDERLIP. But the banks will not retire 5 per cent a year. If the bank finds the 2 per cent bond more valuable, it will not voluntarily give up the 2 per cent bond for the 3 per cent bond, and therefore I say that during the 20 years you will not get the retirement.

Senator REED. So this claim that these 2 per cent bonds are not worth their face would not seem to be very well taken, would it?

Mr. VANDERLIP. The bonds are worth their face to any bank that will hold them to maturity and that is certain to be able to keep out the circulation.

Senator REED. Suppose that we keep out this \$750,000,000 of bank circulation and that there is no change in the amount which we now have. Still is there not an element of elasticity provided in this bill when it is stipulated that promissory notes indorsed by regional banks can be turned into money? Is not that an element of elasticity?

Mr. VANDERLIP. It is an element of elasticity if people want more currency. There is no thing that the law has less to do with than the amount of money you carry in your pocket, and the amount of money that the people of this country carry in their pockets will not be influenced by your legislation. They will determine that, and the surplus they will redeposit in banks. If they want an increasing amount of currency they will get it. If they do not get it in the form of a bank note—which is the form in which they ought scientifically to have it—they will have it in gold. They will carry in their pockets what they need. They are the ones to determine the volume of currency circulation. They alone will determine it; the regional banks will not determine it nor will any Federal board. It will be the people themselves. And any surplus will always be deposited in the banks, and any demand for more will come out of the banks' reserves. You can not help that; you have got to start with that as something that is fixed outside of your deliberations.

Senator REED. I understand, of course, that the people are always going to carry around some money. They always have. But the question I am asking—and I am not sure I made myself plain; perhaps I did not grasp your answer—is this: If it is provided that any national bank or any member—I will use that term—desires money it can bring up its securities and turn them into money, and that would provide a means when that bank needed money for it to get it, would it not?

Mr. VANDERLIP. Let me ask you, what does a bank need with money? It has two needs: One is for reserve money and one is for money to pay out. The people will determine whether the bank is paying out money or receiving money. The bank will not determine that. For reserves under this bill it does not need all money; it only needs part money and part balances with a Federal reserve bank.

These notes, of course, would not count as reserve in any event, so the bank will only need notes if the people need more of them. If the people do not need more notes the bank can not make any use of them. It can not go and get these notes and put them in its reserve. They will not count there. The bank can only get rid of them if people want more money in their pockets.

Senator REED. That is the one time it needs them.

Mr. VANDERLIP. They have money enough in their pockets now, so it is only in the exceptional case that we will be using these new notes unless we retire some of the present notes.

Senator REED. Yes; but, of course, if we cut down our currency that is now out one-half it would follow that immediately they would begin using a large amount of this new money.

Mr. VANDERLIP. Yes.

Senator REED. I grant you that. But suppose we do not cut it down, still if we had a plan by which in the event of a demand for money that demand could be satisfied this bill would be elastic, or would provide an elastic system to that extent?

Mr. VANDERLIP. For the peak of the load; yes.

Senator REED. It would not be elastic for all times, but for all abnormal times—

Mr. VANDERLIP (interposing). It performs about the same thing that the Aldrich-Vreeland bill would perform were the taxes there imposed not so heavy.

Senator REED. What you would prefer would be to retire a part of our present circulating medium, and, having cut it down, to at once create a necessity for some of this other money, and then that banks should issue—your preference would be that the banks should issue that additional amount of money?

Mr. VANDERLIP. My preference would be to retire a considerable amount of the present national-bank notes, to replace them with new notes, such as provided in this bill, and replace the 2 per cent bonds that secure these present notes with one-year Treasury exchequer bills.

Senator NELSON. Three per cent?

Mr. VANDERLIP. Three per cent.

Senator REED. And I believe you mentioned about \$300,000,000?

Mr. VANDERLIP. That would be ample.

Senator HITCHCOCK. What is your ground for saying that, in your opinion, the present currency is redundant?

Mr. VANDERLIP. There is a constant redemption, of course, of the present bank notes, at certain seasons of the year. In the springtime they pile up on us in New York; they pile up everywhere. We all have too much money. The interest rate drops too low. There is not a proper redemption of them, and, if they are redeemed, they are put right out again.

Senator HITCHCOCK. Is there not a very well-known cause why those national-bank notes pile up on you in New York? Is it not because the banks of the interior are unable to use them in their reserves, and the only way they can make a proper use of them is to send them to you, where they would count as reserves? And when they reach you you can not count them as reserves and you send them to the Treasury to get something that will count as reserves?

Mr. VANDERLIP. And then the Treasury sends them out and they are at once paid out by the banks, and the circle goes on.

Senator HITCHCOCK. Yes; but it is because they do not count as reserves, and the bank is constantly striving to maintain a reserve that they send them to you?

Mr. VANDERLIP. Yes; that is an important factor in their redemption—

Senator HITCHCOCK (interposing). My point is this, that redemption does not necessarily indicate redundancy, but merely indicates a scarcity of reserve money.

Mr. VANDERLIP. That is true.

Senator HITCHCOCK. It seems to me that that does away with your statement—

Mr. VANDERLIP (interposing). I do not think it necessarily indicates a scarcity of reserve money, and it may indicate a redundancy.

Senator HITCHCOCK. Why otherwise would a bank, say, in my town, Omaha, send national-bank notes to you instead of gold certificates?

Mr. VANDERLIP. Because we will pay 2 per cent interest. The gold certificates do count as reserve.

Senator HITCHCOCK. That is the reason they keep them in Omaha?

Mr. VANDERLIP. Yes.

Senator HITCHCOCK. And, therefore, the redemption of these national-bank notes—\$300,000,000 a year, right from New York City—indicates no redundancy of currency, it seems to me, but a lack of reserve money; a struggle to get hold of reserve money. Is not that true?

Mr. VANDERLIP. It indicates a disposition to retain reserve money in their own vaults and get rid of money that will not count as reserve.

Senator HITCHCOCK. Before you proceed, do not the statements of all the national banks combined show that the actual amount of reserve money in all those banks during the past year has been down to a minimum?

Mr. VANDERLIP. Yes; almost at the lowest in our history.

Senator HITCHCOCK. Does not that indicate a lack of money, instead of a condition of redundant currency?

Mr. VANDERLIP. It may indicate a very expanded state of loans.

Senator HITCHCOCK. Have you any other reason for saying that, in your opinion, the currency is redundant?

Mr. VANDERLIP. I do not state that the currency is redundant, except at certain seasons. As we stand now, the volume of bank notes remains about the same, in spite of these redemptions, from month to month. It is no larger in October than it is in April. The need for currency is probably \$300,000,000 less in the spring than it is in the fall, so it is either very redundant in the spring or lacking in the fall, one or the other. I presume we are about at an average balance, that we are lacking in the fall to some extent and redundant in the spring to some extent, but we have no conformity of volume to our needs.

Senator HITCHCOCK. Now, have you any estimate as to what degree of elasticity should be given to our whole volume of currency?

Mr. VANDERLIP. Why, really, it ought to be just the degree that the people want a bank note instead of a bank balance. The thing ought to be interchangeable. Anybody with a credit in a bank ought to be able to take that credit in the form of a balance on the deposit books of the bank or in the form of a circulating note. That is the ideal elasticity—the same elasticity as there is with a check. You write a check when you need it, and it is returned when you are through with it, when it is paid.

Senator HITCHCOCK. Assuming we have gold and currency combined of something like \$3,000,000,000, gold currency and silver combined of \$3,000,000,000, what per cent of that should be subject to contraction and expansion?

Mr. VANDERLIP. My estimate is—but I will say there is no way I know of making a very accurate estimate—that we need \$300,000,000 more currency in the crop-moving season than we do in the springtime.

Is that about right, Senator?

Senator WEEKS. I did not understand that.

Mr. VANDERLIP. We need \$300,000,000 more currency in the crop-moving season than we do in the springtime.

Senator WEEKS. We know about what the East, commencing with Chicago, ships South for that purpose, and I suppose \$200,000,000 to \$250,000,000. I am not quite sure.

Senator HITCHCOCK. Do you mean by that, in the season when we need the least we have an excess now of \$300,000,000?

Mr. VANDERLIP. We have an excess now of some part of \$300,000,000. In seasons when we need it most we have a deficiency of some part of \$300,000,000. I will not undertake to say just where the line is.

Senator HITCHCOCK. Let us divide it between the two and say \$150,000,000. Then, why do you favor the tearing up of the whole bank-note system as it now exists in order to secure an excess of \$150,000,000 at certain seasons of the year?

Mr. VANDERLIP. It is just as important to secure the redemption of that \$150,000,000 at the other season of the year.

Senator HITCHCOCK. Because it piles it up in New York?

Mr. VANDERLIP. Yes.

Senator HITCHCOCK. Suppose the law prohibited the piling of it up in New York?

Mr. VANDERLIP. The law can not prohibit all the things it undertakes to.

Senator HITCHCOCK. The law can direct where the national banks shall keep their reserves.

Senator NELSON. Where they pile it up somewhere in the country; it does not do any harm where it accumulates in the country bank.

Mr. VANDERLIP. Would not the country banks have the same motives as the city banks if it finds it is very flush in funds? Would it not be apt to make loans it otherwise would not?

Senator HITCHCOCK. It is not the experience. The trouble always originates in New York.

Mr. VANDERLIP. The trouble rarely originates in New York, but is always exhibited there, because it come up along the line. The country bank calls on the reserve correspondent, and the reserve correspondent calls on New York. It is merely exhibited there as a culmination of the pressure.

Senator HITCHCOCK. The experience of France, even with their very expansive currency—the aggregate of the expansion and contraction, as I recall it, is something like only 8 or 10 per cent. Maybe it is only 6 or 8. The expansion occurs in January or February, and the contraction occurs in August, almost with a uniformity. The great mass of the banking currency of France remains always outside.

If the great body of our currency must be always outside, why have that part elastic? Why not allow the permanent part to remain as it is now and only provide an elastic cushion on top of it?

Mr. VANDERLIP. That is all you have done in this bill. The cushion is extremely thin—so thin it won't save you from jars.

Senator HITCHCOCK. You think it would not be taken up to any great extent?

Mr. VANDERLIP. Yes.

Senator HITCHCOCK. Would not, in a short time, the growing needs of the country demand another increase of bonds, and would not increased needs of the currency arise and cause an elastic demand for this provision?

Mr. VANDERLIP. They will in time, if you want to legislate for the future instead of for the present. In this connection there is one great danger to which I want to call your attention.

Senator SHAFROTH. Just before you leave that, you indicated this currency would not be taken up. How much paper do you estimate there is now of the kind specified in this bill as being required in order to issue currency upon?

Mr. VANDERLIP. I would not undertake to estimate it in dollars. I believe the supply is ample, or at least would soon become ample as we adjust our business practices to the needs for creating this type of paper. I think the discount provisions are wise and well considered.

Senator SHAFROTH. How much call money is there used in New York City, if you can give a rough estimate of it?

Mr. VANDERLIP. I have not the figures in my mind. I have one interesting figure in that connection. At the moment there happens to be \$180,000,000 of outside bank money loaned on call in New York City, and I have known it to be as high as \$300,000,000.

Senator SHAFROTH. It varies and fluctuates?

Mr. VANDERLIP. Yes. That is outside money loaned on commercial discounts.

Senator SHAFROTH. There would be, in addition to that, some New York discounts, would there?

Mr. VANDERLIP. Many millions.

Senator SHAFROTH. Do you think it is as much as a hundred million dollars?

Mr. VANDERLIP. More than that.

The CHAIRMAN. In the hearing, on page 773, is a table of those outside loans, Senator, which were gathered together by the comptroller's office.

Senator SHAFROTH. Yes; I will be glad to look at that; but I want to ask one more question in this connection: When your banks make a call for a loan—that is, a call loan—where does the man get his money from to pay you?

Mr. VANDERLIP. From another bank.

Senator NELSON. If he can get it?

Mr. VANDERLIP. Yes; if he can get it, or by selling the security. There is no other way. There are just two ways of getting it, either by shifting the loan or selling the securities.

Senator SHAFROTH. And then he has to sell at a sacrifice when he has to sell his securities?

Mr. VANDERLIP. Yes.

Senator WEEKS. Mr. Vanderlip, I would like to clear up something you have just stated. You say at present there are \$180,000,000 of money loaned by New York for country banks on call loans. Does that include loans made for foreign banks as well?

Mr. VANDERLIP. I presume it does. That amount would not be an important part of it, however.

Senator WEEKS. You have stated that at times there is a considerable amount of money loaned for foreign banks, varying, of course, with rates.

Mr. VANDERLIP. Yes.

Senator WEEKS. Three or four years ago I was on a committee to look into the Canadian system, and the Canadian banks were very free to tell us how their loans were made and where they were made, and I was amazed at the amount of money they loaned to New York, or were loaning at that time. I do not remember the definite figures,

but it would be a very large per cent of \$180,000,000, loaned by banks of New York on stock-exchange collateral. I know it impressed me with the idea if the Canadian banks on some one day called all of their loans it would create a very serious condition in the New York market.

MR. VANDERLIP. That condition is very serious. There is no reserve held against the possibility of those demands from the outside. If a New York bank loans on call, it loans a deposit and it keeps a reserve against that deposit, so that it has something there against that liability. But the outside banker loaning it can demand the whole of the loan and take it right out of New York, and it is a factor of very great danger and one that in time of trouble has several times been shown to be of great danger.

Senator BRISTOW. Mr. Vanderlip, I was interested in your statement to Senator Reed, that the 2 per cent bonds were worth par for circulation purposes. Why are they now selling below par?

MR. VANDERLIP. Because the bankers, I suppose, do not know just what legislation we are going to have. They have seen a bill started without a provision for these bonds. This bill may now pass without any provision for the bonds. I, as one banker, do not want to accumulate bonds until I know something about the future legislation that will protect their value. I said, too, that they would be worth par for that purpose. They are worth par if a Government obligation paying 3.18 is worth par. If a Government obligation paying that was not worth par, these bonds would not be. They are worth more than par if a 3 per cent bond is worth par. Of course when a 3 per cent bond is not worth par, this new issue of bonds would not sell at par. The present 3 per cent bonds, without the circulation privilege, are quoted just under par now, and with any large addition to the volume of such bonds, I am certain they would go further below par. No foreign Government ever floats a bond at anything like that basis.

Senator BRISTOW. New York is the market place for these bonds, is it not?

MR. VANDERLIP. Yes.

Senator BRISTOW. Are many of them being put on the market there now?

MR. VANDERLIP. Not very many, because there is no one who is willing to buy them and there is no increase in circulation. The tendency now is to decrease circulation. The thing that always held up the bonds has been a constant demand for increase in circulation. Now that demand has ceased, and certainly no one wants to buy them for investment. The only market for the 2 per cent bond is made by the banks, and the banks not being clear as to the future are not disposed to buy. On the other hand, there is not a large disposition to sell at a sacrifice. The tendency is to hedge, and there is very little doing.

Senator HITCHCOCK. Suppose the bill provided that all of the national banks having circulation should continue to have circulation on a bond-secured basis, would there be a market?

MR. VANDERLIP. The bill does provide for that.

Senator HITCHCOCK. There is no provision for retirement?

MR. VANDERLIP. No forced retirement; only voluntary.

Senator HITCHCOCK. At the end of 20 years it is forced?

Mr. VANDERLIP. Yes.

Senator BRISTOW. I can hardly understand your statement, then, that these bonds are profitable to the bankers if they retain the circulation privilege.

Mr. VANDERLIP. That is, you do not see, then, why the banks do not buy them?

Senator BRISTOW. I do not see why they want to sell them if they are profitable—more profitable than any other Government bonds will be.

Mr. VANDERLIP. Because they are not sure what this legislation is going to do.

Senator BRISTOW. Suppose the circulation privilege is going to continue for all these bonds?

Mr. VANDERLIP. They may, then, have in mind to retire from the national-bank system, and these bonds in the hands of any other holder than a national bank would not be worth par; they would be worth less than par.

Senator BRISTOW. Do you think the indication, then, is that the national banks expect to leave the system or fear others will?

Mr. VANDERLIP. Undoubtedly.

Senator BRISTOW. It is an indication of the unpopularity of the bill?

Mr. VANDERLIP. There are many indications of that.

Senator WEEKS. Would not you say "uncertainty relating to the bill" rather than "unpopularity"?

Mr. VANDERLIP. I think there is both among bankers.

Senator BRISTOW. Do I understand you then, Mr. Vanderlip, that, in your opinion, the reason the 2 per cent bonds are now sold for 95 is that country banks or national banks are contemplating the sale of these bonds and offering them for sale with a view of getting out of the national banking system?

Mr. VANDERLIP. Or fear other banks may go out of the national system and there will be more of these bonds for sale than the banks can absorb, and in the hands of holders other than banks they are worth very much less than the present price.

Senator BRISTOW. Of course, I suppose you will come to that, but I would like to follow that up now or at some other time, as to why these banks expect to go out of the national-banking system.

Mr. VANDERLIP. They object to forced subscription of capital; they object to the risk that that capital will perhaps not earn 5 per cent, or if it earns 5 per cent it will pay less than their other investments. They object to joining a bank if it may be forced against its will to loan to another bank. The country bank objects to the national clearing-house measure, which I believe will be of great economic advantage to the country, but which I recognize will cost the country bank some profits in its collection business, just as I believe that the new reserve requirements are superior to the present reserve requirements, although the change will cost my bank \$50,000,000 of deposits.

Senator NELSON. Do you mean \$50,000,000 of deposits or \$50,000,000 of profits?

Mr. VANDERLIP. Oh, deposits. It takes us a long time to make \$50,000,000 of profits. [Laughter.]

The CHAIRMAN. You recognize the difference?

Mr. VANDERLIP. It is a class of deposits, too, Senator, that is the least profitable of any we have. I believe we will make up for those in various ways, some ways, perhaps, that will not be altogether to the satisfaction of those who want to see the importance of New York reduced as a financial center. I do not believe this measure will so reduce New York.

Senator REED. What are those ways? I am interested right now. [Laughter.]

Senator NELSON. He wants it out at Kansas City.

Senator REED. No; I want to be frank, because when a man jests here, he is liable to be misunderstood. I would not make war on New York. I would like to know what might happen under this bill, and, incidentally, if I could move it to Kansas City, I would, if Senator Nelson did not keep it from us and take it up to St. Paul.

Mr. VANDERLIP. To-day the National City Bank keeps \$70,000,000 of demand loans. Under this new requirement I do not see that it would have to keep any, or at least a very much smaller amount. That will release, then, some considerable portion of that \$70,000,000, which we can devote to other purposes. We can use it for commercial loans, and that will be one field where the city banks will become more active. I believe we will go out in the country for commercial business.

The CHAIRMAN. And it is a much more profitable business, is it not?

Mr. VANDERLIP. It is a very much more profitable business. And I think, too, that the city banks would come in competition with the country banks for this commercial business. We are restrained from coming in competition with the country banks now, for two reasons: We do not want to interfere with our correspondent, our client who keeps his money with us, and we do not want to go into his field and take business away from him. Furthermore, we can not offer quite equal terms to the borrower, because we have to charge for the collection of all of his checks. Under the new arrangement, having no relations with our correspondent bank, his deposit having been withdrawn and placed in his own vault or the Federal reserve bank, we would have no compunctions, certainly, against invading his field and going after commercial business. Further than that, we can offer to the country commercial borrower the same terms for collecting his checks as his local bank could offer. So I think we will become competitors for business in a much wider circle.

Then, this will release some part of this \$70,000,000, which we can use for financial operations. I do not look upon this measure as a blow at the size and the future of New York banks, providing you will fix up some of these things which, as I am trying to indicate, will, I believe, keep it from working and fulfilling the mission you want it to fulfill.

Senator REED. If your bank to-day wanted to buy paper in the country, there are plenty of places it could go to buy paper that you need not conflict with any of his customers, are there not?

Mr. VANDERLIP. Buying paper is one thing and having deposit relations with the borrower is another. Of course we buy paper by the millions, right along. We buy that from the commercial-paper brokers and have no relations with the maker of the paper. With our customer, we loan in return for his keeping a balance.

Senator REED. You mean, then, that the result of the bill may be you will have more money to loan on commercial paper?

Mr. VANDERLIP. Yes.

Senator REED. That, after having known a merchant, we will say, in Pittsburgh, who desires, at times, large accommodations, he would deposit perhaps in your bank a portion of your own funds. Instead of putting them in his bank and having his bank carry them over there, he would carry them there himself?

Mr. VANDERLIP. Yes.

Senator REED. And thereby would establish banking relations with you, and when he needed an accommodation he would come to you for it?

Mr. VANDERLIP. That is exactly what will happen, I believe. And it will be an advantage to the merchant. One of the aims of this bill, as I understand it, is an equalizing of the interest rates. It will raise the rates in the cities and lower them in the country, and we will get a higher average interest rate than we do now. We have had to take a low interest rate on the great mass of call loans. We will be able to devote that to commercial purposes and get a higher average rate than we do now, and I welcome the change.

Senator REED. Just in proportion as your bank will do business with individuals through the country, and comes thereby in competition with the local bank, the borrower will get a benefit in that competition?

Mr. VANDERLIP. Yes.

Senator REED. And he is the most numerous class.

Senator WEEKS. Do you know what the average interest you get on stock-exchange loans is, and what would be the average you got on commercial loans for the past year, or a period of years?

Mr. VANDERLIP. I do not believe I could give you the commercial loans.

The CHAIRMAN. I put a table of those interest charges in the record, running through from 1906 to date.

Senator WEEKS. You mean on different classes of loans?

The CHAIRMAN. Yes.

SENATOR WEEKS. I would like to have Mr. Vanderlip give it to us.

Mr. VANDERLIP. In 1909 the average was 2.74; 1910 the average was 2.95.

Senator REED. What is that on?

Mr. VANDERLIP. Call loans.

Senator NELSON. Par money?

Mr. VANDERLIP. Par money. In 1911 the average rate was 2.60, and in 1912 the average rate was 3.70, and for 9 months of this year the average was 2.92. The average for the 4 years and 9 months has been 2.98.

Senator WEEKS. Without figuring the cost of doing business, just what do you have to get to break even?

Mr. VANDERLIP. 2.66. You are speaking of bank deposits?

Senator WEEKS. Yes.

Mr. VANDERLIP. We pay 2 per cent on bank deposits. We can only loan 75 per cent of these deposits. We must loan at 2.66 in order just to break even, to say nothing whatever of expenses.

Senator WEEKS. Then, eliminating the cost of doing business, you have made a profit during the years which figures in that of 0.32 of 1 per cent?

Mr. VANDERLIP. That would be so if we had loaned all of our bank balances on call. We loaned a large part of them on call, but not all, and the average rate would be higher.

Senator REED. How is the ordinary commercial rate in New York City? What does it run?

Mr. VANDERLIP. Four to five and one-half per cent, I would call an ordinary rate. When it reaches 6 it is considered very high. When it reaches 4 it is pretty low. That is about the range for the commercial borrower.

Senator NELSON. That is the time borrower?

Mr. VANDERLIP. Yes.

Senator BRISTOW. Do you now handle a great deal of commercial paper from the country?

Mr. VANDERLIP. Yes.

Senator BRISTOW. A gentleman in my town complained to me, referring to a personal incident for illustration, that last fall, while he had been getting money in New York (he was a wholesale merchant) at certain seasons of the year at from $3\frac{1}{2}$ to $4\frac{1}{2}$ per cent, they were now charging him 6. Do I understand you to mean that if you did not have these reserve deposits and were not loaning on time loans you would handle more of that kind of business?

Mr. VANDERLIP. You understand me to say that if we have a central bank, at which we can rediscount commercial paper, making commercial paper a liquid asset, we will then have no necessity for devoting a large amount of our funds to call loans on stock exchange collateral, and can divert the funds now used for that purpose to commercial loans.

Senator BRISTOW. Yes; I understand now, I think. That is, this commercial paper you can turn into cash at any time?

Mr. VANDERLIP. Yes; under the proposed plan, if it works.

Senator BRISTOW. By going to the Federal bank?

Mr. VANDERLIP. Yes.

Senator BRISTOW. And that makes that valuable because it will carry a higher rate of interest than you have been getting on stock-exchange loans?

Mr. VANDERLIP. Exactly.

Senator BRISTOW. Suppose the farm mortgage could be cashed in at those Federal reserve banks just the same at any time you wanted to. Would that be desirable?

Mr. VANDERLIP. It would be most undesirable, just as it is most undesirable to permit those banks to rediscount loans made on stock-exchange collateral. The liquidating character is different. There is nothing liquidating about a farm loan.

Senator BRISTOW. But if the Federal bank will discount the farm mortgage for you, just as it rediscounts a piece of paper, it would not make any difference to you?

Mr. VANDERLIP. Not until the bank got involved. It might then.

Senator BRISTOW. You think the Federal bank might get involved?

Mr. VANDERLIP. I know it would.

Senator NELSON. There is this difference, Senator, that I want to call to your attention, although I am in favor of farm loans. They have in New York a market for stocks and bonds, and I know of no market equivalent to that for farm mortgages.

Mr. VANDERLIP. That is exactly the difference.

Senator NELSON. If you had that same market for farm mortgages as you have for stocks and bonds on the New York Stock Exchange, then I should regard farm mortgages as liquid as those others.

Mr. VANDERLIP. Neither should be acceptable for rediscount.

Senator NELSON. In times of stringency, the only liquid loans are bills drawn upon products—bills of lading drawn upon products that are salable.

Mr. VANDERLIP. Yes; that is substantially so.

Senator NELSON. The product pays your bill.

Senator BRISTOW. The commercial paper, however, is not exactly that kind of security.

Mr. VANDERLIP. It should be a self-liquidating loan that is made to a person who will receive the money to pay it off as a result of the completion of the cycle of the trade he is engaged in.

Senator BRISTOW. That takes in a very small part of our business, does it not, as a country?

Mr. VANDERLIP. No; I think it takes in a very large part. It is true the borrowings of the manufacturer for an extension of his plant would not come within that definition. If he borrows to build a new building, you might just as well loan a farmer on his real estate mortgage. That is capital invested. If he borrows to buy raw material, if he borrows to pay labor, all of which is going to work out in the manufacturing product, so that when that product is sold he can repay his loan, that is the proper type of security to put in the rediscounts of the reserve bank.

Senator BRISTOW. Suppose he borrows to buy a herd of cattle, which he expects to feed and turn off.

Mr. VANDERLIP. An ideal loan.

Senator BRISTOW. But under this bill, under the 90-day provision, it is not available, because you can not make 90-day notes for that purpose.

Senator SHAFROTH. Oh, yes you can. That is perfectly available.

Senator BRISTOW. No. They make their notes for six to nine months, as a rule.

Senator SHAFROTH. Oh, well, they can cash them after the expiration of three months.

Senator BRISTOW. Oh, yes; but it is not available at the time it is made.

Senator NELSON. The same rule, Mr. Vanderlip, would apply to a merchant in the interior who buys a big bill of goods in New York from the wholesaler, and he expects to retail those goods, and he expects to pay for the goods out of the proceeds of his retail sales, would it not?

Mr. VANDERLIP. That is a typical example of a bank loan.

Senator NELSON. That would be like the other case you put, of the manufacturer?

Mr. VANDERLIP. Yes.

Senator SHAFROTH. Mr. Chairman, I suggest the hour of 1 o'clock has arrived when, according to our resolution, we are to recess.

Senator NELSON. I would like, Mr. Chairman, to have Mr. Vanderlip permitted to go through and indicate what he thinks are the defects in this bill, and what he thinks ought to be the proper form of the bill.

Senator HITCHCOCK. You mean instead of having the questions?

Senator NELSON. Yes. Let him make one clear statement, and then ask the questions afterwards.

The CHAIRMAN. If that is the pleasure of the committee, when the committee reassembles after the recess, we will do that. The committee will now take a recess until 2.30 o'clock p. m.

(Thereupon, at 1.05 o'clock p. m., the committee took a recess until 2.30 o'clock p. m.)

AFTER RECESS.

STATEMENT OF FRANK A. VANDERLIP—Continued.

The CHAIRMAN. You may proceed, Mr. Vanderlip.

Mr. VANDERLIP. I will adopt the method of taking the bill up section by section.

I object to the number of reserve districts. I explained this morning the reason for that. I believe that one would be the ideal thing. If that is not possible, any reduction below 12 is better than 12. I believe it would work much more satisfactorily with no more than 4. There would be a more intimate relation and better understanding between the managements, and with the four city centers, their geographical extent would be sufficient to express varying conditions, and for many reasons they would be preferable to 12. I still think that 4 would be preferable to 12.

I note that the bill says that—

No Federal reserve district shall be abolished or the location of a Federal reserve bank change except upon the application of three-fourths of the member banks of such district.

I think it would be an improvement to say one-half. It would be very difficult to get three-fourths to agree to a change which a majority might clearly see would be an improvement.

I am not going to confine myself entirely to offering objections to the bill, but discuss it generally. There is a very general objection, on the part of many bankers, to being required to subscribe to the stock. That is not pleasant, but I believe it is necessary in order ever to get a bill into operation. I think one bank would be waiting for another, and without the required subscription to the stock it would be very difficult ever to get the reserve bank started. The amount of the stock issue subscription seems to me correct.

Senator REED. What page are you dealing with?

Mr. VANDERLIP. Page 3. There certainly should be no bank organized with less than \$5,000,000 capital, and I believe it is desirable to increase that amount and no have too small Federal reserve banks.

Senator NELSON. If we had four we could easily increase that?

Mr. VANDERLIP. If you had four you could have a capital of \$25,000,000, if all the national banks came in.

Senator POMERENE. When you speak of the amount, you mean the amount of the capital stock of the original bank, and not the amount which the member bank is required to subscribe?

Mr. VANDERLIP. I referred to the amount that each member bank is required to subscribe when I said the amount seemed correct. I have no objection to the 20 per cent of the stock of a member bank being the amount it must subscribe. There is, of course, objection to that on the part of the banks that feel that that is a forced use of their capital at a lower rate than they are in the habit of earning.

Senator HITCHCOCK. What would you think about organizing one or two at the present time on a voluntary basis, allowing the others to come along naturally?

Mr. VANDERLIP. I am afraid that on a voluntary basis you would have every bank waiting to see what would happen, and you would not get anywhere. This is not a house that you can build a story at a time. The principles which must be involved in correct legislation are so interrelated that you must recognize and embody practically all of them to have a workable system.

Senator HITCHCOCK. What would you think about making it obligatory upon banks of a certain capital, say, \$250,000, and optional with smaller ones?

Mr. VANDERLIP. That would probably save the national banking system from a great depletion of national banks. I believe if the bill passed in its present form a great number of small banks would certainly go out of the national banking system, and possibly a great many large banks would also. In some States there would undoubtedly be a tendency to turn national banks into State banks and then take time to consider whether they would join or not.

The bill leaves it optional with State banks. It is therefore quite possible for a national bank to convert to a State bank charter and take its time to see how this thing works.

There is no longer left any reason why a bank should be a national bank instead of a State bank, except a small profit that it can make during the next 20 years on note circulation. That is almost a negligible thing. But there is no other reason that I see where there is an advantage in a national charter over a State charter.

There are many reasons why a State charter is more advantageous than a national charter, and I should think there were likely to be many banks which would surrender their national charters and take out State charters, some, perhaps, immediately, and join the Federal reserve banks and others which wait and see how the thing works.

The CHAIRMAN. Mr. Vanderlip, if the country banks were to withdraw their reserves and not send them to New York, would they not have their money at home to lend at a higher rate and therefore make a profit out of it?

Mr. VANDERLIP. I do not quite comprehend your question.

The CHAIRMAN. You stated that from your own bank \$50,000,000 would be withdrawn?

Mr. VANDERLIP. Yes.

The CHAIRMAN. Where they now get 2 per cent. Since they would have a place where they could get money if necessary—out of the reserve bank—would they not be able to use the money they have now tied up at 2 per cent and lend it in their own neighborhood at a higher rate?

Mr. VANDERLIP. With the reduction in the reserve requirement the country banks could extend their loans a good deal. That reduction would lead the country banks to extend their loans.

The CHAIRMAN. Then it would be beneficial for them, would it not?

Mr. VANDERLIP. I think in a reduction in the reserve requirement down to a point that is safe for the bank to run on so that it may extend its loans would be beneficial for them.

The CHAIRMAN. And if the country banks had a place from which they could get money instead of, as now, relying upon the central reserve cities, they would rely upon the central reserve bank and in that way could lend the money which they now have tied up at 2 per cent.

Mr. VANDERLIP. Yes; the country banks would undoubtedly be pretty well situated and satisfied if the Senator's suggestion that banks of \$250,000 be compelled to come in and the smaller banks not be compelled to come in.

Senator WEEKS. All of that \$50,000,000 to which you referred would not be available to loan, because the country bank would have to transfer a certain part of it to the reserve bank.

Mr. VANDERLIP. There is only 3 per cent; the difference between 15 and 12 per cent.

I was going to say that the country bank would probably welcome the organization of such a system which would be imposed only on the larger banks, leaving them to operate outside the system, and with the assurance that the larger banks, through the facilities of the system, would always be in a position to rediscount for them. The average country banker would rather do this business with his old correspondents than take the chances of having to rediscount with the new Government organization, which will impose a good many regulations that might be trying to the borrower.

Senator HITCHCOCK. Would not there be another advantage in that—that a country bank in a western State, doing business through a correspondent, would rediscount paper with the correspondent, and that correspondent, if necessary could rediscount that paper with the reserve bank. The reserve bank would naturally discount a good deal of paper for the larger western banks that would in turn discount for the smaller banks?

Mr. VANDERLIP. Undoubtedly.

The CHAIRMAN. The country banks would get the benefit of the system without bearing any of its burdens?

Senator REED. Not all of the benefits.

The CHAIRMAN. They could get the accommodation they wanted from the reserve city banks.

Senator REED. They still would be required to keep in their own vaults their full reserve when this system was working. They could not put it into the central bank or the regional bank and have it earning anything.

The CHAIRMAN. The suggestion of Senator Hitchcock, as I understand it, would involve the keeping of the reserves as they are at present if those banks did not come in?

Senator HITCHCOCK. Yes.

Senator REED. Of course they lose some advantage. But they would have this advantage: They would get relief through the relief

which could be given to the larger banks, the larger banks in turn accommodating them.

Senator HITCHCOCK. I do not see why they should not be permitted to keep their reserves with the regional reserve banks as well as with a member bank.

Senator BRISTOW. A number of country bankers who have appeared before us say that 5 per cent reserve is not enough for them to keep in their vaults; that they require more than that. Most of them say they carry from 8 to 10 per cent.

Mr. VANDERLIP. Under the new conditions they probably would find that they would not need as much in their vault as they need now; that is, if they were close to a reserve bank or a branch of a reserve bank where they could quickly get additional currency. There might be banks where 5 per cent would not be enough. On the other hand I think there are many banks where 5 per cent is more than necessary, and when I come to the section about reserves I should strongly recommend that the banks be not compelled to keep 5 per cent in the vaults, but to keep as small an amount as they choose, and that they ought to have an option as to where they keep it.

Senator WEEKS. If that option were given to banks in a center like New York, they would keep substantially all the reserve in a reserve bank?

Mr. VANDERLIP. Substantially all of it; only keep till money. We would prefer to carry a bank credit than the actual cash.

Senator SHAFROTH. You could borrow part of it back, also?

Mr. VANDERLIP. Yes; that is, the member banks could borrow it back and use it in other transactions. Two-thirds of the deposited reserves the reserve banks could use in the ordinary transactions of their business.

The CHAIRMAN. His suggestion was as to the country banks, which are required to carry 5 per cent with the reserve bank, 5 per cent in their own vaults, and 2 per cent optional; that they have practically 7 per cent optional, so that they could use that without its being a violation of the rules, and 5 per cent could be loaned.

Mr. VANDERLIP. Now, Mr. Chairman, passing on to the election of the directors of Federal reserve banks, it is provided that all the banks shall be divided into three groups of equal number, and as nearly as may be of similar capitalization in each group. Taking the country as a whole that would result in groups of 2,464. The first group would represent \$67,000,000 of capital; the second group, \$142,000,000 in capital; and the third group, \$836,000,000 in capital. You therefore propose to give the same voting power to representatives of \$67,000,000 in capital that you give to representatives of \$836,000,000 in capital. I question whether that is fair or not. In any event I see no permanent purpose in this division into groups.

In the first election each group is to elect one director, as I understand it, and thereafter only one director is elected at a time, because the terms eventually become three-year terms and all the groups will be voting for one candidate. As I read the bill this division will only apply to the first directors elected.

The power of the Federal reserve board to remove, at its discretion, the directors of class B is objectionable. It is declared that they may remove if it appears at any time that any such director does

not fairly represent the commercial, agricultural, or industrial interests of his district. I do not see exactly how a Federal reserve board is to be a good judge of whether the director fairly represents those interests or not. In any event, it is obvious that the control which the Federal reserve board will have over the local Federal reserve banks might be subject to bad use, as long as it can remove the three directors that it appoints, and can also remove three other directors that have been elected. It is true that the removal of those directors would be followed by the election of other directors by the stockholders, but it seems to me an unnecessary power, and I know that bankers generally regard it as one of the distinctly unsatisfactory features of the bill.

Senator SHAFROTH. Would not the fact that the three directors had to be reelected by the stockholders act as a deterrent on the part of the Government or the administration in removing them unless there was good cause?

Mr. VANDERLIP. I can imagine a Federal board telling those three men to shape their views to coincide with the views of the Federal reserve board or they would be removed, and rather than be removed they would shape their views that way. I think this might allow a malign influence.

Senator SHAFROTH. That would not be a removal on the ground that they did not represent the commercial, agricultural, and industrial interests of the districts they represented.

Senator NELSON. It is discretionary; it would be simply their judgment that they did not represent them.

Mr. VANDERLIP. And there is no appeal from that.

Senator NELSON. There is no trial of that issue. They could simply assign that as a reason, as a ground, without any foundation in fact.

Senator SHAFROTH. I do not believe they would do that.

Mr. VANDERLIP. Section 7 provides for the division of earnings. It tends to make the bank managers run the banks for profit, as I understand that the way the earnings are to be divided is that they are proportionate to the deposits.

Senator HITCHCOCK. Does not that tend to the mobilization of reserves?

Mr. VANDERLIP. I do not comprehend that it does in the least.

Senator HITCHCOCK. If you offer an inducement for the banks to keep substantial deposits there, that certainly intensifies mobilization. A bank might keep its required reserve and nothing more, but if it has an inducement to keep more, if there is any virtue in mobilization, this encourages mobilization.

Mr. VANDERLIP. I think that this reserve might better be employed as a basis for commercial loans in its community.

Senator HITCHCOCK. That is assuming that the reserve has been fixed at the ideal point, and it is assuming that it can make the loans in its own community. Suppose it has a surplus. Instead of lending that surplus and that deposit, it has an inducement to put that in the reserve bank.

Mr. VANDERLIP. It would no longer deposit it in other banks.

Senator REED. One of the arguments which has been made for this or some similar measure has been that there is a shortage, at times,

of money in one section of the country and a surplus in another, or a shortage in one community and a surplus in another, and it has been argued that if this surplus, wherever it existed, went into a center, then it would be in a position to be loaned out to the part of the country that wanted that money. You do not think there is much in that argument, I take it?

Mr. VANDERLIP. No; that is not exactly the correct theory in this bill, as I see it. The surplus will not be put in as a reserve, but in the discount market, to buy commercial paper, where the interest rate is high and the need is great.

Senator REED. Not as a reserve, but the idea, to express it a little more fully, as it has been urged here with persistence, has been that there is always enough money in the country to do the business of the country, but that it piles up in some one city, we will say, in New York City, at a given period of the year and that at the same time they need money in some other part of the country. It has been said that if a proper bill were drawn it would make that money available at all times where it was needed.

Now, assuming that the reserve bank has in it simply legal deposits, that is, legal reserves, and that there was a profit to be realized from the operations of that bank, and that there was a surplus of money in the banks of some section of the country, the question is whether they would then be deposited and the reserve bank be put in a position to discount paper which came in from other banks and relieve the situation of that community?

Mr. VANDERLIP. The situation would be relieved in two ways. A bank in a community where there is a plethora of funds would keep its reserve with a reserve bank, but would use its surplus of loanable funds to buy in the discount market, paper that originated in a community where there was a deficiency of funds. The bank in the community where there was a deficiency of funds would be able to rediscount at the reserve bank, and make good any depletion that that demand for funds had caused in this reserve. So that a proper measure will operate in those two ways, the creation of a discount market, and the creation of a central reserve reservoir; and the institution that can rediscount for the banks whose reserves are depleted, having all the reserves in this reservoir, has a basis for this power so to rediscount.

Senator REED. You would apply that simply to the reserves and not to the surplus over the reserves?

Mr. VANDERLIP. The banks in the district where there is easy money will probably not keep any more than their legal reserve with the reserve bank. They will employ that in the discount market. If they can not loan it in their own community they will go where they can get a higher rate.

Senator REED. That would be true to-day. Now, the question is—

Mr. VANDERLIP (interposing). It is not altogether true to-day, Senator.

Senator REED. If we apply this system, is there any advantage in having the reserve bank always in a position to receive surplus moneys from one community and buy the paper of another community where they need that money?

Mr. VANDERLIP. That is not the business of the reserve bank. The surplus moneys of one community should be invested in the discount

market in the purchase of paper originating in the other communities. The business of the reserve banks is to hold the reserves and to rediscount for reserve purposes the paper of member banks, but not to invest here and there, according to whether money is easy or not.

Senator REED. Then we come to the proposition that you do not think there is very much in the argument that the central bank, the reserve bank, would become the market place in which the surplus of one community would be transferred to the other place?

Mr. VANDERLIP. I think it would be very bad banking, and if it did become the market place, the market place would be the discount market, and that you can not create without a central bank. In order to have a discount market you have got to make liquid the commodity you sell there; that is, commercial paper. You can only do that by having a central bank, to which the purchaser can go to rediscount. A central bank is necessary for the creation of a discount market, and the discount market is the place where surplus funds will be invested.

Senator WEEKS. Let me ask you if you do not think the greatest difficulty in our situation in the past has been that under our law New York and the central reserve cities have really been put in a position of creating central banks, and that those banks have been given the power to recoup their resources in case of a strain, so that New York has really been the clearing house of all their troubles?

Mr. VANDERLIP. We have a one-armed central bank. We have held the reserves and had no power to issue notes, and the moment circulation was diminished we have had to give up our reserves. It has been an impossible rôle to play. It has been like creating a central bank without creating a note-issue privilege.

The CHAIRMAN. It also compelled you to lend on the stock market, did it not, on call loans?

Mr. VANDERLIP. We are absolutely compelled to do it. There is no desire whatever for the banks of New York to loan upon stock-exchange collateral. Why should they want to loan at 3 per cent when they could otherwise get 4 or 5 per cent? They are compelled to do it, because they are compelled to have this secondary line of reserve. They are compelled to place their funds where they can get them back quickly.

When a New York bank buys a piece of commercial paper, that paper has got to lie in its portfolio until it matures. There is nothing the New York bank can do with it. It will not do to invest its funds in commercial paper. It must invest in something it can turn back into money if its country correspondents demand money. So we have hundreds of millions of dollars invested in call loans.

Senator WEEKS. Do you believe, Mr. Vanderlip, that you express the views of New York bankers generally on that subject?

Mr. VANDERLIP. In just what particular?

Senator WEEKS. I mean in the particular that it is undesirable to loan so much money on stock-exchange collateral.

Mr. VANDERLIP. I think so.

Senator BRISTOW. Mr. Vanderlip, if you did not pay interest on these reserve deposits, you would not have to make these loans in orders to keep even, would you?

Mr. VANDERLIP. Well, we are doing business for profit. That is the object of running a bank.

The CHAIRMAN. You have to do that in any event in order to have quick assets; in order to have a quick reserve you have to do that?

Mr. VANDERLIP. Yes. I do not care whether it is bank deposits or anything else; you have got to have a quick reserve. Our legal limit is 25 per cent. If we get a call that takes us below it, we are in an illegal position and we have got to be able to recoup ourselves. We can not sit still and wait for a commercial note to mature. We have got to get money. In order to do that we must have some of our funds in call loans.

Under the new plan our commercial paper is available for money. Now when we make a commercial loan it must mature. Under the new plan we will have two ways of converting it into money—one to sell it in a discount market and the other to take it to the reserve bank and rediscount it.

Senator BRISTOW. Having these millions upon which you are paying 2 per cent, it becomes imperative that you get some return, does it not?

Mr. VANDERLIP. It is imperative, anyway, Senator, that we have invested some of our funds that we can quickly realize on. Suppose the New York banks had no bank deposits, but merely commercial deposits, and suppose the reserve was fixed at 25 per cent, or any other amount. The desire to make money will tend to make us loan down to the legal minimum of 25 per cent. If we have any sudden call from any customers and get below our limit, it is necessary to recoup ourselves. In order to do that we have to have some investment we can dispose of. We can not dispose of commercial paper.

All we can do is to sit and wait for the commercial paper to mature. So we must either carry an investment or make a loan on call that we can get back. You get commercial paper which has the quality of being turned into cash and you do away with this necessity, and there is no motive but necessity for investing in call loans.

Senator REED. You could carry a sum much larger than your legal reserve and use that, but that would cut into your profits very materially?

Mr. VANDERLIP. Yes, sir. If you are running a bank for profit, you would run with as low a reserve as permissible.

Senator NELSON. The other alternative would be that these \$180,000,000 that you have in call loans—the other alternative would be to keep that money in your vaults?

Mr. VANDERLIP. Exactly; and the figure is much larger than \$180,000,000. That figure is what out-of-town banks are loaning in the call-loan market at the moment.

Senator NELSON. If you could not have a secondary reserve, you would have to have an immense primary reserve?

Mr. VANDERLIP. You have got to have it in one or the other.

Senator HITCHCOCK. I think you testified that the average rate was 2.96.

Mr. VANDERLIP. The average for the last five years.

Senator HITCHCOCK. And your own deposits cost you 2.66?

Mr. VANDERLIP. Yes, sir.

Senator HITCHCOCK. So that your net earnings are one-third of 1 per cent?

Mr. VANDERLIP. That would be the case if we invested all our bank deposits in call loans.

Senator HITCHCOCK. Just take it for illustration; there is a margin of one-third of 1 per cent?

Mr. VANDERLIP. Yes.

Senator HITCHCOCK. Suppose you stop paying interest and simply invested these country bank deposits in perfectly good bonds which fluctuate very slightly. Why would not the country be better off, and you be better off?

Mr. VANDERLIP. Bonds fluctuate very slightly, unless they are forced upon the market at a time when there are no buyers. Suppose we are in the position of having invested the reserves of the country in bonds, and the country wanted those reserves from all New York banks that had done that. Our position would be very precarious. We would have to sell the bonds in order to get money, and there would be no buyers. We would have to take losses.

Senator HITCHCOCK. Suppose you invested only one-half of your reserves in 4 per cent bonds; you would be better off, as far as interest was concerned; you would have a larger amount of cash.

Mr. VANDERLIP. We do invest some part of the bank surplus in bonds. The National City Bank carries about \$30,000,000. I regard that as a proper investment for a portion of a bank's capital. I do not regard it as a proper investment for any considerable amount of a bank's deposits.

Senator HITCHCOCK. What would be the effect if the law prohibited you from paying interest on reserves?

Mr. VANDERLIP. It would be rather a happy effect for the New York banks, I should think. If the reserve law were the same as it is at present, we would hold less of the money of the country banks.

Senator HITCHCOCK. More would be kept at home, would it not?

Mr. VANDERLIP. Not very much more. They keep at home all they need. It is as I have said. In the event of the establishment of this central reserve bank, a New York bank would keep about all of its cash with the central reserve bank. A bank would rather have a sound-bank credit than to be burdened with cash, if it does not need the cash. I do not believe that a country bank would keep any more cash than it needs.

Senator HITCHCOCK. Is there not an inconsistency in arguing against a reserve bank dividing its earnings, as a party at interest, on country bank balances, and yet advocating the paying of interest on country bank balances by New York banks?

Mr. VANDERLIP. The function of the two is entirely different. The New York banks are run for profit; that is why they are there. If conditions are such that they can not make profits, they will not be there. The Federal reserve banks ought to be run for the conservation of the resources of the country.

Senator HITCHCOCK. Because the New York banks are run for the purpose of making money it has been deemed disadvantageous to have the large balances pile up there under the form of investment, but because the reserve banks are run for the benefit of the country it seems to be desirable to pile up reserves there and mobilize the balances of the other banks. So it seems to me your arguments ought to be reversed, and you ought to be in favor of not allowing the New

York banks to pay interest, and you ought to be in favor of having the reserve banks pay interest.

Mr. VANDERLIP. I would prefer to have the surplus funds invested in the discount market, so that the money will find its way into some other channel, in fact, where the demand is greater and the interest rate higher.

Senator REED. How would you reach this stock-exchange call loan proposition? Would you do it by prohibiting the loaning of money upon stocks as collateral?

Mr. VANDERLIP. I think nothing could be more foolish.

Senator REED. How would you do it?

Mr. VANDERLIP. I would do it by providing a place to rediscount commercial paper, so that banks can have their commercial paper liquidable, and they will then need no prohibition. They will loan where they will get the highest rate. As long as commercial paper will pay a higher rate than a stock-exchange loan they will loan through buying commercial paper.

Senator REED. Suppose the stock-exchange rate went up, would they not be in danger of going there and investing their money unless they were prohibited from doing it?

Mr. VANDERLIP. Is there anything criminal in a man's owning security and borrowing on it?

Senator REED. Not the least; but we are speaking of the objection which you described as dangerous this morning, namely, the loaning of money on call upon stock-exchange securities, which you said was an element of danger. We want to avoid that. I am asking you to tell us, as a practical man, how that can be avoided. We have already spoken now of the plan for providing a place where banks can cash their commercial paper, which removes a part of the temptation that now is before the bank; indeed, we might say the necessity which is now before the bank.

I want to know how we can absolutely prohibit that kind of business. Is there any way you can do it? A moment ago you characterized my suggestion as a very foolish one.

Mr. VANDERLIP. Oh, no; I did not know you made that suggestion. I characterized as foolish a suggestion that would prohibit any loaning upon corporate securities. It would not only be foolish; I think it would be disastrous.

Senator REED. I did not make that suggestion. I asked you a question.

Mr. VANDERLIP. Yes.

Senator REED. Then you leave the banks free—

Mr. VANDERLIP (interposing). I leave the banks free. Now, they are under necessity to do this, but under the new condition they will not be under a necessity. And they never will do it unless the stock-exchange loan pays more than the commercial loan.

Senator NELSON. And, as a rule, they do not?

Mr. VANDERLIP. As a universal rule they do not now.

Senator REED. But you see no objection, if a man wanted to borrow money of a bank and came down and wanted to give his note for 1 day or 30 days presenting as collateral the stock of the Steel company or a railroad company—

Mr. VANDERLIP (interposing). I see no objection to that form of loan. I see great objection to it becoming the predominant thing

and the only basis for the secondary reserves which is our present situation, but I see no objection to that type of loan.

Senator REED. In other words, if a bank had some of that, but had some place to go and cash its commercial paper when it needed money no danger would exist beyond the short time call loans?

Mr. VANDERLIP. That is the exact statement of it.

Senator BRISTOW. Now, Mr. Vanderlip, in answering Senator Hitchcock when he suggested that if you had this money that you have in call loans invested in good 4 per cent bonds, it would be more profitable than carrying, as you do now—when you get only about one-third of 1 per cent—your objection was that you could not realize cash on the bonds?

Mr. VANDERLIP. Yes, sir.

Senator BRISTOW. Now, if you could take those bonds to the Federal reserve bank and get cash would it not answer the same purpose?

Mr. VANDERLIP. I would consider that absolutely wrong in principle.

Senator BRISTOW. Now, why?

Mr. VANDERLIP. For this reason: It is simply a shifting of the loan, and there is no way of immediately liquidating that loan. The only way holders of such a loan can get their money is by shifting it from one place to another. The thing that should be the basis of all loans at the central bank should be their inherent self-liquidating quality.

Senator BRISTOW. You expect the central bank to collect this loan and you be relieved entirely—the Federal bank collects this paper which you rediscount there, does it not?

Mr. VANDERLIP. Practically, yes.

Senator BRISTOW. And you have nothing more to do with it?

Mr. VANDERLIP. No; we have rediscounted it. It is in their portfolio, and when it becomes due it will be paid at whatever point has been provided in the note, supposing there was no intervention on the part of the discounting bank. It might be that the bank discounting the note would want to have the note in its possession and get it paid and would substitute some other note of a longer maturity a few days before its own maturity.

Senator BRISTOW. How is that? The bank that discounted it would take another note, and they would take that other note up.

Mr. VANDERLIP. It would be quite likely, if it wanted to take up its loan at the central bank. It would then substitute a new note for a maturing note, and it is to be presumed it would do that a day or two before the maturity, so as to have the note in its own hands when it matured.

Senator BRISTOW. And then, if it wanted to extend that note, or collect it—

Mr. VANDERLIP (interposing). It would be free to do what it chose.

Senator BRISTOW. That would be very convenient for the bank that was in the same city where the Federal bank was, but it would be very inconvenient for a bank that was 1,000 miles away from that city.

Mr. VANDERLIP. There never ought to be that distance intervening. There should be many branches. I have no objection to multiplying branches as much as you choose, within reason. I think no banks should be more than overnight from a branch, and in the practical

working out, it should probably never be but a few hours away from a branch. It would be with the branch that this paper would be lodged.

Senator BRISTOW. Now, in the country a vast amount of this bankable paper is not expected to be paid, and is not paid; it is renewed from month to month. I think that is not true in the cities so much. But would not this system put that country bank that does not have this three-months' paper under a very great disadvantage as compared to the city branch?

Mr. VANDERLIP. Yes, sir; it would put that country bank at some disadvantage as compared with a State bank doing business in that city, because the State bank would say to the customer, "We will make a nine-months' loan to you." The national bank would say, "We will make a three-months' loan, and we will renew it." The customer would say, "Maybe they will renew it and maybe they won't. Perhaps it would be better to make this for nine months, and I will go to the State bank." There is going to be that disadvantage, and that is one of the reasons why there will be a change of small banks into State banks.

Senator NELSON. In that connection, would there be any harm in extending this paper from 90 days' to 6 months' maturity—not all of it, but a certain proportion of it, I mean. Would there be any harm in allowing the bank to take a certain proportion, say 25 per cent. of 6-months' paper—

Mr. VANDERLIP (interposing). In principle I should rather be against that. I believe there is enough 90-day paper for all the needs. Take a bank that makes all of its loans for 6 months. Naturally half of that bank's portfolio is always 90-day paper, if it does a business that is the same the year around, a business that is continuous. I believe there will be ample 90-day paper.

The CHAIRMAN. I remind the committee that the table I put in the record shows there is over \$36,000,000 of 90-day paper available.

Mr. VANDERLIP. You must remember that the rediscounts of national banks now are comparatively small. I believe the figures show \$109,000,000 as the highest they have been in a long time. The average country bank never borrows; it is only the exceptional bank that borrows. I think there will be no shortage of 90-day paper.

Senator WEEKS. Well, under the present system the reserve banks have discouraged borrowing, which has kept the natural borrowings down to a minimum.

Mr. VANDERLIP. The borrowings will naturally be much larger under this system. It is not considered very good practice for a bank to borrow except in the South, where it is the general practice.

To go on with the detailed suggestions, on page 13 it is provided that there shall be—

a sinking fund to be held for the reduction of the outstanding bonded indebtedness of the United States, said reduction to be accomplished under regulations to be prescribed by the Secretary of the Treasury.

That is leaving very broad discretion with the Secretary of the Treasury. It seems to me it might be better to amplify what the ideas of Congress are in regard to the reduction of the debt. I would rather see it made more definite as to just what the ideas of Congress are with reference to the reduction of the debt.

Senator REED. You would want the law to prescribe?

Mr. VANDERLIP. Yes, sir.

Senator WEEKS. What would you say, Mr. Vanderlip, to a proposition to try to pay the national debt in connection with this legislation?

Mr. VANDERLIP. I think it very desirable to pay the national debt. The objection which some have raised to this, that there would no longer be any basis for note circulation, disappears with this measure, and it would seem a most appropriate time to consider the ultimate retirement of the national debt.

Senator WEEKS. Is not that basis of note circulation the only reason the sinking funds have not been made applicable to the payment of the debt, and has there been any other single reason why the debt has not been paid?

Mr. VANDERLIP. I think there is no other single reason, and I think there has been a good deal of neglect on the part of the Treasury Department in not keeping up the sinking fund.

Senator NELSON. It would be a good plan to devote the whole of this sinking fund to the retirement of our national debt?

Mr. VANDERLIP. Admirable.

Senator NELSON. And put it in specific terms in the bill?

Mr. VANDERLIP. Yes, sir; rather than leave it to the discretion of a bank. We already have laws providing for sinking funds, but for years they have not been very carefully observed.

Senator REED. Would you use any means of retiring the debt except the employment of a sinking fund?

Mr. VANDERLIP. I think it is always an admirable thing for a country with a surplus revenue to devote that to the retirement of its debt, rather than incur unnecessary expenditures.

Senator NELSON. There ought to be a provision in the bill that when the surplus exceeds a certain amount it shall be devoted to the payment of the debt.

Mr. VANDERLIP. That would be a wise provision.

Senator NELSON. Would not \$100,000,000 be ample? I mean, whenever it exceeded \$100,000,000—

Mr. VANDERLIP (interposing). \$100,000,000 is less than the Treasury has usually had as a free asset.

Senator NELSON. What would you put the figure at?

Mr. VANDERLIP. Making a very offhand guess, without any study of the subject, I think \$125,000,000 would be an ample Treasury free asset.

Senator NELSON. Or, put it a little higher and say \$150,000,000. Whenever the surplus exceeded \$150,000,000 the overplus should be devoted to the retirement of the national debt from time to time. Would not that be a good plan to put into the bill?

Mr. VANDERLIP. I think it would.

Section 10 of the bill provides for State banks being converted into national banks, or for State banks becoming members of the Federal reserve bank without being converted. They are permitted to do this upon a regulation provided for—

Senator REED (interposing). You refer to the last three lines on page 15, "under such rules and regulations as it may prescribe"?

Senator NELSON. It is lines 21 and 22 on page 15.

Mr. VANDERLIP. I am now looking on page 16 at line 16. It reads:

Such by-laws shall require applying banks not organized under Federal law to comply with the reserve requirements and submit to the inspection and regulation provided for in this and other laws relating to national banks.

That word "regulation" needs more definition, it seems to me. It is going to become very important under what terms you will admit State banks to membership in the central reserve banks. If they are to have all the regulations that apply to a national bank, they might as well be converted into national banks and there is no need of permitting them to become members.

Senator NELSON. Let me interrupt you by stating that one of the bankers here—I do not recall his name—made an objection to that word "regulation." He held the effect of it was to compel them to do just what the national banks did in every respect, and on that account he objected to the word.

Mr. VANDERLIP. That would be my own opinion. If they are to be regulated so that in every respect they must do just as a national bank, then they might as well be a national bank and there is no point in permitting a State bank to become a member. I think that ought not to be left to the Federal board to determine either. I think the law ought to be pretty specific, so we will know what a State bank can do and under what terms it may become a member.

Senator REED. Then, too, if there were a regulation made by the Secretary of the Treasury, I presume there is nothing in this bill—I see nothing—to keep the next Secretary of the Treasury from changing the regulation.

Mr. VANDERLIP. Nothing.

Senator REED. There would be rather an uncertain tenure?

Mr. VANDERLIP. Yes.

Senator NELSON. How would it do to substitute the words "submit to the inspection and supervision"; substitute the word "supervision" for the word "regulation"?

Mr. VANDERLIP. As I remember it, Mr. Glass in his exposition of the bill said that the reserve requirement, the capital requirement, and the examination requirement were all that this meant. If that is so, it ought to say so. It does not say so in the bill.

Senator HITCHCOCK. Then, a State bank, like a foreign exchange bank in New York City having branches, could become a member under this system?

Mr. VANDERLIP. Yes, sir.

Senator HITCHCOCK. That would be a considerable advantage over a national bank?

Mr. VANDERLIP. Very much. And the thing you are in danger of doing here, is passing a bill that will make all national banks turn State banks, and, instead of consolidating the banking business under the national charter, you are going to disperse it. If there were some way of attracting State banks into this scheme rather than putting a premium on national banks going out of it, the ultimate success would be very much more probable.

Senator WEEKS. If you were managing a State bank and this bill were put up to you as the law, you probably would hesitate about going in until you had seen how it was working?

Mr. VANDERLIP. Being in the fortunate position of having an option whether to go in or not, I would wait. I would take advan-

tage of my position and see how it worked. I would see what this word "regulation" meant. I would see what the success of the measure was likely to be.

Senator WEEKS. Naturally, if other men felt in the same way, we need not expect to see State banks go into the system at once?

Mr. VANDERLIP. Not at once.

Senator REED. You said that the foreign exchange bank which has branches would have an advantage over the national bank?

Mr. VANDERLIP. Yes, sir.

Senator REED. If you let it come in?

Mr. VANDERLIP. So will any State bank organized under the laws of New York, because they have much more liberal privileges than national banks.

Senator REED. How are we to equalize that so that the national bank will not suffer by virtue of that situation?

Mr. VANDERLIP. By seeing if you can not extend some privileges instead of putting all your attention on new prohibitions. That seems to me to be one direction that the committee's thought ought to take, so as to undertake to attract State banks into this system.

Senator REED. Yes; but what I am speaking of is this: Here is a bank with a lot of branches. That gives it an advantage. Now, we bring that bank into the system and give it the advantages of this system. Now, we have created an institution that is empowered to do the very thing that all national banks are denied the right to do. Would you suggest extending to national banks the right to have branches?

Mr. VANDERLIP. I certainly would suggest it, in the cities in which they are located. There is no conceivable reason, to my mind, why that should be prohibited. As a matter of fact, the act does not at present prohibit it. There has been a ruling of the comptroller; there has never been a court decision on the subject. But it would be highly desirable if the national banks could have branches within the city where they are located.

Senator REED. And you would limit it to their city?

Mr. VANDERLIP. I would.

Senator HOLLIS. Why limit it?

Mr. VANDERLIP. It is a question on which there are certainly two points of view. The strength of an institution that is practically under one control, is very much greater than that of an institution with branches all over the country. There would be this on the other side: There is such political prejudice—a prejudice that seems to me very unreasoning—against it that I have almost ceased to think it possible to talk about having general branches for a bank.

Senator REED. But you think that if they were limited to the city in which the principal bank exists, that would be placing such a limitation upon their extent as to meet, at least in a measure, the objection that they might grow too large and their influence become too commanding? Is that the thought?

Mr. VANDERLIP. That is my thought; and it would come as a surprise to the national bankers, because it would be the first advantage they had been offered since the creation of the system, I think. It would be a most happy thing to offer the national banks something in addition—

Senator REED (interposing). Would you limit the number they could maintain?

Mr. VANDERLIP. Not at all.

Senator REED. You would just limit it territorially?

Mr. VANDERLIP. There is one bank in London that has 100 branches in the city of London.

Senator SHAFROTH. Would that be satisfactory to the other banker?

Mr. VANDERLIP. You are legislating for the national banks, and it would be very satisfactory to them.

Senator SHAFROTH. All of them? Or would there be a rivalry against the one bank that had so many branches?

Mr. VANDERLIP. Then they would have to do better banking and compete successfully. No; I think that, on the whole, national banks would be glad to have that privilege.

Senator BRISTOW. It would reduce the number materially, would it not?

Mr. VANDERLIP. Yes.

Senator REED. Is there not a control which the Federal Government exercises over these banks which meets some of the objections which ordinarily pertain to combinations, namely, that the Federal Government can limit the amount of capital of a bank if it wants to, and it otherwise has a very complete control over it? That would be an offset.

Mr. VANDERLIP. Yes.

Senator REED. I am not committing myself to that, but I am suggesting the thought.

Senator NELSON. Now, Mr. Vanderlip, Canada has some 18 or 19 chartered banks, my recollection is, and they probably have over a thousand branch banks.

Mr. VANDERLIP. Yes.

Senator NELSON. Scattered all over. I do not know, but they have 2,000. I have heard the criticism made that those branch banks—for instance, out in the prairie Provinces in Alberta, Saskatchewan, and Manitoba—that they pull in the money in that country and send it down to the head banks at Toronto and Montreal, and drain the country. Then if they apply for loans to those branch banks, as a rule, they can not get any satisfaction, especially if money is a little tight, until they hear from the head bank at Toronto or Winnipeg. In other words, the system, as developed in Canada to that extreme, I do not think has worked as well as it might. What is your information on that?

Mr. VANDERLIP. I fancy a true analysis of that situation would show that those complaints were not well founded. We have heard the same complaints made that in certain Southern States they deposit money in New York and can not borrow any when they want it. I have looked up the record and find that they borrow five or six or seven times as much as they deposit. I presume you will find that these small western communities borrow very much more from the reserve city banks than they actually deposit in the banks.

The action of a bank with many branches is to equalize the supply of loanable funds, and the funds will flow where the interest rate is the highest. The interest rate will be highest in the smallest community, and I expect you will find that the Canadian banks have worked to the benefit of those few small communities rather than taken their funds and loaned them to the centers.

Senator HITCHCOCK. How do you interpret this paragraph now in relation to branch banks? Can a State bank having branches come in?

Mr. VANDERLIP. I am unable to interpret it and no one can interpret it until he can interpret the meaning of the word "regulation," and that must lie in the mind of the Secretary of the Treasury or the Federal reserve board.

Senator REED. You think, I take it from your remarks in regard to this section and the preceding one, that when a man comes to invest his money or go into a great system that involves his money, he ought to have fixed rules of law which prescribe his rights and specify his obligations that he should not be required to depend upon the individual opinion of some man, however good that man may be.

Mr. VANDERLIP. I wish I had the power to state my views as precisely as that. That is exactly what I think.

Senator REED. And you would apply that to the entire currency system, would you not, except where you come to the point of passing upon the question of whether a particular piece of paper is good or bad?

Mr. VANDERLIP. That is making the statement a little too sweeping. In general, however, wherever it is possible to put the specific thing in this bill, I would do so rather than leave it discretionary upon a board.

Senator POMERENE. What have you in mind as proper conditions or regulations upon which the State banks should be admitted into this system?

Mr. VANDERLIP. If you want to get the State banks into the system, then I would say have the capital the same as a national bank under similar conditions. Have the same examinations and the same reserve requirements. If you stop there, you must recognize that there will be more advantages under the State charter than under the national charter. If you impose all the conditions of the national charter on the State bank it would not accept them and would not come in. You have your choice.

Senator REED. That leaves us with the question still unsolved?

Senator NELSON. No; he has put in the limitations there. Capital—this provides for reserves—

Mr. VANDERLIP (interposing). Capital, reserve, and examination.

Senator NELSON. As to capital you would include an exception?

Senator REED. You said if you made their requirements too stringent on them and cut them off from their present rights they would not come in; if you made it too liberal, as I understood, Mr. Vanderlip, then the national banks might go in—

Mr. VANDERLIP (interposing). That is exactly what they will do.

Senator REED. Now, that leaves the question unsolved. The question is how we can keep the national banks in, and induces the State banks also to come into this system?

Mr. VANDERLIP. By liberalizing the terms of the national charter and the regulations under which national banks are operated so that they can compete fairly with the State bank.

Senator POMERENE. In what respect?

Mr. VANDERLIP. In respect to branches, in one particular; in respect to doing a trust business in another. I do not know that I would undertake to enumerate the advantages that a State bank has over a national bank, but those are different in various States.

Senator BRISTOW. But not loaning on real estate?

Mr. VANDERLIP. Never.

Senator NELSON. Nearly all the State banks can do that.

Senator REED. You are giving some very interesting testimony here, but we have come to a point now that is very greatly troubling me, whether this bill is not going to send all the national banks out of the system and into the State bank system, or else so limit the rights of State banks coming in that they will not want to come in. Now, I do not know if you are prepared to make your suggestions as to what advantages could be given to the national banks that are of a practicable and reasonable character, but I wish before you leave you would try to give us those suggestions.

Mr. VANDERLIP. I shall be very glad to submit those in detail.

Senator WEEKS. And at the same time the provisions which you think would induce State banks to come into the system.

Mr. VANDERLIP. Yes.

Senator HOLLIS. Do you not think, Mr. Vanderlip, that the mere name of national bank is of some value to them?

Mr. VANDERLIP. It is of some value in a small community. It is of no value in New York City, for instance, or any of the great cities.

To take up section 11, relative to the Federal reserve board: Here is the point, I suppose, that most bankers raise as the principal objection to the bill. It is a pretty general feeling that the bankers contribute capital for these reserve banks, should have representation on the Federal reserve board. I, myself, believe it would be very good, if they had a minority representation on the board. However, if that is impossible I particularly object to the constitution of the board in its present form.

I believe it is bad to have ex officio members on that board and to have ex officio members whose duties are already sufficient to engross their time fully. This will be a very important board; it will be a man's size job to be a member of this board. He ought to be devoting all his time to it. He ought to have experience. The board should have continuity. If you put Cabinet officers on that board they will of necessity go out with each change of administration, and may go much more frequently than that. They are fully engrossed, if they are properly looking after their other duties, and they can not, I believe, perform in a creditable manner the duties of this Federal reserve board.

If it is going to be constituted entirely by Government appointment, I would increase the salaries, I would have longer terms, and I would have the men appointed devote their time to this work exclusively. Continuity of management is a great thing. You might have a change of the majority of the board on the change of a President. You make the thing the toy of politics in this way. It ought to be removed from politics as far as is the Supreme Court. I think it would be about as proper to appoint the Attorney General to the Supreme Court, because he happens to be in the Cabinet, as it is to put the Secretary of Agriculture on this board.

Senator REED. But don't you think the experience of the Secretary of Agriculture ought to be of value in handling a financial proposition of this sort? [Laughter.] But, Mr. Vanderlip, seriously, under the plan you suggest would you exclude the Secretary of the Treasury?

Mr. VANDERLIP. That is debatable. I should prefer to see a board of inspection created that was headed by the Secretary of the Treasury and that embraced the comptroller and any other Government officials you chose, which had the power of inspection anywhere down the line to see that the law was being obeyed. There are some reasons for putting the Secretary of the Treasury on, because he has the depositing of the Government moneys. There are other reasons; but this makes the whole board rather subservient to the Secretary of the Treasury.

The bill frequently says that things shall be done by the board under direction of the Secretary of the Treasury. This board ought to be superior to any Cabinet officer. It is not an appendage of the Treasury; it is a great organization. Members should be of the highest caliber; men that were paid salaries sufficient to attract and keep able men. Now, keep men; there is the point. You develop a good men here at \$10,000 a year and I will hire him at \$25,000. You want to pay men so you can keep them here. You want continuity of management.

Senator REED. It is true that this bill as drawn does frequently, as you say, say that certain things shall be under under the direction of the Secretary of the Treasury. But I call your attention to the fact that this bill requires that every dollar that is now in the Federal Treasury, except that held on special deposit, shall at once go into the banks, and every dollar hereafter gathered in by the Federal Treasury must at once go into the banks. And, of course, the special deposits, most of them, can speedily be removed there by using the gold and silver certificates to withdraw them. Now, if the Secretary of the Treasury is not to have a broad discretion, do you not think that provision ought to be changed so that the discretion would be vested in the Government to put all or part of its money in?

Mr. VANDERLIP. That would be much more desirable than to give the Secretary of the Treasury the power that is given here, where it says that the manager of the Federal reserve board shall be subject to the supervision of the Secretary of the Treasury and that the manager of the Federal reserve board shall be the active executive officer of the Federal reserve board.

The CHAIRMAN. You would strike out "Secretary of the Treasury" in that line?

Mr. VANDERLIP. I certainly would.

Senator REED. And you would modify the other section allowing the Secretary of the Treasury to have some discretion about putting the people's money into this institution?

Mr. VANDERLIP. I would not expressly object to that. I think non-partisanship is not accomplished when you say that not more than two shall be of the same political party; it rather emphasizes that the other two shall be of the same political party. I do not believe that helps the measure much.

Senator BRISTOW. Is not that an invitation to put partisans on the board?

Mr. VANDERLIP. Why, it is almost a command.

Senator HITCHCOCK. Would not the board be a good place to put our ex-Presidents? [Laughter.]

Senator REED. Barring one, you would answer "Yes," would you not?

Mr. VANDERLIP. I was thinking of that one. [Laughter.]

Senator BRISTOW. Some of us might think he was the very man to put there.

Senator WEEKS. Seriously, Mr. Vanderlip, you refer to paying the members of this board large salaries. Now, there is a standard of salaries in connection with the Government service which must be maintained, and it would probably be impossible to compete with the National City Bank in paying salaries to a board like that. Don't you think the honor of being a member of that board coming to a man who is fit to be a member would be sufficient so that he would accept such a place and serve, notwithstanding the fact the salary was not commensurate with the kind of service?

Mr. VANDERLIP. Undoubtedly there would be a tendency that way. The Government has a great advantage in that respect.

Senator NELSON. Would you not get superior men in that way?

Mr. VANDERLIP. Superior men at a smaller salary than at a larger one?

Senator NELSON. Than if you just made it a question of salary?

Mr. VANDERLIP. I should not make it just a question of salary by any means; I would make it so that the salary from somewhere else would not counterbalance the salary and the honor together.

Senator HITCHCOCK. A Cabinet salary?

Mr. VANDERLIP. It ought to be as high as a Cabinet salary, I should think. You want men for this position who are capable of earning large salaries. You want men who have earned large salaries, or who have been successful. You do not want unsuccessful men, financially speaking, in this business. You want men who have been successful.

Senator BRISTOW. Now, Mr. Vanderlip, do you think political appointments are made with a view to whether a man has been successful or not?

Mr. VANDERLIP. I do. I think they are frequently made with a view to the fact that he has not been successful.

Senator BRISTOW. That he has failed in the last campaign and needs a job. [Laughter.]

Senator REED. We can call them political appointments if we please, but the Supreme Court of the United States and all the Federal judiciary are appointed by a political power and confirmed by another branch of political power. And yet, speaking of the question at large, we have a very superior class of men in those positions, and that is because the position is regarded as one of great honor and not a position of profit, is it not?

Mr. VANDERLIP. Undoubtedly.

Senator REED. We have got to go to one source or the other for these guardians of this contemplated system. Either we must go to the banks, which may have a selfish interest, or we must go to the Government, or we must go to both.

Senator NELSON. The great business men are merchants?

Senator REED. Yes.

Mr. VANDERLIP. I am not nearly so much afraid of malign political influence as I am of lack of wisdom. I want to establish a continuity of management here. I want to see men qualified by experience. I am not so much afraid of the political side of this thing. I am very much afraid of the inexperience side of it.

Senator REED. And therefore willing to have always at least a majority of men on this board who are connected with banks and who are familiar with it?

Mr. VANDERLIP. Certainly, a majority; and I would say, as far as possible, men of long experience. Of course, some new men might get on.

Senator POMERENE. I am glad to hear you say you have faith in your Government.

Mr. VANDERLIP. Thank you.

Senator REED. Generally speaking, there has been a good deal of loose talk about politics, just as there has been a good deal of talk about banks. Sometimes it is justifiable and sometimes it is not justifiable. Do you think that any President of the United States would be likely to make these appointments without having a proper regard for the importance of the place that he is charged with the responsibility of filling?

Mr. VANDERLIP. When I look ahead I have a good deal of faith. When I look back, and see some of the appointments that have been made, my faith is shaken a little. I do not mean recent appointments; I mean looking back historically at men who have filled important places.

Senator REED. Let us take the position of the Secretary of the Treasury. Some of us have differed with the policies of the Secretary of the Treasury, but as a general rule they have been a pretty sincere type of men, have they not?

Mr. VANDERLIP. Yes; as a general rule.

Senator REED. And, making allowances for inexperience, they have done pretty well as a general proposition, have they not?

Mr. VANDERLIP. Yes.

Senator REED. Now, do you know any other way by which these men could be selected except by the banks or by the country?

Mr. VANDERLIP. No. We do not want to return to the old Spartan way of selecting by lot, I suppose. They should be selected one way or the other—by the banks or by the Government.

Senator REED. Are there not objections to banks selecting, which would be an objection to the bankers themselves? That is to say, if your bank had a friendly representative upon this board might it not be of great advantage to your bank? Pardon me for using your bank for illustration, but I was using it as an illustration of a class.

Mr. VANDERLIP. I think it might. But I shall hope it shall have a friendly representative upon this board, and that all banks will have a friendly representative upon the board.

Senator REED. I meant more than that. I meant a representative who might be specially interested in the bank. That would not be right, of course, but are not there just as many objections on that side as there are on the other when you come down seriously to talk about it, and that is what we are trying to do this afternoon?

Mr. VANDERLIP. I do not think there are quite as many, but personally I shall be satisfied with a political board if I am assured of its

continuity—that the members will be devoting their entire time to it and that every precaution is taken to make it of the highest possible type.

Senator REED. I think I agree with you on that, that the board ought to devote its entire time, unless it is the Secretary of the Treasury.

Senator HITCHCOCK. What discretionary power do you think that board should have to regulate the volume of currency?

Mr. VANDERLIP. I think it should have none. I will come to that point later, when I come to that part of the bill. But it seems to me completely wrong that it might refuse a bank the privilege of taking out currency. Personally I think there should be no tax on that currency. So far as the Government is concerned, it is merely taking it from one pocket and putting it into the other. The people are the ones to determine the volume of currency. No one else can determine it. They will use bank notes, or they will use gold reserve; it does not make any difference to them. They will have in their pockets a given amount, and they will determine that amount. A bank note that does not count in the reserve is of no value whatever to the bank. It is only of value to the person who can use it in his pocket. I think there is no danger in giving these central banks the power to issue all the currency that the people will use. The banks can not use that currency. The people will use the currency. The currency is of no value in the hands of the banks, as it does not count as reserve.

Of course, to digress a moment, there is the trouble with your dual system of State banks and national banks, concerning the question of reserves with the State bank, and that is a trouble that you want to find some way, if you possibly can, to eliminate. I think the best way would be to construct a system so that it would be attractive to all State banks to come in. There is grave danger to the whole system; there is grave danger to the Treasury Department and to the Government in permitting a large amount of these notes to find their way into the reserves of State banks.

Senator HITCHCOCK. That is permissible in Germany now?

Mr. VANDERLIP. Suppose such a situation exists here. We have many millions of these new notes held in the reserves of the State banks, and suppose something happens that alarms the holders of those notes to an extent where they think it will be wiser to convert them into other forms of reserve money, into gold and lawful money. You might get a presentation of the whole mass within a short time. The redemption of them would be an almost impossible thing, for the amount would be so large. And in proportion to the size of it the danger is great. I know of no way you can prevent a State bank holding those bank notes in its reserve except to induce the bank to come into the national system, where you can properly bar them from the reserves.

Senator HITCHCOCK. I suppose it could be prevented in those banks, where they were subjected to the same laws which the national banks are subjected to.

Mr. VANDERLIP. That will apply to those who come in, but remember that there are \$12,000,000,000 of deposits in State banks now, against \$8,000,000,000 in national banks. Under this bill, I believe State banks will increase and national banks will decrease,

as it stands, so that the chance of getting a very great mass of these bank notes into the reserves, for the support of this \$12,000,000,000 of deposits, is serious.

Senator HITCHCOCK. Under this bill, as it stands now, how considerable do you interpret the power of the reserve board to be, as to the contracting or expanding of currency?

Mr. VANDERLIP. The bill is not clear as to whether this rate of interest, so-called, could be changed after notes were outstanding. I think there is a good deal of confusion about the rate of interest. It is not clear whether the Federal board could charge a different rate in different sections of the country or a different rate at different times to the same bank, or change the rates after notes were outstanding. I do not believe they should have either the power to refuse the notes or the power to tax them.

Senator HITCHCOCK. You think that whenever securities were presented to the reserve bank and it had the necessary gold reserve it should issue them?

Mr. VANDERLIP. The gold reserve is the limit.

Senator HITCHCOCK. Now, has not Germany, with practically that same law, rather gotten into difficulties?

Mr. VANDERLIP. Germany has saved itself from the greatest difficulties. The Reichsbank management is a monument to what can be done with a scientific banking system.

Senator HITCHCOCK. The Reichsbank notes are made reserve for the other banks in Germany?

Mr. VANDERLIP. That I am not familiar with.

The CHAIRMAN. And they are also made legal tender.

Senator HITCHCOCK. Yes; they are also made legal tender.

Senator REED. How much reserve in gold should there be held against notes issued?

Mr. VANDERLIP. I think the reserve provided for of 33½ per cent is ample.

Senator REED. You think that is much safer than now?

Mr. VANDERLIP. Yes.

Senator REED. And if made a little higher the system would be a little safer, would it not?

Mr. VANDERLIP. Undoubtedly. And if you will put a tax on deficiency of reserve instead of taxing the notes you will control the issue. There is the place to put the governor—a tax on the deficiency of the reserve?

Senator HITCHCOCK. That would be better; it would be permanent.

Senator REED. Make it graduated, though.

Mr. VANDERLIP. Yes; make it a graduated tax.

Senator HITCHCOCK. It would not be left to the option of some board?

Mr. VANDERLIP. No; and it ought not to be.

Senator HITCHCOCK. I agree with you there.

Mr. VANDERLIP. Now we come to this much-debated clause of the power to compel loans. I believe that is a necessary power as long as you have more than one central bank. The power to permit loans I do not consider is a necessary power to give to the Federal board. If these banks choose to loan to one another, very good. As a matter of fact, they will not choose so to loan. The management of the bank will leave it to the members of that bank to deal with the

members of another bank where the interest rate is high, thus having individual banks discount for individual banks rather than for the central bank to discount for the central bank in the high interest rate community.

Senator REED. There has been a matter, and your answer suggests the thought again, that has been bothering me a good deal. There have been a number of bankers here who have objected most strenuously to the provision that one of these reserve banks should advance moneys to another reserve bank, and they have said that is very wicked and very wrong, and yet in the same breath those gentlemen will advocate one central bank. Now, if all the money was put into one central bank, then that management would necessarily have to loan money to all of the member banks all over the country. And if there are 12 of these banks and the idea of one bank is so admirable, it seems to me the closer we draw the twelve banks together the nearer we are approaching the idea of one bank.

Mr. VANDERLIP. Certainly. The greater the decentralization here, by making numerous reserve centers, the more arbitrary the power you must give to the reserve board. If you make one reserve center you have to give no power to the Federal board at all, because the thing is accomplished. But with numerous centers arbitrary power, obnoxious as it is, must be given to the reserve boards in order to pipe those reserves together.

Senator REED. The more cooperation you have, the nearer you come to the strength that lies in one central institution?

Mr. VANDERLIP. And that is what you really are all after. You may not quite know it, but I think that is what you really all want.

Senator NELSON. That provision there, in effect, makes one central bank?

Mr. VANDERLIP. Certainly; except that in practical operation it will never work. Now, instead of saying that this is an obnoxious provisions and ought to be taken out, I am forced to admit I do not believe it is strong enough. It will never work. Why won't it work? Because loans can only be made at from 1 to 3 per cent above the highest rate prevailing. That, in the first place, is not very clear. I suppose it means above the highest rate prevailing in the community that is going to borrow. Why should a New Orleans bank borrow from New York at 3 per cent higher than it is loaning? It won't work; they won't do it.

Senator HITCHCOCK. Maybe that means 3 per cent higher than the reserve board is charging for currency.

Mr. VANDERLIP. Well, you have to look a long ways to read that meaning into it. At any rate it is not a clear law.

Senator NELSON. It has to be an interest charge to accommodate the banker. It is to accommodate the banker who has to pay it.

Senator REED. What is the highest rate at which he pays the interest?

Senator NELSON. Not less than 1 or above 3 per cent of the highest rate prevailing in the districts immediately affected.

Mr. VANDERLIP. But what does "rates prevailing" mean? Is it the rates charged by the central banks?

Senator REED. Manifestly, then, if New Orleans had a 6 per cent rate and New York had a 4 per cent rate and New Orleans wanted money from New York, under that provision the rate would at least have to

be 7 per cent to New Orleans, which is a rate higher than anybody pays down there. Now, why in the name of common sense would anybody want to borrow money under those terms? It was just as Mr. Vanderlip said.

Mr. VANDERLIP. They won't; the thing will not work.

Senator REED. All of which leads to the conclusion we ought not to look to this bill any further?

Senator WEEKS. Are you going to discuss the desirability of the same discount rate in all regional banks?

Mr. VANDERLIP. I will discuss it.

Senator WEEKS. Let me ask you a definite question: Why should not a bank in Oklahoma, having a piece of paper that comes within the requirements of the law, get a rediscount of that piece of paper on exactly the same terms that the New York bank would do with the same quality of paper?

Mr. VANDERLIP. As a matter of abstract right, I think it should. As a matter of prevailing interest rates in those two communities a similar piece of paper will bear a higher rate in an Oklahoma community than it will in New York, because of many reasons I do not need to go into.

Senator WEEKS. If we are going to make a national law, should it not be country-wide in its provisions?

Mr. VANDERLIP. I do not think it should necessarily be country-wide as regards the same discount rate for all of these banks.

Senator HITCHCOCK. Is not the present divergence of interest rate due to our peculiar system, which we are now proposing to abandon?

Mr. VANDERLIP. Not altogether. The more settled communities will have the lower rates in any banking system.

Senator NELSON. In that connection, we must not overlook the fact that paper discounted from Oklahoma might bear interest at 7 per cent, while paper discounted up in New York might only draw 4 or 5 per cent.

Mr. VANDERLIP. That is perfectly true.

Senator WEEKS. Is not that true to-day? But would it not equalize those rates in years to come if the discount rate should be made the same?

Mr. VANDERLIP. Never entirely.

Senator WEEKS. I agree with you never entirely, because developing sections would always carry a higher rate of interest.

Senator REED. Mr. Vanderlip, how are we going to adjust this proposition: Let us say that the prevailing rate for commercial paper in New York is 4 per cent; that the prevailing rate in my part of the country is 6 per cent. Now, the New York banker wants money, and he brings up 4 per cent paper and gets \$100,000 on \$100,000 worth of 4 per cent paper. The banker in Kansas City wants \$100,000 and he brings up 6 per cent paper and just gets \$100,000, yet his paper draws a greater rate of interest.

How is that to be adjusted in this law?

Mr. VANDERLIP. Why, he gets the interest on his paper.

Senator REED. He collects it himself?

Mr. VANDERLIP. He collects it himself. He has discounted the note and has gotten that.

Senator REED. Then the central bank has to collect this interest for him if they collect the securities. On the other hand, he can take

money there and take up his own securities. Now, is not that the way it will practically be done, instead of the central bank collecting the securities? Will not the bank secure the money and pay the note and take back the collateral while it has not matured?

Mr. VANDERLIP. Very likely. The average bank will dislike to have a customer know that it has rediscounted his note, and they will be glad to get the notes back before the day of maturity, in order to have the customer pay it over its own counter and hand the note to him.

Senator HITCHCOCK. Would he not know it has been rediscounted?

Mr. VANDERLIP. Yes, he will; because it will have to be indorsed; that is true.

Senator NELSON. But if you place the circulation on the discount value of the paper, would not that be a fairer basis than to take it on the mere face value of the paper?

Mr. VANDERLIP. That is what you will do, sir. It will operate that way. The amount of money you get is the discount value of the paper.

Senator NELSON. Yes; but it is not clear in the bill, if you will notice.

Mr. VANDERLIP. I had presumed that would be the way it would work. In any event, it is a rather insignificant difference.

Senator NELSON. I know it is a small difference, but would not that be the principle applied?

Mr. VANDERLIP. I think it would.

Senator BRISTOW. Let me get that clearly in my mind. I do not know whether I comprehend that fully. Take Senator Reed's illustration: What is the value of that paper? They are both good, one is as good as the other, but the Kansas City paper bears 6 per cent and the New York paper 4. It is taken to the Federal bank for discount. What is to be the discount value of the two papers? Is the one drawing 6 to be more than the one drawing 4?

Mr. VANDERLIP. If those were discounted notes they are both worth, at the date of maturity, \$1,000 each, if they are \$1,000 notes. The man who has discounted them got less than \$1,000—the one by 4 per cent the other by 6. That is where the variation came in. The \$1,000 note that was discounted at 6 per cent produced less than the \$1,000 note discounted at 4 per cent.

Senator BRISTOW. But they are not discounted. In fact, that note bears 4 per cent, one of them does, and the other bears 6. Out in our country where we take six months' paper, why it may run three months, and in New York it may be a 90-day note.

Mr. VANDERLIP. Let us suppose the New York bank has these two pieces of paper and goes to a central bank and borrows at 5 per cent. What it will really do will be to convert this 6 per cent note to a 5 per cent basis and the 4 per cent note to a 5 per cent basis. The central bank will take those notes on a 5 per cent basis. The 4 per cent it would take a little under par and the 5 per cent a little over par.

Senator NELSON. That is exactly the way it will work.

Senator BRISTOW. Yes; I can see that. I can see no objection to that system, provided that the value of the note given it by the increased rate the interest is taken into consideration.

Mr. VANDERLIP. It certainly would be.

Senator BRISTOW. Otherwise it would be very unjust to a certain part of the country.

Mr. VANDERLIP. It would be taken into consideration.

Senator HITCHCOCK. That raises another question, Mr. Vanderlip. You said, and I entirely agree with you, you should not only include 90-day paper, as stated in the bill, but out West and down in the South 6 months and perhaps 9 months paper, which is commercial paper to the same extent, growing out of certain transactions. But up in those countries where 6 and 9 months paper is given the interest is not deducted in advance, and how are these notes to be discounted under those circumstances? The interest is generally payable at maturity.

Mr. VANDERLIP. Just as I say. If it is a nine-months note at 6 per cent, and you are disposing of it on a 5 per cent basis, you will get more than the face of the note for it.

Senator REED. What you mean, in a word, is this, that the bank will do just what your bank will do. If the interest has been paid, it will take that out of the note. If the note is still drawing interest, it will take that fact into consideration and arrive at the actual value.

Mr. VANDERLIP. And that value will be either above the face or below it, as the basis upon which it is being discounted varies from the rate the note bears.

Senator HITCHCOCK. Then some of the notes taken in that way may have the interest already paid, and on the other notes the interest may be payable at maturity.

Mr. VANDERLIP. Yes. Now, on page 22, section E, it is provided that the Federal board may reclassify—

Senator HITCHCOCK (interposing). You did not say anything about those reserve requirements. You are passing that over. Do you think the Federal board should have the power of suspending the reserve requirements?

Mr. VANDERLIP. I passed that over because I am doubtful; I have a feeling it should not. But I have heard some arguments lately in favor of it. The balance of the opinion, in my mind, is that it should not have that power, but I see some rather impressive reasons why it should have it.

Senator HITCHCOCK. This means they have the power not only to suspend the reserve requirements as far as the 12 banks are concerned, but to suspend the reserve requirements of the national banks and even the reserve requirements of State banks.

Mr. VANDERLIP. Yes.

Senator BRISTOW. Unless I am interrupting Senator Hitchcock, what is the use of any such power as that, when we are supposed to have a system that can bring relief in any kind of an emergency?

Mr. VANDERLIP. I do not believe it is necessary. Of course it is not necessary now, as bad as our present system is. But in reality we sometimes disobey the law now. We do invade our reserves. It would be wiser, perhaps, to have somebody with power to suspend that reserve requirement rather than have all of the banks more or less break the law. But even that I am not sure of. On the whole, I should be opposed to that, but I can see some reasons on the other side.

Senator BRISTOW. And are you not providing, or endeavoring to provide, at least, facilities here by which it is never going to be necessary for you to break the law?

Mr. VANDERLIP. It do not think it would be necessary. I think it is positively unnecessary to have this provision on that score alone.

Senator WEEKS. Do you recall the arguments which you have referred to which were in favor of this provision, why it should be in the bill—by whom they were made?

Mr. VANDERLIP. They rather take this form, that a reserve that is fixed by law is simply an irreducible amount of money. It is of no value at all for paying the depositors, and you have no leeway whatever between the minimum that you are probably going to loan out and the legal point that you must not go below—that the suspension of reserve requirements under pressure would permit you to pay out a certain amount of your reserve to relieve the situation around a bad corner. I do not think that is very much of an argument, and, perhaps, I have not presented it very well.

Senator WEEKS. Do you agree that under this system, if it is established, or the system that is contemplated, we can practically eliminate the amount of reserve which would be required of banks, permitting them to follow, practically, the policy that is followed in European banks?

Mr. VANDERLIP. In the end, I think you could. There ought really to be no legal-reserve requirement, but in this country we have grown so accustomed to it I think it is dangerous to abandon it all at once.

Senator WEEKS. That is, in the course of 5, 10, or 15 years we can greatly change the reserve requirements of this law?

Mr. VANDERLIP. I think so, undoubtedly.

Senator HITCHCOCK. What would be the effect on the public mind if the reserve board should announce the suspension of the requirements of the reserve banks when they come down to 33½ per cent?

Mr. VANDERLIP. That depends upon what the condition of the public mind was before they announced that. I could imagine circumstances under which it would produce a feeling of relief to the public mind.

Senator HITCHCOCK. The whole world has reached the conclusion that central banks should have a larger reserve than 33½ per cent. All the central banks of Europe have a much larger reserve, and this bill has adopted a smaller one than at present need be. Now, take a condition where they have reached the limit. The reserve board lets down the bars altogether. What would be the effect on the public mind?

Mr. VANDERLIP. It would have to be a very serious situation when they did that, and, generally speaking, whenever they did do it confidence in the whole system would be pretty well destroyed and would have been destroyed when they did it.

Senator HITCHCOCK. It would tend to confirm the fear and really aggravate it?

Mr. VANDERLIP. Yes.

Senator REED. What was the effect in 1907, when the Comptroller of the Currency notified the banks they need not keep any reserve against the Government deposits?

Mr. VANDERLIP. It did not have any effect, because the banks thought they knew at what points they ought to keep reserves, and they kept them there.

Senator REED. There never was a proclamation of the right to do so?

Mr. VANDERLIP. There was a proclamation of the right that they need not keep reserves against the Government deposits. Of course the comptroller has no more right than you to change the law.

Senator REED. No; I understand.

Mr. VANDERLIP. His proclamation was that they need not keep reserves against the Government deposits.

Senator NELSON. They need not keep that money over their deposits?

Mr. VANDERLIP. No.

Senator REED. That did not affect the public mind at that time?

Mr. VANDERLIP. No; it was rather a technical matter that the public mind did not grasp.

Senator HITCHCOCK. Was there any reason to keep a reserve against them?

Mr. VANDERLIP. There is the same reason, so far as the Government is concerned, but no reason so far as the bank is concerned. The reserve is to help pay deposits, and the fact that you have secured the deposits does not change the reserve.

Senator NELSON. It does not relieve their paying?

Mr. VANDERLIP. No, sir.

The CHAIRMAN. Did not the suspension of the reserve in the English system in 1847, 1857, and 1866 abate the panic on those three great occasions?

Mr. VANDERLIP. Undoubtedly. I presume that the drawing of some parallel between them and the present conditions was what led to putting this in, but I doubt the wisdom of the parallel. I would rather say not.

Senator REED. Do you think really it is a good thing to have a reserve you do not use, that you do not invade?

Mr. VANDERLIP. I think it would be a better thing to have no regular limits on your reserve at all, but I believe it would be dangerous now. We have grown too accustomed to a regular limit to remove that altogether.

Senator NELSON. And, besides, Mr. Vanderlip, under this new system, without a reserve requirement you would not have capital enough for these banks?

Mr. VANDERLIP. No.

Senator NELSON. That is just part of their capital that comes from this reserve provision?

Senator POMERENE. The reserves here are 12 and 18 per cent. What would you say as to the wisdom of providing that this board might, by unanimous vote, reduce or raise those reserves?

Mr. VANDERLIP. By no means. I would not give to that board the discretion to change the whole basis of the banking system. We would not know where we stood at all.

Senator POMERENE. The thought is these figures are fixed and, to a certain extent, it is problematical as to whether they are fixed at

the proper point. Now, that being so, if the experience of future years should indicate that the reserves were too high or too low, for that matter, then they might be raised or lowered?

Mr. VANDERLIP. I would rather let the board make representations to Congress and have Congress handle it.

Senator NELSON. I want to call your attention to an ambiguity in this paragraph, to suspend for a period not exceeding 30 days, and to renew, and so forth, any and every reserve requirement specified in this act. Now, there are two distinct reserve requirements: One is the requirement of the member banks, and then there is the other reserve requirement of the regional banks of 33 per cent. So that this would cover both classes of reserves, both the reserves for member banks and the reserves required of the regional banks, the issuing bank. In the case of the regional bank it is 33 per cent, and in the case of these others, so far as the reserve is concerned, it would be 5 per cent at the end of 36 months. So you see this would cover both.

Mr. VANDERLIP. Yes.

Senator HITCHCOCK. Yes; or the gold reserve—that the bill does not require but probably will—it may change that.

Senator NELSON. Of course. It is ambiguous. It would cover both classes of reserve.

Senator WEEKS. You do not keep reserves on Government deposits now?

Mr. VANDERLIP. Yes, we do.

Senator WEEKS. Are you required to by order of the comptroller?

Mr. VANDERLIP. No.

Senator WEEKS. That order has never been rescinded, that they need not keep reserves against Government deposits?

Mr. VANDERLIP. I think not.

Senator WEEKS. Then, the comptroller's order was a permanent one, rather than a temporary one to meet that contingency?

Mr. VANDERLIP. I believe so.

Senator NELSON. Further, in that connection I call your attention—commencing on line 21, it is provided that “it shall establish a graduated tax upon the amounts by which the reserve requirements of this act may be permitted to fall below the level hereinafter specified,” etc. What do you think about that provision?

Mr. VANDERLIP. I believe that is a correct theory of the control of the situation—the taxing of deficient reserves, rather than the taxing of notes.

Senator NELSON. And you would apply that to the 33 per cent required, and not to the reserves that member banks put in?

Mr. VANDERLIP. Oh, yes. The member banks I would leave alone.

Senator NELSON. That is what I mean.

Senator BRISTOW. This puts a tax on the deficiency of the gold reserve in the Federal reserve banks?

Mr. VANDERLIP. Yes; the reserve carried by the Federal reserve banks.

Senator REED. What would be the use of levying a tax on that? If you had a system here that was paying, say, 5 per cent to member banks on their capital investments and the balance of it went to the Government, and then there was a profit, and we levy a tax on going below 33 per cent gold reserve, we collect it from our own pockets.

Mr. VANDERLIP. If you endanger the 5 per cent dividends, you would find the management of those banks very keen.

Senator REED. Yes; if you endangered the 5 per cent dividends. When you reach that point, and up to the time you reach that point, it would be taking money out of your own pockets.

Mr. VANDERLIP. Yes.

Senator REED. Would it not be well, in that case, if it went below, to collect that tax out of the 5 per cent—commencing there?

Mr. VANDERLIP. Possibly. That is an ingenious suggestion. Section E, on page 22, gives the board power "to add to the number of cities classified as reserve and central reserve cities under existing law," etc. I can not see what the distinction between reserve and central reserve cities will be under this act. None of the banks hold reserve deposits, and I see no force in such a distinction. Then it goes on further and says that they have the power to designate the banks therein situated as country banks, at its discretion. That is, they could go into a central reserve city and designate a particular bank as a country bank, as I read this. That is certainly a power they never should have.

Senator HITCHCOCK. If they made it optional for the national banks to come into the system and a number stayed out it might be necessary in central reserve cities?

Mr. VANDERLIP. Those that stayed out would have to surrender their charters.

Senator HITCHCOCK. I say, if it is made optional.

Mr. VANDERLIP. Oh, yes; if it is made optional, that is true. But it is not made optional, and if you made it optional you never would get anywhere with the system. That is the unfortunate part of it.

Senator O'GORMAN. What is that last statement?

Mr. VANDERLIP. If you made it optional whether or not a bank should come into the system you would never get the system started.

Senator O'GORMAN. What is your judgment, as a citizen, not as a banker, as to whether it ought to be optional or compulsory?

Mr. VANDERLIP. It would be vastly better to have it optional, if there were any hope of making it work. Looking at it as a citizen, and not as a banker, I see that bankers are very conservative and unimaginative people. They would like to wait and see. You give them permission to join when they choose and they will all wait for the other man to start it. They will wait to see how it works.

Senator O'GORMAN. Suppose it was compulsory, what do you think would happen?

Mr. VANDERLIP. I fear that a great number of the national banks would be converted into State banks.

Senator O'GORMAN. About what percentage of the national banks do you think may surrender their charters?

Mr. VANDERLIP. That is very difficult to say until the law is in completed form. I think many of the small banks would, and I can see very distinct advantages in the large banks surrendering their national charters, taking out State charters, and then joining the system as a State bank.

Senator O'GORMAN. That is upon the assumption that this bill would be enacted as it is now?

Mr. VANDERLIP. Yes, sir.

Senator O'GORMAN. I suppose I do not exaggerate the situation when I state that there is no member of this committee, no single member, who favors enacting this bill as it stands to-day.

Mr. VANDERLIP. I have directed my remarks to the bill as it stands.

Senator WEEKS. What do you think of the proposition which has been made to the committee, to reduce the period from one year to three months during which the national banks should have the privilege of deciding whether they are coming in or forfeit their charters?

Mr. VANDERLIP. I should say that would be a very short time.

You found the national bankers very slow to comprehend the provisions of the bill, I understand, from many of them who have been before you, and I think the national bankers as a rule would not comprehend the thing sufficiently to arrive at an intelligent decision.

Senator WEEKS. In your opinion what would be the effect of shortening the time; would it force more out or force more in?

Mr. VANDERLIP. That is hard to say; I do not know.

Senator WEEKS. You think it would not be wise or just?

Mr. VANDERLIP. It would not be just. They ought to have time in which to digest this thing.

The CHAIRMAN. They ought to have time to read it?

Mr. VANDERLIP. Yes.

The CHAIRMAN. They have not read it yet?

Mr. VANDERLIP. So I understand.

Senator WEEKS. Your fear that the banks will come in unless it is made compulsory is justified by the experience under the Aldrich-Vreeland bill? The currency associations were not formed until the Treasury Department brought pressure to bear, and as a result of that pressure the associations were formed?

Mr. VANDERLIP. Yes.

Senator WEEKS. There was no proper reason why they should not have been formed, but there was no initiative about it?

Mr. VANDERLIP. Yes.

Senator NELSON. What would you think of making it optional with the small country banks having a capital, say, of \$100,000 or less—making it optional with them? Would that mar the plan?

Mr. VANDERLIP. If you reduce that to \$50,000 or less, I do not know that it would seriously mar the plan. But just where would these banks that would not come in keep their reserves?

Senator NELSON. I do not know. You would have to have some plan for that. You would have to make—

Mr. VANDERLIP (interposing). The very small banks are not essential to the working of this plan.

Senator NELSON. The \$25,000 bank?

Mr. VANDERLIP. Yes; and even the \$50,000 banks.

Senator NELSON. We have about 2,000 of them, I think.

Mr. VANDERLIP. We have more than that, I believe.

Senator HITCHCOCK. Suppose you provided that a small bank which had subscribed no capital might have the right to discount paper at a regional reserve bank, provided it has kept its reserve there and has otherwise complied with the law?

Mr. VANDERLIP. That would be, perhaps, unfair to the banks which had been compelled to subscribe capital, but it would be workable.

Senator WEEKS. In that event you would be conferring a benefit upon the country banks without exacting any return?

Mr. VANDERLIP. Exactly.

Senator REED. Mr. Vanderlip, suppose the law required these banks engaged in interstate commerce to keep a certain reserve in these reserve banks and did not require any bank to put up any part of its capital stock; what do you think would be the result of that?

Senator O'GORMAN. Where would you get the capital?

Senator REED. They would have reserves there mighty quick. As far as capital is concerned, to-day capital is almost a mere bagatelle. We are talking about compelling people to come into this system. The Government does have one power that is tremendous, and that is its control over interstate commerce. Suppose you established a system and simply said that any institution that engaged in interstate commerce in the banking business must put a certain amount of its deposits in these central banks to be established by the Government for the purpose of rendering secure our financial system.

Mr. VANDERLIP. Have not the courts decided that banking is not interstate commerce?

Senator REED. I do not know. I am asking you that, as the thought occurred to me here. It was not matured.

Mr. VANDERLIP. I am not a lawyer, but I think that is true.

Senator REED. My opinion is that whenever notes go from one place to another, or checks, that that is interstate commerce. Senator Nelson would know, I think.

Senator HOLLIS. They could compel them in the way of—

Senator NELSON (interposing). I think the courts have held that insurance policies are not interstate commerce.

Senator REED. I know they have held that.

Senator NELSON. Insurance policies written in one State and payable in another.

Senator BRISTOW. Mr. Vanderlip, do you not think that any system which we may have devised, which would have to resort to such drastic measures as that, would not last very long, and would soon be superseded by another?

Mr. VANDERLIP. I think it would be very indefinite.

Senator BRISTOW. Do you think such a system would last very long?

Mr. VANDERLIP. It would be started under very poor auspices, at least. I should object to the provision—

Senator REED (interposing). We are asserting here now our rights, at least our desire, to control the banking system of this country within certain limitations, and we are talking about saying to all the national banks that have been organized and had their charters for 20 years, that they must come into this system or they must go out of the national-banking system. That is tolerably radical, but I am not saying the other thing could be done. That is the thought which occurs to me here.

Senator NELSON. There is a grave question, a very serious question, where a bank has a charter that has run for 10 years, say, a charter which they took out for 20 years, and the bank has not

violated any law; there is a grave question whether you can have that charter forfeited simply because they will not go up to this new trough and drink water out of it.

Mr. VANDERLIP. I object to the power given to the Federal reserve board, as stated at the bottom of page 22, to perform the duties, functions, or services specified or implied in this act. That word "implied" might be made to cover almost anything we have ever thought of.

The CHAIRMAN. What page?

Mr. VANDERLIP. Page 22, the last line on the page. I will take up now the Federal advisory council, as referred to on page 23.

Senator BRISTOW. What do you suppose that means, in that last paragraph on page 22, "to perform the duties, functions, or services, specified or implied, in this act"?

Mr. VANDERLIP. I suppose it means that the Federal reserve board would be able to demonstrate that they had almost any powers they were of a mind to conceive.

Senator POMERENE. That would be given a legal significance, meaning such powers as are legally implied for the purpose of carrying out the provisions of the act.

Mr. VANDERLIP. This is a pretty broad, blanket power, I believe. I do not like it.

Taking up now the question of the Federal advisory council, if bankers are not to be permitted to have any representation on the Federal board, then I should emphasize in every way possible the importance of this Federal advisory council. For instance, it is provided here that they shall receive no compensation for their services. I can see no reason whatever for that. Why should they not receive compensation if the banks choose to give it to them?

It is provided that they will meet four times a year or oftener if called together by the Federal board not if called together by themselves. I think if you make a Federal board that is composed entirely of Government representatives and permit the members of this advisory council to sit at all the deliberations of the board, to take part in the discussions and debates—not to have any votes, but to give the Federal board the advantage of close, intimate touch in the discussion of all questions with the advisory council—it will be a very good thing.

Senator WEEKS. Should its hearings be public?

Mr. VANDERLIP. Not necessarily. They are not exactly hearings; they are general discussions which the Federal board may have; I mean, they are official meetings. I would empower this council to call for any sort of information. I would give them the power to call for any sort of information that the Federal board itself might call for. I would put them on a parity with the Federal board—almost make them a part of it—but give them no vote. Give the Federal board the advantage of that relationship.

Senator WEEKS. What do you think of the value of an advisory board—a volunteer board, practically so—which has no ultimate responsibility?

Mr. VANDERLIP. I think it of very little value as this section is drawn. I think it could be made of considerable value.

Senator POMERENE. Without any provision of that kind, do you not feel that if there is any matter that comes up which seriously

affected the banks, that they would have their representatives wait upon this board for the purpose of presenting their views?

Mr. VANDERLIP. It is very different having a representative waiting on the board from having a representative with full rights sit at the table where the meeting is going on.

Senator POMERENE. That is true if they are to sit and take part in the final deliberation. They would be like Delegates in the House of Representatives.

Senator NELSON. Delegates from the Territories, without a vote.

The CHAIRMAN. Would you give them unlimited debate? [Laughter.]

Mr. VANDERLIP. No; I think there should be a cloture rule. [Laughter.]

I now come to a very important and somewhat technical matter. Section 14 provides that the Federal reserve banks may receive for collection all sorts of checks and drafts drawn upon solvent banks.

The national-bank act at present says a reserve shall be kept upon the deposits. There is no definition there of gross deposits and net deposits, but the distinction which has grown up not by law, but by regulation, is very important. Gross deposits are the total deposits to the credit of the depositors in the bank. Net deposits are the deposits after certain deductions, among which are all items that are in the process of collection. For instance, if a bank in New York has \$10,000,000 of deposits, and a bank in Pittsburgh deposits a million-dollar check drawn on a Chicago bank, the gross deposits of the New York bank would be \$11,000,000, but in figuring the reserves we would deduct that \$1,000,000 check until it had been collected, and we would figure reserve on \$10,000,000, which is the amount of net deposits.

Under the present practice the reserve of the Pittsburgh bank is increased a million dollars, although the New York bank is not keeping any reserve against that deposit, and that constitutes a reserve for the Pittsburgh bank until it collects the money.

There is nothing said in this bill about gross deposits and net deposits. If reserves were figured on gross deposits, and these Federal reserve banks undertook all the collection business of the country, as they certainly will under these provisions, there would be a mass of deposits with them which would, in fact, only be items in process of collection but against which they would have to keep reserves. That mass of items in process of collection would be so great that it would use up a large part of the reserve bank's available funds to keep a reserve against it. I think the reserve banks should be permitted to deduct from their deposits items in process of collection, just the same as national banks now deduct in that way, and it would be more nearly correct and not permit the depositing bank to count uncollected items in its reserve until they are collected, although at the present time the depositing bank does count in its reserve all deposits created by the uncollected items, although the bank receiving them on deposit keeps no reserve against this amount but deducts it from gross deposits.

This point is very important, because if reserves were to be figured on the gross deposits of Federal reserve banks it would swamp the Federal reserve bank.

Senator HITCHCOCK. On the other hand, is it not permissible under this bill for the Federal reserve bank to charge to a member bank having deposits checks when they are received in the Federal reserve bank?

Mr. VANDERLIP. It must, without charge, credit at par checks drawn by member banks on it, checks drawn on member banks that are members of its region, or checks drawn by member banks of any other region upon the central reserve bank of that region. Those must all be credited at par. It can charge for checks drawn on member banks of other regions, checks drawn by member banks upon member banks of any other region, or checks drawn upon any solvent bank. The charge for the collection does not cure the thing. If these are counted as deposits they have to keep a reserve against them; it will consume a large part of the reserve if they have to keep a reserve against these uncollected items.

Senator HITCHCOCK. I think that while it is true that checks would come in constantly, in large volume, which would go to the credit of a member bank, yet the same member bank would be charged with checks that came in the same mail. That would reduce the deposits?

Mr. VANDERLIP. Certainly it will. Just as fast as collection is made of the deposit, the deposit is reduced.

Senator HITCHCOCK. No; I think you misunderstood me. The checks coming into the reserve bank, drawn on a member bank, when cashed by the reserve bank would be charged to the account of the member bank.

Mr. VANDERLIP. That is true, but what about checks coming in drawn by members on other banks? Suppose there is deposited by a New York bank in the central reserve bank in New York a check drawn by a San Francisco bank on another member of the San Francisco Federal reserve bank? That is going to take some time to collect.

Senator HITCHCOCK. That would be a different situation?

Mr. VANDERLIP. Yes.

Senator HITCHCOCK. As far as the member banks of the central reserve banks are concerned—

Mr. VANDERLIP (interposing). They ought to clear every day.

Senator HITCHCOCK. And it ought to be counted in their deposits?

Mr. VANDERLIP. Yes.

Senator HITCHCOCK. It ought to be counted in the reserve in the deposit also.

Senator WEEKS. It will be necessary to give prompt notice to the banks that certain charges have been made against its account, otherwise it might overdraw very frequently?

Mr. VANDERLIP. Exactly. Section 15 is translated in different ways by different people. I have supposed that it meant that the Federal reserve bank could go into the market and buy paper that had the indorsement of a member bank somewhere in the system. I have been told that is not what it means; that it can go into the market and buy any paper.

Senator NELSON. Anywhere.

Mr. VANDERLIP. Anybody's paper.

Senator O'GORMAN. That is for the purpose of regulating the discount rate?

Mr. VANDERLIP. Yes; to flatten rates or to accumulate bills to sell at a time of threatened gold exports.

Senator O'GORMAN. Can you suggest any better way of regulating the discount rate?

Mr. VANDERLIP. I suggested this morning, at some length, the idea of converting part of the 2 per cent bonds into one-year Treasury notes, which should be renewed, as often as they matured, by the Federal reserve banks that would hold them. They would have in their possession 200 or 300 million dollars' worth of such notes that they could offer in the market whenever they wanted to control the rate and that could be used to great advantage in the gold situation.

Senator O'GORMAN. Just as the Government has done in the past in that respect.

Mr. VANDERLIP. Yes, sir.

Senator BRISTOW. Why should not the Government do that direct? It seems to me that is a very cumbersome way to secure gold.

Mr. VANDERLIP. How would the Government secure gold?

Senator BRISTOW. Sell bonds direct.

Mr. VANDERLIP. The Government would have no machinery for that. It would not want to sell bonds. Of course it might sell short-time notes, but it is not the special concern of the Government whether gold is exported at a certain time or not. It is of concern to the banking situation, and not a concern of such moment that the Government ought to take action. These bankers, however, ought to have the power so that they could in some measure check the outflow of gold. You can not check it to any great extent; you can only dam it up a little; you can hold it up for a while, possibly until a crop movement brings you credits so you do not have to have any gold movement. That is only a slight, but it is a very important, power.

Senator WEEKS. If the reserve banks were given the power to invest in foreign bills and made a practice of doing it to a considerable extent, could not they regulate the flow of gold by purchasing or selling foreign bills?

Mr. VANDERLIP. That is provided for in here. It is extremely important, but of the 12 regional banks that would probably only be done by the one in New York. There might be two or three which would engage in the purchase and sale of foreign bills, but it is rather doubtful if banks operated by people who were not familiar with foreign exchange would trade in foreign bills.

Senator WEEKS. That is still another argument in favor of reducing the number of banks?

Mr. VANDERLIP. Yes; they are almost numberless.

Senator SHAFROTH. Mr. Vanderlip, I want to ask you about the raising of the discount rate. I have not gotten it clear in my mind whether this would be to the advantage of the people to do that or not. Of course, there is a certain amount of benefit that comes to a nation in getting gold into it, but if you raise the discount rate and make the people pay higher interest for accommodations it is a dilemma that has two features to it, one a bad feature and one a good feature.

Mr. VANDERLIP. You may be rendering a great service to the people by checking too great expansion and free loaning.

Senator SHAFROTH. You mean by the increased discount rate?

Mr. VANDERLIP. By the increased discount rate.

Senator SHAFROTH. But the man who wants money never goes there.

Mr. VANDERLIP. Therefore he is not the correct man——

Senator SHAFROTH (interposing). You say the rate can not be controlled absolutely, anyway?

Mr. VANDERLIP. Oh, no; only slightly.

Senator SHAFROTH. I agree with you that whatever is absolutely needed in foreign countries is going to get there if they willing to bid for it more than we are, and for that reason I do not see but what there is almost as much loss to the people by reason of attempting to regulate the discount rate as there is benefit.

Senator NELSON. Mr. Vanderlip, I want to call your attention to line 6 on page 27. What do you understand by the term "prime bankers' bills," as distinguished from bills of exchange, the words below? What is a prime bankers' bill?

Mr. VANDERLIP. A prime bankers' bill has the indorsement of a banker.

Senator NELSON. You mean acceptance?

Mr. VANDERLIP. Acceptance or indorsement.

Senator NELSON. And a bill of exchange is a bill that has not been accepted yet?

Mr. VANDERLIP. Yes, sir.

Senator NELSON. Now, would this include what I call finance bills, as distinguished from commercial bills? You know the difference?

Mr. VANDERLIP. A finance bill is drawn against securities, not drawn against commercial transactions.

Senator NELSON. But it has an acceptor?

Mr. VANDERLIP. Oh, yes; it has an acceptor, just as a commercial bill.

Senator NELSON. Would this include a finance bill as well as a commercial bill?

Mr. VANDERLIP. I should think not.

Senator NELSON. You do not think so?

Mr. VANDERLIP. No, sir.

Senator NELSON. It would not do to include that, would it?

Mr. VANDERLIP. I think not.

Senator BRISTOW. Do you think that section 15 offers the regional banks an opportunity to go out and transact a general banking business?

Mr. VANDERLIP. I do not know, but I am very sure it ought to be made perfectly clear whether or not it is permitted to do so.

Senator BRISTOW. What do you think; should it or should it not?

Mr. VANDERLIP. I think it should not be. Of course, it has to have something to make its discount rate effective. If you do not adopt this one-year Treasury note plan, I am not certain but what it is necessary for the bank to do this open-market business to make its rate effective. It must have some power to do that. It is obnoxious to be creating an institution with our own capital which is going into a market to compete with us.

Senator O'GORMAN. You will observe by the language of section 15 that it is not designed that that power will be used always. It is only to be used in the contingencies which will be governed by the rules and regulations of the Federal reserve board. Can you not confide the exercise of that power to the judgment and discretion of the Federal reserve board?

Mr. VANDERLIP. We would first confide it to our own representatives and directors in the Federal reserve bank, and I should say we

would be willing to confide it to them rather more than to the Federal reserve board. We create a majority of the directors of the Federal reserve bank, and we ought to be able to control the competition of the bank.

Senator O'GORMAN. Suppose a provision substantially similar to the first paragraph of section 15 were in this act, you would advise the elimination of this reference to the reserve board establishing rules and regulations?

Mr. VANDERLIP. I do not see any reason why it should establish rules and regulations.

Senator O'GORMAN. Except that it is in keeping with the general tenor of the entire bill that they will exercise a supervision and control over all reserve banks.

Mr. VANDERLIP. I have not especially found fault with the powers given to the Federal reserve board there. I have merely voiced the objection that is very common among bankers, to the Federal reserve bank competing with existing banks. The feeling on the part of many bankers is that the Federal reserve board should never buy any paper that did not have the indorsement of some member bank of the system. Then you are not in direct competition with the banks.

To come to the note issue, I believe it is fundamentally wrong to have the Government issue the notes. I think they should be an obligation of the Federal reserve banks. While I am perfectly clear that it is improper and unscientific, I will admit that I believe it will work in this form. There is danger that this guaranty of the Government will sometimes embarrass the Government. That is the chief practical objection to the working of this thing. It is unsound in theory for the Government to issue these notes, but I think the only really serious trouble that could ever come out of it would be that the Government might be embarrassed in carrying out the responsibilities here imposed upon it.

Senator POMERENE. Under what conditions have you in mind?

Mr. VANDERLIP. Under conditions where the Federal banks are down to the limit of their reserves, a large amount of notes coming in for redemption because of some fear of the inability of the banks to redeem them, and the fact that there is not gold enough to cover the notes, the only cover for them being a loan upon commercial paper.

Senator HITCHCOCK. Five per cent?

Mr. VANDERLIP. They have 5 per cent reserve deposited with the Government. That is an insufficient reserve.

Senator POMERENE. If these are in fact Government notes, it would reduce to a minimum such conditions as you have described?

Mr. VANDERLIP. I think so.

Senator POMERENE. Assume for the time being that this bill was so changed as to make them obligations of the member bank instead of the Government; it is true the provisions of this bill are sufficient for the protection of those notes, so as to insure their redemption?

Mr. VANDERLIP. Probably. I presume you meant the obligation of the Federal reserve bank instead of a member bank.

Senator POMERENE. The regional reserve bank.

Mr. VANDERLIP. I can imagine, with a large number of regional banks, instances of mismanagement—perhaps the exercise of too

optimistic views by the board of some bank—so that it would be in a position of difficulty in redeeming these notes. The community where these notes were circulated, even though it knew the bank that issued them was rather weak, would not be concerned with that bank at all if the Government were guaranteeing the notes. I think the community ought to be concerned if the bank issuing the notes becomes weak enough so as to raise some question as to its ability to redeem these notes promptly. I certainly can imagine a condition where one of these banks would not be able to redeem these notes promptly. It is very probable. The risk of the guaranty is very small, but if it is nothing there is need for it. If there is any risk, the Government ought not to assume it. There is no more reason why the Government should be liable for notes than for deposits.

Senator POMERENE. You have here the security of the reserves, the double liability, the capital of the bank, and the fact that there is a first lien upon the assets of the bank. That ought to make it pretty secure.

Mr. VANDERLIP. It ought to make it quite secure enough for the note holder. It makes it absolutely secure, I believe. Therefore, why add the guaranty of the Government to it?

Senator POMERENE. If it is absolutely secure, what risk is the Government taking?

Mr. VANDERLIP. It is not taking any risk, if it is absolutely secure. It is probably secure, and, therefore, a guaranty is wholly unnecessary.

Senator WEEKS. Suppose we got into a serious war and it were necessary for the Government to issue its Treasury notes, as it did in the sixties, do you not think that having these notes at that time with practically a Government guaranty, would be an important consideration?

Mr. VANDERLIP. Very important; yes; important to the Government in that it would make it difficult for them to issue notes as they did in the sixties with a guaranty. It would be much better for the Government to let the bank notes stand by themselves.

Senator SHAFROTH. Would it be any worse than to have bonds issued to carry on a war?

Mr. VANDERLIP. Very much worse; inexpressibly worse.

Senator SHAFROTH. You mean because the rate at which they would buy the bonds would be above par?

Mr. VANDERLIP. No; I mean because an emission of fiat money entails for the country that issues it instead of selling bonds to pay the expenses of the war a burden of rising prices and increased expenses.

Senator SHAFROTH. That depends on whether they can maintain the gold reserve.

Senator REED. Mr. Vanderlip, you say that if this currency is secure, it needs no Government back of it. If it is not secure, it should not have the Government back of it. Now, is not one of the great elements in floating any currency the confidence that the people have in the ultimate redemption of that currency?

Mr. VANDERLIP. Yes, sir.

Senator REED. And just in proportion as you increase that confidence you decrease the likelihood of the currency being attacked or raided or beaten down in the market. Therefore, if the Government of the United States puts its indorsement upon all currency

that is issued, does it not add to that currency a great element of stability and value?

Mr. VANDERLIP. I do not believe in this case that it does add very much. And I do not believe that it is desirable to add any. I believe that these banks ought to be under the compulsion of so conducting themselves that the public would have absolute confidence in this currency.

Senator REED. Do you not think that in establishing any financial system that the confidence of the public is, after all, one of the very great elements?

Mr. VANDERLIP. Yes, sir.

Senator REED. Now, do you not believe, Mr. Vanderlip, that taking the average citizen of the United States he regards anything that the Government stands back of as the safest and best security on earth?

Mr. VANDERLIP. Yes.

Senator REED. Well, if that is true, then why not give to this system that added stability, particularly when you say it can be done without really jeopardizing the Government?

Mr. VANDERLIP. I say it can probably be done without jeopardizing the Government, but if it ever did jeopardize the Government it would be a very serious matter.

Senator REED. Why, certainly. And if we are going to enact a bill here that is so bad that the structure will fall so heavily as to bear down the Government or greatly injure the Government, then we are embarking upon a most hazardous undertaking.

Mr. VANDERLIP. I do not think you are going to do that. And I do not think this bill, in all human probability, if enacted, would ever involve the Government; but the principle of having the Government issue these notes is wrong. The guaranty of the Government is an unnecessary and illogical thing. The notes will float perfectly well without any guaranty.

Now, practically, I tell you my opinion is that the thing will work. It is wrong, it is unscientific, it is not a correct way of approaching this subject, but I think it will work, and the strong probability is that the Nation's credit will never become involved. But I can readily conceive of circumstances under which it will become involved, and I think you would be doing the wrong thing to issue the notes in this form.

Senator NELSON. One question there, Mr. Vanderlip. I think, as a matter of general principle, you are right, but don't you think that in time of financial stress and disturbance, where the holders of these bills knew that the Government was back of them, there would be a less disposition among them to make a run and try to obtain gold for their paper?

Mr. VANDERLIP. There might be.

Senator NELSON. Would there not be less likelihood of a rush to the bank or the Government vaults, saying, "I want gold for this paper," if the holders knew the Government was back of it?

Mr. VANDERLIP. If they were to rush to the vaults and get gold, they ought to rush to the vaults and get gold. That is the position this bank ought to keep itself in.

Senator NELSON. No; I mean would not the people when they got frightened, as they were in 1907, when they got scared and ran for their deposits—suppose they got scared in the same manner about

this new currency; wouldn't they be less likely to make a run for the gold if the Government were back of the bills than if it were simply a bank?

Mr. VANDERLIP. They would be somewhat less likely to. On the other hand, the banks would be much less likely to get in a position that would cause such a run if the whole responsibility was upon them.

Senator HITCHCOCK. Mr. Vanderlip, the very fact that men sit around a table seriously discussing the safety of these notes seems to me a reason why we should not issue any more of them than necessary for the purpose of elasticity, and leave that bank currency which we already have and which is beyond any question.

Mr. VANDERLIP. It is beyond any question of security, but it has disabilities that are very serious and which should cause its removal.

Senator HITCHCOCK. Its disabilities relate only to its inelasticity, and that can we provide for in the future.

Senator SHAFROTH. And the fact they can not act as reserves.

Senator REED. We can make them act as reserves in this bill.

Senator POMERENE. Mr. Vanderlip, I do not share your views as to the risks to be run by the Government issuing these notes, but I do want to make them as absolutely secure as it is possible to make them— if there is any thing more secure than absolutely secure. I have this thought in mind: You suggested a few moments ago that the earnings of the regional reserve bank over and above the dividend should be converted into sinking fund for the redemption of the bonds. Now, why would it not be wise to set apart a portion of those earnings as a security or guaranty fund against possible loss upon any of these notes which might be issued by the banks?

Mr. VANDERLIP. That would be rather an unnecessary tying up of gold, because it would be set aside in gold if it were set aside at all.

Senator POMERENE. That is, you think these notes are so absolutely secure it would not be necessary to have that additional guaranty?

Mr. VANDERLIP. I do not believe it would.

Senator NELSON. Would you have these notes redeemable in gold, or gold and lawful money?

Mr. VANDERLIP. I should think they ought to be redeemable in gold. And, by the way, the bill is out of harmony in that respect, in that the banks—

Senator NELSON (interposing). What page are you referring to, please?

Mr. VANDERLIP. On page 32 it is provided that the Federal reserve banks must "maintain on deposit in the Treasury of the United States a sum in gold equal to 5 per cent of such amount of Federal reserve notes," etc. On the preceding page it says, line 20, "shall be exchanged for lawful money out of the 5 per cent redemption fund hereinafter provided."

The redemption fund is provided to be in gold, and the responsibility on the Treasury for redemption out of this fund is stated to be in lawful money. If the words "lawful money" were changed to "gold," in line 20 page 31—

Senator O'GORMAN (interposing). Mr. Vanderlip, the relation there is so close that there would be no room to doubt that the expression "lawful money" on page 31 would mean gold, because it has to be taken out of that 5 per cent.

Mr. VANDERLIP. If there is no room to doubt it, then these notes are redeemable in gold at the treasury.

Senator NELSON. Should not the banks who issue this currency provide the necessary gold, and not cast the burden upon the Federal Government in any event?

Mr. VANDERLIP. They are providing it.

Senator NELSON. No; they are not; if you leave the words "lawful money" in it, because the banks can redeem in lawful money, and that throws the burden on the Government. The regional bank redeems in greenbacks, and the man who gets the greenbacks would walk up to the Treasury and demand the gold.

Mr. VANDERLIP. Gold is the proper money for ultimate redemption.

Senator NELSON. And as long as you leave the words "lawful money" in there you ultimately cast the gold burden on the National Government, do you not?

Mr. VANDERLIP. You do, if "lawful money," as Senator O'Gorman says, means gold here.

The CHAIRMAN. It lacks two minutes of half-past 5, the hour at which the committee adjourns, under a previous resolution. The chairman would like to know what the wish of the committee is with regard to meeting to-morrow morning.

Mr. VANDERLIP. I am at the service of the committee.

Senator NELSON. We should like to have you with us.

Senator REED. I move, with a view to expediting the hearings, that we meet at 10 o'clock.

The CHAIRMAN. The Iowa bankers were invited to be here to-morrow.

Senator NELSON. The Senate meets at 12, so we had better meet at 10.

Senator WEEKS. Mr. Dawson of the Iowa bankers is here, and the other two representatives will be here to-morrow, but I am inclined to think they will subordinate their wishes to the desires of the committee about appearing to-morrow or the next day.

Senator BRISTOW. I think it is very important we have Mr. Vanderlip with us to-morrow. I have a lot of questions I want to ask him.

The CHAIRMAN. With that understanding then, the committee when it adjourns, will adjourn till 10 o'clock.

But before the committee adjourns I should like to have it noted on the record that the statement of the Senator from New York, that not a single member of this committee was in favor of this bill in its present form, must not be understood to mean more. Some members of this committee think the bill should be amended; it must not be construed to mean more than that.

Senator WEEKS. Haven't you a large number of amendments yourself?

The CHAIRMAN. I have several amendments myself.

Senator WEEKS. That is what the Senator from New York said as I understood it.

The CHAIRMAN. I thought there might be some other inference drawn from it.

(Thereupon at 5.30 o'clock p. m. the committee proceeded to the consideration of executive business, and afterwards adjourned to meet to-morrow, Thursday, October 9, 1913, at 10 o'clock a. m.)

THURSDAY, OCTOBER 9, 1913.

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

The committee assembled at 10.30 o'clock a. m.

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

The CHAIRMAN. Gentlemen, the time is so short that I think that even although the members are not present we had better proceed.

Senator NELSON. Yes; Mr. Vanderlip's statements are so important we want to be sure to get them.

The CHAIRMAN. We ought to have them, but we have only two hours until 12 o'clock, when the Senate meets, and this afternoon the Iowa people will be here expecting to be heard. So if we do not let Mr. Vanderlip go ahead we may not get his views at all. There are a number of other gentlemen who have been notified to appear.

Mr. VANDERLIP. Is it your wish that I should proceed?

The CHAIRMAN. Yes.

STATEMENT OF FRANK A. VANDERLIP—Resumed.

Mr. VANDERLIP. The provision for a national clearing house, on page 34, I believe can be of great economic value to the country and a great economy in the conduct of the business of the country. I believe it is a feasible thing, always remembering what I said yesterday about figuring net deposits, for if the reserve banks undertake these collections and keep a reserve against the items in process of collection they will be swamped.

The CHAIRMAN. It would be necessary to have the banks, then, keep a margin to cover their own exchanges—the special exchanges on them—would it not? Do you think that would be necessary in addition to the reserve?

Mr. VANDERLIP. I think uncollected exchange items ought not to count in a reserve, and no reserve ought to be carried against them. You ought to be able to reduce your gross deposits by the amount of uncollected exchanges. That rule ought to apply right down the line, and uncollected exchanges ought not to constitute balances that could be counted as reserves.

I think that a full comprehension of the working of this national clearing house would clear up, in the minds of many bankers, some objections that they see to the bill. Bankers are inclined to feel that they will have to keep accounts for exchange purposes, and object to the removal of their reserve balances from central reserve city banks, because they feel that they will still have to keep balances there for exchange purposes. I suspect they do not fully appreciate the function of this national clearing house and the method by which that will supply them with exchange without the necessity of keeping central reserve city balances.

If a Kansas City banker wants to remit to New York it can be done with a check on the central reserve bank of which the Kansas City bank is a member. It does not need to have a balance—

The CHAIRMAN (interposing). You mean the Federal reserve bank, do you not?

Mr. VANDERLIP. Yes; I mean the Federal reserve bank. It does not need to have a balance in New York with another bank that it can draw a draft upon, because its check on the Federal reserve bank of which it is a member is at par in New York. It will be credited at once. Presumably there will be telegraphic clearances between the several Federal reserve banks, so that everything that is provided to be deposited at par—that is, checks or drafts of member banks on their Federal reserve bank, checks of member banks on other member banks, any checks on member banks or checks drawn by member banks of another region on their reserve bank—will all clear in one day. Those items that are to be deposited at par will clear in one day by the aid of telegraphic clearances between the several Federal reserve banks, and the result will be some small balance to be remitted one way or the other between the Federal reserve banks, in the same way that a city clearing house operates.

I do not, therefore, see the necessity of banks having to keep bank balances with other member banks in order to remit exchange. The clearing-house feature seems to me very important. It follows the lines of the best practice in Europe. I believe it is feasible. I think it will work a great economy in the commerce of the country and a great saving in the cost of doing that class of business.

Senator WEEKS. Do you think that country banks will be able to carry on all of their domestic exchange business through the reserve banks so that it will not be necessary for them to keep any deposit in the larger centers?

Mr. VANDERLIP. There is a certain class of business that is not provided for in the functions of the Federal reserve banks. The collection of a due promissory note, the collection of coupons, drafts drawn upon individuals, and items of that character, would still have to be made through a bank. The bank will do that either for a correspondent who keeps a balance with it to recompense it for the work, which is the present system; or it would do it for a fee, which is the European system, and which would in the end be quite as satisfactory probably, if the fees were properly adjusted. The Federal reserve banks, through their clearing-house function, will collect any check drawn on any solvent banker. That takes in all bank paper, but promissory notes, coupons, due bonds, and matters of that character would still have to be collected through a bank in the locality where they were payable.

Senator WEEKS. Could you make any estimate of the amount of that business—of what it would cost or how much of a deposit would be necessary in order to continue it under the present arrangement?

Mr. VANDERLIP. For the average country bank it would be very little. The only thing that I think of that would be of importance to the country banks would be that if the country bank entered the discount market and bought notes that were payable elsewhere it would have to have some arrangement for having remitted or deposited to its credit the proceeds of those notes at maturity.

Senator WEEKS. Now, there is this one facility of the larger banks which the country banks make use of now very largely, and that is the use of the credit department of the large banks. I presume it is your experience and the experience of the managers of all large banks that their country correspondents ask them to O. K. commercial paper whenever they buy it, unless they are very familiar

with it. Now, it has always seemed to me that that was of material advantage to the country bank, and that he would not want to give up that facility entirely and would necessarily keep more or less money in such banks as he has been doing that kind of business with.

Mr. VANDERLIP. Undoubtedly the country bank will keep deposits with certain city banks for that and other reasons. I believe that it will be the disposition of the average country bank, which seldom borrows, to look to its old-time friend—the bank—that it has been with for a long time as a place to borrow rather than the Federal reserve bank—for a time, at least.

I believe that there will be the advantage that you speak of, an advantage in getting credit information, which will lead to at least one balance with whatever bank the country bank regards highest in the line of obtaining credit information. I do not believe that these balances of country banks will disappear altogether, but, of course, they will be on quite a different basis. At the present time country banks maintain balances for the purpose of having collections made and for the purpose of securing collections to be made by them. That is a very important element in securing bank accounts. For instance, Philadelphia, adopting a practice of collecting free, or at least with very small charges, has accumulated a great amount of country balances, although those balances do not count as reserves, for reserve city banks. Still Philadelphia collects so cheaply as against the charge made in New York, that large balances have accumulated there. Under this arrangement there would be no need of a balance there for the purpose of collection or with the object of securing collections upon which the depositing bank could make a profit. There would still be some reasons for balances, and the one you mention of credit information will be an important one.

Senator WEEKS. I think you place those reasons at a lower estimate than any witness that has been before the committee, and it is something the committee will have to consider, because I think many members of the committee—I have myself—have had in mind that it will be necessary for the country banks to keep considerable deposits in the large centers, or certainly in one large center. And whether it would be desirable to allow any part of that to be used as reserve, at least temporarily until they had acquired new habits and new methods—

Mr. VANDERLIP (interposing). That is permitted temporarily by the bill.

Senator NELSON. Three years. Now, I want to get at one point there. In the part of the bill referring to the reserve on deposits, would the phrase that checks, drafts, bills, etc., in process of collection shall be deducted from the—

Mr. VANDERLIP (interposing). Gross deposits?

Senator NELSON. Gross deposits—something of that kind—

Mr. VANDERLIP (interposing). That will do it.

The clause in regard to refunding bonds I have already discussed pretty fully. I have said that I do not believe it will work in the way that has been anticipated, because the 2 per cent bonds will have greater value in the hands of a banker taking out circulation than the 3 per cent bonds. A suggestion that has occurred to me would be to convert all the twos at once into threes with the circulation

privilege and with a tax of $1\frac{1}{2}$ per cent instead of one-half per cent. That would leave the result the same to the Government in so far as the bonds were used for circulation purposes, and it would give the banks the option of using the bond for circulation on the same basis that a 2 per cent can be used, or of selling it as a 3 per cent straight investment bond, if there were a market.

There would be a disadvantage to the Government if the banks did sell them and there ceased to be circulation. There would be a compensation for that disadvantage in that, so far as the national-bank notes were reduced, there would be room for the new notes to be issued, and the Federal reserve banks would make a profit on the new notes, which profit would in turn go back into the Government's pocket.

Senator WEEKS. I assume you would agree that the circulation tax should be increased if they should issue circulation on these new bonds, so that the net return would be exactly the same as on the twos?

Mr. VANDERLIP. That is what I said, that the circulation tax would be $1\frac{1}{2}$ per cent instead of one-half per cent. But the Government would in the end be compensated for any loss through the earnings of the bank.

In taking up the section in regard to bank reserves, I will say that my general calculation has shown that there will be a pretty sharp contraction in the central reserve cities at the end of the first 60 days. It would not be so sharp, however—

Senator O'GORMAN (interposing). What do you mean by the first 60 days?

Mr. VANDERLIP. The first 60 days after—

Senator O'GORMAN. After the new system is in operation?

Mr. VANDERLIP. After the new system is in operation and reserves can be transferred.

That contraction, although sharp, will not be so sharp but that it can be met, I think, without exceptional difficulty. At the end of three years there will be a possible expansion of \$1,500,000,000 to \$1,700,000,000. To reach such an expansion means that all the Federal reserve banks will have loaned down to the full limit so that they have only 33 per cent reserve, and that member banks would have loaned down to the legal minimum. It is not at all presumable that such a condition would arise.

That figure looks very large, but as we look back and note that in the last three years national-bank loans have expanded \$700,000,000, I do not regard the possibilities of expansion as excessive. I see no reason to anticipate that the expansion would be to the limit, that banks would not still be managed conservatively as they have been, and I should say that the possibilities of expansion were not dangerous, but, on the other hand, were ample.

With respect to the reserve requirement, the law says that banks shall keep a certain minimum in their vaults—

Senator POMERENE (interposing). Before going to that would you object to a question? You say there would be a contraction within the 60 days. Now, for what reason?

Mr. VANDERLIP. For the reason that the central reserve city banks have to repay balances to both the reserve city banks and the country

banks, and the contraction will come from the great reduction of central reserve city balances, which have to be paid out in full in cash. That will be compensated for in part by the reduction of the reserve requirements in the central reserve cities, but it is not fully compensated for.

In this connection, I fail to see, as I said yesterday, why a central reserve city bank need keep any more reserve than a country bank after the time has past that it keeps any reserve for a country bank. I do not see why the reserve requirements should not be the same all around. As a matter of fact, the city bank is more liquid than the country bank, and why it should have to keep 50 per cent more reserve—18 per cent instead of 12 per cent—although it has no reserve responsibilities whatever to the other banks in the system, is not clear to me.

Senator NELSON. It is on exactly the same footing as the country banks after the 36 months; it is no longer the reserve agent for any country banks.

Mr. VANDERLIP. Exactly.

Senator POMERENE. That is one of the thoughts I had in mind when I suggested yesterday the propriety of giving to this board, subject, perhaps, to the approval of the President, the right to reduce or to increase these reserves, realizing all the while that when we fix a reserve arbitrarily, without practical experience under the new system, it is necessarily somewhat problematical.

Mr. VANDERLIP. There is certainly force in that view. It is problematical whether we can hit on the right reserve. I believe we may sometimes come to the point where we will not have to have any reserve requirement at all, but leave that to the judgment of the banker.

The CHAIRMAN. But you are very clear that the reserve which is to be kept in the vaults of the bank may be left optional, either to be kept in the vault or with the Federal reserve board.

Mr. VANDERLIP. There can be no doubt about that. Why should you force a bank to keep in its vault money which it does not need and which it would prefer to keep with the central reserve bank?

The CHAIRMAN. There is a variable requirement in regard to banks, is there not?

Mr. VANDERLIP. There is; and it occurs to me that there might be some banks with deposits fluctuating so rapidly that the amount you say must be kept in their vaults may not be sufficient.

The CHAIRMAN. And in some cases it may be much larger than necessary?

Mr. VANDERLIP. Yes; that would particularly be so with the large city banks.

The CHAIRMAN. The banks which are in immediate proximity to the reserve banks?

Mr. VANDERLIP. Yes.

Senator O'GORMAN. Do you think this matter might very well be provided for by having a minimum figure mentioned, or contained in the bill, but conferring upon the reserve board a discretion to modify that requirement in a given case?

Mr. VANDERLIP. Personally I dislike too much discretion to be given to this reserve board, at least for the present. Banks like to know what it is they are facing; they like a definite law rather than

a regulation which may be changed without discussion or notification.

Senator O'GORMAN. But you have rather intimated that it would be well to have such a discretionary power lodged somewhere to cover a given situation.

Mr. VANDERLIP. It would be well to look forward to a time when we can change these requirements if we have discovered they are not right. Whether that had best be left to the discretion of the Federal reserve board or whether it is a question to be brought back to Congress is a matter for a difference of opinion.

I should have said, Senator, in speaking of the reason for the contraction in central reserve cities, that those banks also, in common with all other banks, must pay in capital to the central reserve bank. That is another reason for contraction.

Senator POMERENE. My thought as to that was that perhaps this bill should be so amended as to permit of the taking of the commercial paper at once and rediscounting it for the time being so as to avoid the necessity of paying so much cash into a vault and keeping it there as dead capital.

Mr. VANDERLIP. The language of the bill leaves it open to question whether a central reserve city bank could discount before it began to deposit.

Senator POMERENE. I think that is true, but it seems to me it ought to be modified.

Mr. VANDERLIP. I think a central reserve city bank should be able to discount before it begins to deposit, because it has to meet drafts immediately on the law becoming effective.

In section 22, which fixes the reserve which Federal reserve banks must keep, it is declared to be $33\frac{1}{3}$ per cent of its outstanding demand liabilities. I have already spoken of the necessity of calculating net deposits, but I think demand liabilities ought to be more fully defined. For instance, a bank might have borrowed abroad; it is perhaps hardly presumable that it would have borrowed on demand, but it might. You would not want it to keep a reserve against such a liability. I would rather see that section expanded to indicate what the total is upon which reserves are to be calculated.

Senator NELSON. Suppose you put into this "from circulating notes and net deposits"?

Mr. VANDERLIP. That covers the case.

Senator NELSON. In lieu of the language in the bill.

Mr. VANDERLIP. Yes, sir.

Senator NELSON. And then somewhere in the bill define what net deposits are.

Mr. VANDERLIP. Yes, sir.

Senator WEEKS. Why do you think it ought not to be necessary to keep a reserve against a liability made abroad?

Mr. VANDERLIP. I think it ought not to be necessary; I am afraid it might be necessary here.

Senator WEEKS. Why do you think it ought not to be necessary?

Mr. VANDERLIP. It is true that if it were a demand liability there perhaps might be a necessity for a reserve.

The CHAIRMAN. But the assets against a foreign demand of that kind are of such a character that that in reality is a species of reserve against it; it not that true?

Mr. VANDERLIP. I think so—the collateral that probably would be lodged against such a loan.

The CHAIRMAN. The collateral is of such a character that it is really a liquid collateral, and for that reason you do not think a reserve necessary?

Mr. VANDERLIP. Yes.

Senator WEEKS. Why do you think there would necessarily be collateral against such a loan?

Mr. VANDERLIP. It might be either way. If there were no collateral and it were a demand obligation, I suppose it is fair to say that there should be a reserve against it.

Senator POMERENE. What is the fact from a practical standpoint; is there usually collateral against these obligations?

Mr. VANDERLIP. From a practical standpoint I doubt if there would be a demand obligation of this sort. But I think I should say that if the bank borrowed abroad it would probably not borrow on demand.

Senator O'GORMAN. But if you would exclude the foreign demand liability you would afford a ready means to bankers to evade this requirement. If they had reached their limit here in this country, they could then transcend it by securing this accommodation abroad.

Mr. VANDERLIP. That would be possible.

Senator O'GORMAN. And there would be no limitation.

Mr. VANDERLIP. I think, on further consideration, that demand liability in the form of foreign borrowing, at least without collateral, ought to have a reserve against it.

I have no fault to find with regard to the clause concerning bank examinations, except that I feel that central reserve city banks seem to be regarded as needing more careful supervision than country banks, and more numerous examinations are provided.

Senator O'GORMAN. Let me ask you this, Mr. Vanderlip: You have several times spoken of central reserve banks; you mean the Federal reserve bank?

Mr. VANDERLIP. No, sir; I mean the banks in designated central reserve cities.

Senator O'GORMAN. The existing banks?

Mr. VANDERLIP. Yes, sir.

Senator NELSON. Under existing law?

Mr. VANDERLIP. Yes, sir. That law is, curiously, continued without any reason for it.

Senator NELSON. Yes; they keep up the distinction in this law, as I think, unnecessarily.

Senator POMERENE. And you see no reason at all for that distinction in this bill?

Mr. VANDERLIP. No reason for it.

Senator O'GORMAN. If you have the one system?

Mr. VANDERLIP. Yes, sir.

Senator O'GORMAN. And if we do not, as suggested yesterday, provide for the national banks that may not want to come into this system?

Mr. VANDERLIP. Yes.

Senator O'GORMAN. On that point, Mr. Vanderlip, if I get your idea, if this change in our banking law is to accomplish any good, it ought to mean the creation of a uniform and a single system.

Mr. VANDERLIP. Undoubtedly; that is the ideal to be worked for.

Senator O'GORMAN. We can not have half the banking system under this plan and half under some other plan.

Mr. VANDERLIP. You can not so have it and have it anything like a success; and I fear this plan will emphasize the difference rather than draw the banks together.

Senator O'GORMAN. So, then, assuming we have one plan operating upon all national banks, at least, you see no particular reason why the central reserve banks should be continued?

Mr. VANDERLIP. If the plan of reserves herein provided—that these reserves shall be either in the vault or in the Federal reserve bank—is carried out, then there is no reason for the distinction between a country bank, a reserve city bank, and a central reserve city bank. If you change this so as to permit some of the reserve deposits to be left with national banks, then there would be reason for the distinction.

Senator NELSON. And this bill obliterates that?

Mr. VANDERLIP. As the bill stands; absolutely.

The national banks do not object to examinations; they object to continuous examination. We do not want so many that we have to keep open nights in order to be examined; and I think a good many examinations are being provided here for the present reserve city banks.

We have, in addition to the examinations provided here, an examination by the clearing house, which might or might not be continued. It has been, I believe, the most effective and thoroughgoing examination that the banks have ever had. We also have examinations by our directors.

There is this thought also in connection with the examination of banks doing a large foreign business: Foreign bankers will refuse to reconcile for examination purposes as many as nine times a year, which might be necessary under this bill.

The CHAIRMAN. They will refuse to do what?

Mr. VANDERLIP. To reconcile their accounts; that is, to O. K. the account up to a definite date. It is too complicated. It is usually done every six months, and you can not get foreign bankers to meet this new condition. They simply won't do it, so your examination, in that particular, might be ineffective in spite of anything either the examiner or the bank could do. There are rather too many examinations provided here, I think, although I am making no plea whatever for scant examination.

Senator O'GORMAN. Mr. Vanderlip, as I read this provision, the minimum number of examinations is two, the power being confided to the reserve board to order others if necessary.

Mr. VANDERLIP. There are examinations by the comptroller, examinations by the board, and there may be examinations even by the Secretary of the Treasury.

Senator O'GORMAN. Is there any reason to apprehend that there will be an unnecessarily large number of examinations each year? Will it not depend upon the view that the reserve board and the Secretary of the Treasury may take as to the necessities of a given situation?

Mr. VANDERLIP. I think that is possible. I think, however, there are too many examinations actually provided for. It says here that

the Federal reserve board as often as it deems best, and in any case not less frequently than four times each year, shall order examinations of national banking associations in reserve cities. Why discriminate against reserve cities?

Senator O'GORMAN. What line are you reading from now?

Mr. VANDERLIP. Page 41, line 14.

Senator O'GORMAN. That relates to reserve cities. But, from the view that has been expressed lately, we may abandon these reserve-city definitions entirely if this plan or any similar plan is adopted. I had in mind a moment ago a provision in the first few lines on page 40 which speaks of examinations of national-bank associations at least twice a year.

Mr. VANDERLIP. It is distinctly desirable that there should be power to have a special examination of any bank concerning which there is any doubt. But to have regularly at least four, as is provided here, and possibly more, I think is bad.

Senator WEEKS. How much does it cost the national banks for the examinations that are now made?

Mr. VANDERLIP. I think it costs our bank about \$3,300.

Senator WEEKS. A year?

Mr. VANDERLIP. For each examination; and I believe the fees of the New York examiner are something like \$35,000.

Senator BRISTOW. How many examiners are there?

Mr. VANDERLIP. Only one; he has assistants, of course. There is one examiner in New York.

Senator BRISTOW. Only one, and he pays his assistants?

Mr. VANDERLIP. He pays his assistants. I think his net fees are about \$35,000.

Senator O'GORMAN. Who appoints him?

Mr. VANDERLIP. The President, on the recommendation of the Comptroller of the Currency.

Senator BRISTOW. The Secretary of the Treasury, does he not?

Mr. VANDERLIP. I think not; I think it is the President.

Senator BRISTOW. Is he made an exception?

Mr. VANDERLIP. No; it is the Secretary of the Treasury.

Senator BRISTOW. Upon the recommendation of the comptroller?

Mr. VANDERLIP. Upon the recommendation of the comptroller.

Senator BRISTOW. Is that accurate—the Secretary of the Treasury or the comptroller?

Mr. VANDERLIP. I am informed he is appointed by the Comptroller of the Currency, with the approval of the Secretary of the Treasury.

Senator O'GORMAN. We are probably getting away from the features of this bill, but it is instructive. What charges are made to the banks for these examinations?

Mr. VANDERLIP. A charge on the percentage of the bank's business. I can not give you the exact percentage, but my recollection is that the fee the National City Bank pays is in the neighborhood of \$3,200.

Senator POMERENE. A year?

Mr. VANDERLIP. For each examination.

Senator O'GORMAN. Can you roughly estimate about how much is paid annually by all the city banks in the city of New York for these examinations?

Mr. VANDERLIP. If my information is correct that the examiner receives net in the neighborhood of \$35,000, it would be that plus what he pays to a half dozen other men that he employs at more moderate salaries. It would be in the neighborhood, then, of \$45,000 or \$50,000.

Senator O'GORMAN. Does he fix the salaries of his subordinates?

Mr. VANDERLIP. He employs them and pays them out of his gross receipts.

Senator O'GORMAN. Are his gross receipts affected by his activities in examining and reexamining?

Mr. VANDERLIP. His gross receipts are based upon the number of examinations, but the number of examinations is provided by law to be two a year.

Senator O'GORMAN. Arbitrarily fixed at that?

Mr. VANDERLIP. Yes, sir.

Senator O'GORMAN. So he could not, if he wished, enlarge the number of examinations?

Mr. VANDERLIP. He sometimes gets in three a year; we have had three in a year, but I think that is a lapping over. We have had three in a calendar year, but I think the average is two a year.

Senator O'GORMAN. What is the average compensation of his assistants?

Mr. VANDERLIP. I do not know, but I would presume from \$1,200 to \$1,800.

Senator O'GORMAN. And they are fairly well-equipped accountants?

Mr. VANDERLIP. Fairly well-equipped accountants. There may be one or two that would get \$2,500. I know nothing about that personally.

Senator O'GORMAN. What does the chief examiner do for his \$35,000?

Mr. VANDERLIP. He superintends the work and is responsible for the reports.

Senator O'GORMAN. Then it is a sort of farming-out process?

Mr. VANDERLIP. Hardly that.

Senator O'GORMAN. The examiner is compensated by the various banks whose accounts he examines, and he in turn employs such assistants as he may require?

Mr. VANDERLIP. Yes, sir.

Senator NELSON. In a big bank, you know, the chief examiner has to go there with his assistants, and it practically, for the time being, suspends the business, does it not?

Mr. VANDERLIP. It does not suspend, but it interferes with it greatly. We walk into the bank some morning and find all of our cash sealed, and we can not open anything except with the consent of the examiner or some one who is in charge. And if we have that happen four or six times a year it gets to be rather trying. That is not necessary.

I want all the examination necessary to insure the soundest banking and the most complete observation of the law; I have no objection whatever to that, but I do not want to hamper business unduly to accomplish that.

Senator WEEKS. You have an auditor in your bank?

Mr. VANDERLIP. Yes, sir.

Senator WEEKS. Who is examining all the time?

Mr. VANDERLIP. All the time, unexpectedly taking departments; he is working all the time with a force.

Senator NELSON. I have always thought, Mr. Chairman, that this was an anomaly in our law, for bank examiners to be paid by the respective banks. It seems to me that they ought to be paid a regular salary by the Government and not have the banks pay for these examinations. The pay is based upon the size of the bank and the volume of business, and the disposition has been—take it out in the West—for these examiners to get over the ground as rapidly as possible.

The CHAIRMAN. Some of them have as high as 200 banks to examine.

Senator NELSON. Yes; and the disposition is to go over these banks as rapidly as possible, and instances have occurred where they have done it in a very perfunctory and reckless manner. I think it would be a most wholesome reform to have these men on a salary.

Senator SHAFROTH. Is there not something in this bill on that?

The CHAIRMAN. Yes. Mr. Vanderlip, I wanted to ask you something about the examinations by the clearing-house examiners. How often do they make these examinations?

Mr. VANDERLIP. Once a year, and they are extremely thorough. They are very ably done. We have taken great care to secure there the best possible staff. The examiners are highly paid, and are a very capable class of men.

The CHAIRMAN. How many men are employed by that force?

Mr. VANDERLIP. About 10 men.

The CHAIRMAN. About 10 men under one man?

Mr. VANDERLIP. Yes, sir; and a number of them are fairly highly salaried men, too.

The CHAIRMAN. What is paid the chief examiner?

Mr. VANDERLIP. I do not know that there is any objection to making that public. It is \$20,000.

The CHAIRMAN. And are his subordinates paid as the subordinates of the national-bank examiner—\$1,200 to \$1,800?

Mr. VANDERLIP. Much more.

Senator O'GORMAN. What is their average pay?

Mr. VANDERLIP. There are men who get around \$5,000.

The CHAIRMAN. And they act in concert with the chief examiner?

Mr. VANDERLIP. Yes, sir.

Senator POMERENE. Are those examinations made on his own motion or at the suggestion of members of the clearing house?

Mr. VANDERLIP. On his own motion entirely, and the result of the examination is never revealed to members of the clearing house unless there is cause for criticism. There is the utmost secrecy maintained in regard to those examinations until there is cause for criticism. If there is cause for criticism, that criticism is made to the clearing-house committee, and in that case it is most confidentially treated. I have been chairman of the clearing-house committee, and I am familiar with that. This year I am not chairman, and I have not heard a lisp of any criticism. Nothing whatever has leaked from that committee to me, although I was chairman of it last year. I do not know of a single criticism that a clearing-house bank examiner has made.

The CHAIRMAN. Then those clearing-house examinations are not open to the review of the different member banks?

Mr. VANDERLIP. By no means.

The CHAIRMAN. They do not know, from those examinations, where stocks were located?

Mr. VANDERLIP. They have not the slightest knowledge. They do not hear anything except the report that the bank is in a sound condition and being properly conducted, if that is the case. If there were ground for criticism, it would first be taken up with the bank to see if the bank would itself correct it upon the complaint of the examiner. Frequently that has been done and great good has been worked. It is only after the examiner has been unable to harmonize his views with the views of the management of the bank that the matter comes to the clearing-house committee. It is treated in the utmost confidence by the clearing-house committee.

Senator POMERENE. Suppose a man were a borrower in excess of what was a proper amount at two or three different banks, would that fact be made known to those several banks?

Mr. VANDERLIP. It would be made known to those banks, probably by the bank examiner. That is, in the case of the bank he was examining, if he found a loan there from some one who had loans in numerous banks he would explain that to the bank under examination. Whether or not he would also go to a bank not under examination and call their attention to the fact I am not certain.

Senator BRISTOW. In regard to these examinations; of course, you were in the Treasury Department, and you had a very wide experience. Do you not think the present system of paying bank examiners inevitably tends to haste and inefficient examinations?

Mr. VANDERLIP. Undoubtedly a bank examiner is desirous of completing as many examinations in a year as he can, since his compensation depends upon the number he completes.

Senator NELSON. That has been apparent to me for a great many years, out in the West.

Senator POMERENE. I was going to ask one more question along the line I was interrogating you upon. Suppose that the cashier of bank A would have reason to believe or have curiosity to learn whether a certain particular borrower did not have large amounts borrowed at other banks in the city. Would he be privileged to inquire of the bank examiner as to whether or not this borrower had accommodations at other banks; and if so, where and to what amount?

Mr. VANDERLIP. He would be privileged, I think, to make the first part of that inquiry; has the borrower unduly expanded his loans. I do not think he would be privileged to ask where. I do not believe that the bank examiner would give him any information as to the condition of any other bank, even though the inquiry were based on the desire to learn the condition of one of his customers.

Senator O'GORMAN. Would such information be acquired through your clearing-house association?

Mr. VANDERLIP. No, sir.

Senator POMERENE. I had reference to the examiner employed by the clearing house, and from him you could get the information to the extent you have indicated?

Mr. VANDERLIP. Yes, sir.

Senator WEEKS. Did you, as chairman of the clearing-house committee, know or have knowledge of what other banks were loaning, unless there was complaint that there was an overloan?

Mr. VANDERLIP. I had no more knowledge of the business of any other bank after the examination was completed than you have at this moment, if the examiner certified that the bank was solvent and being conducted on sound lines.

Senator WEEKS. And you did not know what particular stocks and bonds they were loaning?

Mr. VANDERLIP. I had not the slightest information. The only report the examiner makes in the case of a sound bank is that he has examined the bank under such a date and found the condition satisfactory.

Senator POMERENE. Is this examiner under bond?

Mr. VANDERLIP. I should not think so; he has no fiscal responsibility.

Senator NELSON. You mean the clearing-house examiner?

Senator POMERENE. Yes.

Senator NELSON. He does not handle any funds.

Senator HITCHCOCK. The United States examiners are bonded.

Senator NELSON. Yes; they give bonds. They are appointed as quasi public officials, and then the public does not pay them. They are paid by the banks.

Senator POMERENE. The secrecy of a borrower's business would depend entirely upon the honor of the man who was employed in the position of examiner?

Mr. VANDERLIP. Yes. I have, after large experience with them, the utmost confidence in their honor and in the fact that these examiners would regard as absolutely confidential any information that came to them.

Senator BRISTOW. Who have usually been appointed as bank examiners in New York by the comptroller?

Mr. VANDERLIP. They have usually been of good experience; perhaps not of very wide banking experience. As I think back, I do not recollect that examiners have usually had a very large banking experience. Our present examiner there is an excellent accountant. He had no banking experience, I think, up to a year or two ago, when he was for a time employed by the First National Bank. He later left that employment and returned to the position of examiner.

Senator O'GORMAN. Is that the official examiner?

Mr. VANDERLIP. Yes, sir; Mr. Starek.

Senator POMERENE. Give his full name.

Mr. VANDERLIP. Charles Starek.

Senator BRISTOW. Whom did he succeed?

Mr. VANDERLIP. I am not sure.

Senator O'GORMAN. What was his position in this bank?

Mr. VANDERLIP. No official position.

Senator O'GORMAN. What was the character of his employment?

Mr. VANDERLIP. I am not aware as to what his duties were.

Senator O'GORMAN. Clerical work or the work of an accountant?

Mr. VANDERLIP. I think the work of auditor and accountant.

Senator O'GORMAN. What is the usual pay of an auditor and accountant in a bank?

Mr. VANDERLIP. An auditor would probably, in a large bank, receive as much as \$10,000.

Mr. O'GORMAN. Is this a large bank?

Mr. VANDERLIP. The First National Bank of New York. Let me say that the fee in New York has always until rather recently been divided between two examiners. Recently one of the examiners, Mr. Rorebeck, has been dropped and we have now only one examiner there.

Senator NELSON. And he gets \$35,000 a year in fees, less what he pays out for his help?

Mr. VANDERLIP. I think plus what he pays out. As to that fee I have no accurate information. That is what I have been told.

Senator O'GORMAN. When you speak of that figure you have in mind the net income of the present auditor and examiner?

Mr. VANDERLIP. Yes. If there were two examiners—

Senator O'GORMAN (interposing). That would be divided?

Mr. VANDERLIP (continuing). It would be divided between the two. There have hitherto been two examiners; there is now only one.

Senator O'GORMAN. Why, if you know, was this change made. Why was Mr. Rorebeck dropped?

Mr. VANDERLIP. I have no knowledge.

Senator O'GORMAN. When did that take place?

Mr. VANDERLIP. Since the beginning of the present administration.

Senator HITCHCOCK. When the examiner comes to your bank, how many assistants does he bring?

Mr. VANDERLIP. About six.

Senator HITCHCOCK. Do they all have a knowledge of the affairs of your bank, when they have completed the examination?

Mr. VANDERLIP. Everything we have is opened to them; under present day conditions our correspondence is given to them.

Senator HITCHCOCK. Do they have a knowledge, for instance, of your loans and collateral?

Mr. VANDERLIP. Absolutely.

Senator HITCHCOCK. All of the men?

Mr. VANDERLIP. All of them; yes, sir.

Senator HITCHCOCK. So that the knowledge of the affairs of the bank is not entrusted simply to a United States examiner and the clearing-house examiner, but to all of these assistants?

Mr. VANDERLIP. All of these assistants have access to the affairs. Whether or not the work may happen to be so divided that one man counts the cash and another checks collateral, I can not say. There is no reason, so far as the bank is concerned, why every one of the bank examiner's staff should not have information about anything in the bank.

Senator O'GORMAN. Have you ever known a case where any of these assistants to the bank examiner have made any improper use of the information they acquired in the examination of a bank?

Mr. VANDERLIP. I never have.

Senator POMERENE. Under the present national banking law, as I understand it, the examiners make their reports to the Comptroller of the Currency, and I assume that under your State banking laws

in New York the examiners there would make reports of their examination of the State banks to the State banking department?

Mr. VANDERLIP. Yes, sir.

Senator POMERENE. Neither one of them would have any means of knowing what the condition of the other set of banks was?

Mr. VANDERLIP. As a matter of fact I think they do cooperate.

Senator POMERENE. What I was thinking to get at was this, that the examiner employed by the clearing-house association would have the means of knowing the condition of all the banks, both State and national, while, primarily at least, the examiner of the national banks would only know the condition of the national banks, and the State examiners of the State banks.

Mr. VANDERLIP. That is quite true.

Senator O'GORMAN. Mr. Vanderlip, from your knowledge of banking conditions in New York, do you think the examinations can be conducted efficiently with one bank examiner?

Mr. VANDERLIP. I think almost any piece of business can be conducted efficiently with one head, if he properly organizes his business.

Senator O'GORMAN. Is it usual for the examiners to participate in the examination of each bank?

Mr. VANDERLIP. It is usual, yes, sir; and I should think it was practical.

Senator O'GORMAN. So that each examination requires his personal presence?

Mr. VANDERLIP. Theoretically it does, and I think practically he is there.

Senator O'GORMAN. Is it possible for one examiner to be present at the examinations being conducted at each bank in the city of New York in a year?

Mr. VANDERLIP. I am very certain that that has been possible in the examination of the National City Bank, and that he has been present.

Senator O'GORMAN. How many national banks are there in the city of New York?

Mr. VANDERLIP. There are 52 central reserve banks in New York, Chicago, and St. Louis.

Senator WEEKS. There has been a recent order of the comptroller which prevents bank examiners from engaging in any other examinations and doing any other work. Do you think that is desirable, as far as the examinations of banks other than national banks is concerned?

Mr. VANDERLIP. Before I answer that question I will answer Senator O'Gorman. There are 36 national banks in New York.

Senator O'GORMAN. In the city of New York?

Mr. VANDERLIP. Yes, sir.

The CHAIRMAN. How many days does it take to examine your bank?

Mr. VANDERLIP. Ordinarily, about a week. We have had an examination recently, however, that has extended over two or three weeks.

Senator NELSON. Your bank?

Mr. VANDERLIP. In our bank; yes, sir.

Senator O'GORMAN. And that occurs twice a year?

Mr. VANDERLIP. Yes. Now, I will answer Senator Weeks's question. I suppose a bank examiner would naturally be pretty busy conducting the duties of his position. Banks have found it rather desirable sometimes to have a bank examiner come in to make a special examination at the instance of directors, and directors have chosen national-bank examiners to do that work because they believed they would do it more efficiently.

Senator WEEKS. You mean directors of State banks?

Mr. VANDERLIP. Yes, sir. I see no great harm in it.

Senator O'GORMAN. Would you find that directors of State banks were also directors of national banks?

Mr. VANDERLIP. I was thinking of directors of State banks who had need for the national-bank examiners.

Senator O'GORMAN. Even there it is necessary, where, at the instance of the directors of a national bank, an examination has been conducted?

Mr. VANDERLIP. Yes; and that independent examination conducted by the national-bank examiner. Of course, it is the practice of New York banks to make at least one and sometimes two examinations a year by the directors. Sometimes it is done in person by the directors and sometimes they delegate it to a chartered accountant or others who will make a very thorough examination.

Senator WEEKS. What I am trying to get at is this, without any criticism of the department. There is a recent order, which, I understand, prevents a national-bank examiner from examining State banks, trust companies, or other institutions. He has to devote his entire time to the examination of national banks. In a community like New York, where there are a great many trust companies, it seems to me you are only getting a partial statement of the conditions of the banks in the community, unless the same man is going to be privileged to examine all the banks.

Mr. VANDERLIP. That is an advantage we gain from the clearing-house examination.

Senator WEEKS. From the Government's standpoint it is somewhat important and advantageous to have some man who will be familiar with the affairs of State banks and trust companies as well as national banks.

Mr. VANDERLIP. I think it would be very advantageous.

Senator WEEKS. Then if that is so the recent change made probably would bring less net knowledge out of the result of those examinations?

Mr. VANDERLIP. I should think so.

Senator HITCHCOCK. Mr. Vanderlip, do you think that the interlocking of directors in those 36 national banks is a source of complaint?

Mr. VANDERLIP. I think it is a source of strength, a source of good management, a source of a better understanding of the credit situation.

Senator HITCHCOCK. Then they have a knowledge of each other's affairs?

Mr. VANDERLIP. They have, to some extent.

Senator HITCHCOCK. That has been charged as one of the serious things in New York which has tended to establish a banking monopoly to the detriment of those who were seeking credit.

Mr. VANDERLIP. It has been so charged, but I do not believe there has been a single instance cited of harm having been done. I will challenge anyone to show an instance where interlocking directorates has led to unfairness to a borrower.

Senator HITCHCOCK. Then it has been charged, too, that it was practically impossible to finance a new railroad company, for instance, for the reason that the sources of credit in New York are so largely controlled by the great owners of the railroads. You have, for instance, as an illustration, the case of Mr. Dave Moffit, out in Denver.

Mr. VANDERLIP. We have had the illustration of the Western Pacific, which was built paralleling the Central Pacific. Money for that was found in New York.

Senator HITCHCOCK. But afterwards the Western Pacific was forced to a compromise and a settlement with the Central Pacific, was it not?

Mr. VANDERLIP. No, sir; there never has been a compromise or settlement.

Senator HITCHCOCK. Was that the Gould line you are referring to?

Mr. VANDERLIP. Yes, sir.

Senator HITCHCOCK. Did it happen that Gould had one such bank, and that he was able in some independent way to finance the system?

Mr. VANDERLIP. I would not say an independent way. That was financed, I believe, through Blair & Co. They are very important bankers. There is no trouble whatever in getting a sound thing financed in New York if there is money there to finance a sound enterprise.

Mr. Stillwell complained that his Oriental road could not be financed there. It could not. It could not have been financed anywhere, in my estimation, if anybody had sound judgment about the building of such a road.

Senator NELSON. Where was that road to be built—in China?

Mr. VANDERLIP. From Kansas City to Mexico, generally speaking.

Senator HITCHCOCK. There was a time when some very unsound railroads were financed in New York, because there was apparently no combination of banking interests. What new development is this that has enabled the banking interests to discriminate and to exclude some propositions when they come to them?

Mr. VANDERLIP. I should not think there ever was a time that unsound business could be done in New York because there was no combination. If there are people in New York with capital which they are ready to put into an unsound enterprise they can be found to-day as readily as they could any other time.

I believe there is no such discrimination, or no such combination. The charge can not be sustained that a sound commercial enterprise, a sound proposition for railroad building, can not be put through in New York because it might compete with some existing business.

If it will so compete as to endanger its own success, certainly it can not be done if the people in control of the capital have sound judgment. But the fact that it would compete with some existing enterprise, which enterprise was financed by the strongest house in New York, would not be a barrier against finding capital for it if it is essentially sound in itself and will not have its own future endangered by the competition which it will encounter.

Senator REED. You mean if there is room for two?

Mr. VANDERLIP. Yes, sir.

Senator HITCHCOCK. Suppose a project was undertaken to finance a railroad to compete with the Jim Hill system and such a project came to the attention of what we will call the Morgan banks. Would not those banks inevitably feel interested in discouraging that project?

Mr. VANDERLIP. I can say that the National City Bank has financed a railroad project in the Southern Railway field, the Southern Railway Co. being a Morgan enterprise, and this project being directly in competition with the Southern Railway Co.

Senator HITCHCOCK. How lately was that?

Mr. VANDERLIP. It is now in process of building.

Senator HITCHCOCK. About how large a project is it?

Mr. VANDERLIP. \$10,000,000 or \$12,000,000.

Senator NELSON. It is not long ago since the New York banks financed the extension of the St. Paul road to the coast, in competition with the Northern Pacific and the Great Northern, which are commonly called Morgan roads?

Mr. VANDERLIP. The National City Bank financed that extension.

Senator REED. As I understand you, Mr. Vanderlip, the test is this—as you put it—whether there is room for two enterprises. If there is room for two enterprises, then you claim that there would be no barrier; if there is not room for two enterprises, then nobody but a foolish person would put his money into a competing line when the competing line would never pay?

Mr. VANDERLIP. That is exactly what I mean. There is no such thing as a strong interest putting out a ban on the financing of a new railroad proposition and saying to New York financiers that this new road must not be financed because it is going to compete with an existing railroad that has been financed by this strong interest. The thing is not done. It does not exist. It is not true.

Senator HITCHCOCK. You mean the heavy railroad owners are interested in the banks of New York?

Mr. VANDERLIP. They are interested in the banks; yes. But the banks are run primarily by themselves. The bank officers solely are in charge of the conduct of the bank.

Senator BRISTOW. That is, you claim that a railroad may be interested in a bank, and be a most important factor in the management of that bank, and still that bank would pay no attention to the affairs of that road as far as financing its competitors is concerned?

Mr. VANDERLIP. No such condition exists. There is no bank that I am aware of in which a railroad is an important factor in the management of the bank. The relation is the other way around.

Senator NELSON. It is the railroads which need the banks?

Mr. VANDERLIP. Yes, sir.

Senator HITCHCOCK. Take the firm of Kuhn, Loeb & Co., they are heavily interested in the Union Pacific?

Mr. VANDERLIP. Yes, sir.

Senator HITCHCOCK. Would it not be natural that they would discourage a system competing against the Union Pacific?

Mr. VANDERLIP. Naturally they would discourage any competitive system, but Speyer & Co. would not, and Morgan & Co. would not.

Senator HITCHCOCK. Would not Kuhn, Loeb & Co. have such large interests in banking institutions as to make their influence potent?

Mr. VANDERLIP. That is exactly the thing that does not exist. I do not think there would be the slightest hesitation on the part of other firms perfectly competent financially to finance a road in competition with another road that was financed by another institution, if the sound judgment of the firm was that the road would be successful in spite of the competition.

Senator HITCHCOCK. Then if Speyer & Co. would finance something that would seriously endanger a great interest of Kuhn, Loeb & Co., Kuhn, Loeb & Co. would retaliate, would they not?

Mr. VANDERLIP. Undoubtedly. But not for the purpose of retaliation. They would not retaliate in that way. If there were some territory in which Speyer & Co. were interested, and if there were sufficient business to make the new road successful, I do not doubt but what Kuhn, Loeb & Co. would finance that, and they would do it now or after such a situation as we have outlined. That is not retaliation; that is good business. There is plenty of banking capital, there are plenty of individual banking houses to finance good business.

Senator HITCHCOCK. Then when witnesses come before this committee and say that there is a combination in New York they are mistaken?

Mr. VANDERLIP. They are mistaken. It is a figment of their imagination. They probably have read newspaper headlines and heard statements, and they do not know the truth.

Senator HITCHCOCK. When they come and testify of their own knowledge and experience?

Mr. VANDERLIP. Then I advise you to analyze very carefully that experience and check it up, because the combination does not exist.

Senator BRISTOW. Now, Mr. Vanderlip, you claim that the men who run the New York banks, and who control them, are different in the moral and mental make-up than the average banker of the country?

Mr. VANDERLIP. I make no such claim whatever. Nothing can be further from my mind.

Senator BRISTOW. Do you think the average banker would finance a proposition if it was detrimental to his largest stockholder and the most important depositor?

Mr. VANDERLIP. To his largest stockholder; no. To his most important depositor, perhaps, yes. It would be then a case of weighing the advantage between the deposit and the advantage of financing that enterprise.

Senator BRISTOW. And if the advantage of the deposit was greater than the advantage of the enterprise, he would not finance it?

Mr. VANDERLIP. Probably not. But in no case, sir, is a deposit of sufficient importance to prevent any banker from financing an important enterprise, a very important enterprise.

Senator O'GORMAN. In that connection, let me ask you this question. At the present time, perhaps during the memory of those now engaged in the banking business, is there not a keen competition for business between banking interests in the city of New York?

Mr. VANDERLIP. I believe there is no line of business in the country where competition is more keen.

Senator O'GORMAN. Would not that competition be keener in New York to-day than in any other part of the United States?

Mr. VANDERLIP. I think so.

Senator O'GORMAN. Because of the great volume of money in New York?

Mr. VANDERLIP. Yes, sir.

Senator REED. How much money does your clearing house carry?

Mr. VANDERLIP. The clearing house carries no money, sir.

Senator REED. They have no deposits of any kind?

Mr. VANDERLIP. They have no deposits of any kind; that is not the function of the clearing house. The clearing house does have in its vault a certain amount of gold which is merely there in the nature of being in a warehouse, so that we do not have to move gold about. There are never any deposits.

Senator REED. Who puts up that gold?

Mr. VANDERLIP. Any banker who would prefer to have a piece of paper, a clearing-house certificate, for \$10,000 instead of \$10,000 in cash.

Senator REED. Really, the bankers put up a central deposit of gold?

Mr. VANDERLIP. No, sir. There is no deposit at all. That is purely a warehouse function for banking purposes, to aid us in paying balances between the banks, and permitting us to give an order on this warehouse instead of carting the gold about the streets.

Senator REED. Where is the gold kept?

Mr. VANDERLIP. In a vault in the clearing-house building.

Senator REED. Where does the gold come from to get into that vault?

Mr. VANDERLIP. From any banker who chooses to deposit gold there and take up certificates to represent it.

Senator REED. In settling your balances you use these certificates?

Mr. VANDERLIP. Yes, sir.

Senator REED. I inquired about the amount that was kept.

Mr. VANDERLIP. My recollection is that there is about \$90,000,000. That figure will not be exactly correct.

Senator REED. Now, I want to come back to matters that concern this bill, and I asked that question simply for the purpose of knowing how much gold there might be in the one place.

Mr. VANDERLIP. That has no relation whatever to the reserves of the banks, or the money market. That is only a physical convenience.

Senator REED. In settling your balances, instead of counting out gold to each other, you simply check against this gold?

Mr. VANDERLIP. Yes, sir.

Senator REED. And settle it in that way?

Mr. VANDERLIP. Yes, sir.

Senator NELSON. It is simply a warehouse where you can keep gold on which you can draw, instead of keeping it in your vault?

Mr. VANDERLIP. Yes, sir.

Senator REED. You do not have to draw gold from there; you send the certificates around and have a little balance left?

Mr. VANDERLIP. Yes, sir.

Senator REED. I want to ask you about a matter of great importance in this bill concerning which I do not think you have been questioned before. How much gold reserve do you think ought to be kept in the regional banks?

Mr. VANDERLIP. In normal times perhaps as much as 80 per cent.

Senator O'GORMAN. How much?

Mr. VANDERLIP. Eighty per cent. That is a very difficult question to answer, and my reply is a sort of shot in the dark. In normal times these banks ought not to be used for conducting the current business of the country. They ought to run with very strong reserves. They ought to be under no compulsion to earn money, and they ought to conserve reserves in order that they may be enabled to make these rediscounts when necessary.

Senator O'GORMAN. The larger the gold reserve the safer the whole structure would be, in your opinion?

Mr. VANDERLIP. The larger the gold reserve carried, the safer. I can not say the larger legal minimum.

Senator O'GORMAN. Where do you think the law ought to put the minimum?

Mr. VANDERLIP. I think the law as it is drawn, with a minimum of 33 $\frac{1}{3}$ per cent is all right. As a matter of fact, I do not believe in legal minimums, anyway. I believe that should be left to the conservative conduct of good managers of banks.

Senator O'GORMAN. Do you not think there ought to be a sentence of penalization for going below a certain point, in order to encourage keeping above that point?

Mr. VANDERLIP. A penalization in this case is not a very effective sentence. You penalize the earnings that come out of the Government.

Senator O'GORMAN. That is what we discussed yesterday. Now, you have examined this bill with reference to the possibility of inflation, have you not?

Mr. VANDERLIP. Yes, sir.

Senator O'GORMAN. I believe you said you thought there was a great power of inflation in it. Of course, a 33 $\frac{1}{3}$ per cent gold reserve would be some check on paper inflation, and the larger the gold reserve the greater the check; is that not true?

Mr. VANDERLIP. Just what do you mean by paper inflation?

Senator O'GORMAN. I mean this money that is to be issued from time to time upon collateral, notes, etc.

Mr. VANDERLIP. Please do not confuse inflation of credit with inflation of currency. You can not have an inflation of currency if you have ample redemption facilities. Gold will not be held in people's pockets; the currency can not be held in reserves. It will be deposited in banks by the men who do not want it in their pockets, and it will be retired. There will be in the way of the correct operating of that principle the fact that these notes may find their way into the reserves of State banks. Were it not for that, there would be as great conformance to business needs in note issue as in deposit balances. And deposit balances ought to be readily interchangeable with notes according as the customer wants credit as a deposit balance, or wants it as a note. There is no more reason for the Govern-

ment charging interest on these notes or guaranteeing these notes than there would be for the Government to guarantee the deposits in these banks.

Senator REED. I know that is a favorite theory with bankers, but nevertheless I hardly think that it is practical at this time to expect that sort of theory to be carried out.

Now, I want to direct your attention to this thought as bearing upon that theory. You say that if a man has a bank credit of \$10,000, he has the right to issue his check against that credit, and that that is simply a method by which he uses that bank's credit, makes it available, and if the bank, instead of giving him a bank credit and check against it, was to issue to him bank bills and let him put them in his pocket and carry them away, that that is only a bank credit. That is the argument. Now, in the practical operation is there not a tremendous difference?

I get a credit with your bank for \$10,000, and I put my check book in my pocket, and I draw checks. There is only one place in the world to redeem those checks, and they do not pass current from hand to hand. They may pass to one man that I happen to know and will accept my check because he happens to know me, but to all practical purposes those checks go back into the bank within 24 hours after they are issued, on the average, and the transaction is closed. But if you give me \$10,000 of your bank notes, and I put them in my pocket, they may travel all around the United States and be in circulation six months or a year before they get back to your bank. Is that not true?

Mr. VANDERLIP. That is not true unless there is need for them for just that purpose.

Senator REED. Let us see if that is sound. I question the soundness of it most emphatically, although I do not want to get into a financial argument with you, for I would be on very doubtful ground. Do you not confuse the term "need" with the man? A man is engaged in a lot of wild-cat circulation. He is booming railroads that may never develop into paying propositions. He is buying acre property and laying it out into town lots and building houses, for which there will never be a real demand, and he needs money mightily badly.

Mr. VANDERLIP. He needs credit, not money.

Senator REED. He needs something that will pass for money, and therefore if he got hold of these notes he would be engaged in transactions in which he could constantly be using them; and yet, is it not true that as a matter of fact, the very existence of that money tends to promote this wildcat speculation, and is that not the trouble with all inflation, and is it not true of a bank note, as it is true with any kind of other money that circulates?

Mr. VANDERLIP. Let me see if I can not make this very simple and clear. Let us suppose a community has no outside financial connections. This community is doing its business with the exact amount of currency in its pockets that it wants and a certain amount of reserve in its banks. A wildcat real estate operator buys some outlying land and cuts it up into lots and builds houses on them that will not sell. At no time during this process has that community got any more money in its pockets than it had before, no matter how much money in the form of circulating notes this man might have succeeded in

drawing from a bank on sound collateral. He could not get the notes without sound credit. He has bought a piece of land and paid for it, we will say, with \$10,000 of notes. What will any man who receives the notes do with them? Will he carry them around with him? Not at all. You know what he will do with them. He will take them to his bank and deposit them. They are of no value to the bank's reserve, and therefore they will be redeemed.

Senator REED. You see the trouble with that illustration is that you leave out of it, I think, two important propositions. In the first place, you have not got a circumscribed community. You have got an enormous country, and the note starts on its course. Then, I think, that you leave out of your argument another very important consideration, and that is that while there may be no more money, but there is something that performs all the functions and uses of money.

Mr. VANDERLIP. Oh, but these notes do not.

Senator REED. They do, while they are out passing from hand to hand; and, as long as they are out, they might just as well be in money. And then I think you leave out of consideration the fact that when that man begins to build those houses he has bought from the lumberman an unnecessary amount of lumber, and he has boomed the lumberman's business. The lumberman who sold his lumber buys from the sawmill, and he has boomed the sawmill man's business. The sawmill man goes out to buy more timber land, and he has boomed the land business. He hires a lot of men to cut down trees, and they have boomed the lumber-camp business. All these things have boomed the grocery business, the dry-goods business, and the wholesale business, and you have, after all, a vast structure of business and credits based upon an original bad investment, and all of it carried on because there is plenty of this stuff circulating around that they call money.

Mr. VANDERLIP. Based exactly as you say, on an original bad investment—not based on the issue of notes. The bad investment could have gone on exactly the same with the plan of deposit credits instead of notes.

Senator REED. There is just the point I raised. This man comes down with security to the bank, with his own note, and he puts it up and the bank issues this thing that circulates as money. If the banker did not have the right to do that, he would have to look in his till, and if he did not have good hard money there the transaction would stop. And I can not see why—because we all admit that wild inflation brings wild results—why the bank note that goes and circulates three months, six months, or a year and gets out in almost unlimited quantities can not produce exactly the same result that it would if the Government could issue wildcat money.

Mr. VANDERLIP. That is because you believe men will carry more money in their pockets if there is facility for turning a bank credit into a bank note. I hold they will not. That is an absolutely fixed quantity, determined by the habits of the people. There will be no more money in the people's pockets under any scheme of note issue where there is an adequate redemption facility back of it. Those notes will come right back into the bank—right back for redemption—the moment there is any redundancy of them. I think you confuse an issue of notes with an overissue of credit.

Senator REED. Perhaps I do. I wanted to suggest the idea to you with a view to perhaps modifying yours, but I see I am not going to be able to do that.

Mr. VANDERLIP. I am very earnest and honest in my opinion.

Senator REED. I know you are, and I am just as earnest in mine; and I will pass on to something else, where, whether we can agree or not, I can get your view. I want to ask you about the value of the currency system to the whole financial structure, to this large reserve which the Government now has, against which it issues gold certificates and which it holds back from the banks.

Mr. VANDERLIP. I do not regard the gold back of gold certificates as a gold reserve at all. The Government is acting as a warehouseman.

Senator REED. Well, call the Government a warehouseman. Is it of value to our financial system? Does it add to its stability?

Mr. VANDERLIP. Certainly it does, because it represents the gold certificates that are in the bank reserves. It is also true that there are many in the hands of the people. They are there to a much larger extent than they should be, because you have reduced the size of the gold certificate, which, in my opinion, was quite a wrong thing to do. The \$10 gold certificate is now largely in the hands of the people, when it ought to be in the reserves.

Senator REED. The mere fact, I take it, that there is piled up an immense amount of gold, although there are gold certificates out against it, has a very steadying effect upon our financial system.

Mr. VANDERLIP. Not the slightest in that sense.

Senator REED. In what sense?

Mr. VANDERLIP. It is the fact that these certificates are in the hands of the banks, are in the reserves of the banks, that has the steadying effect, and the knowledge that the certificate is backed by gold. The function of the Government is merely one of physical convenience, just as I said in discussing the warehousing function of a clearing house, with its clearing-house certificates issued against the gold. It is thus possible to have this gold in the form of convenient paper instead of actual coin, and that is the only function the Government is performing.

Senator REED. I am just trying to get one question settled—whether it is a good thing in our financial system to have that gold piled up in the vaults of the Treasury of the United States.

Mr. VANDERLIP. It is neither good nor bad.

Senator REED. It is utterly useless?

Mr. VANDERLIP. No; it is not utterly useless, because it is a great convenience to the business of the country. We could not do business freely with actual money. Of course we could do it, but it would be an annoying thing.

Senator REED. I think this: I think that in view of the fact that gold is the ultimate money of redemption the world over, the mere fact there was a large amount of it in the vaults of the Treasury of the United States, although there were gold certificates that were out against it, would have a tendency to inspire confidence in our ability to take care of ourselves.

Mr. VANDERLIP. It would have a tendency to inspire great fear if they thought you were going to use that gold for any purpose

other than the purpose of placing it in a warehouse for the redemption of the certificates out against it.

Senator O'GORMAN. Right there, Mr. Vanderlip, is it not of great importance, in considering the security of our credit, that in the United States, whether in the Government vault or in the vaults of our banks, we should have the actual physical possession of a large quantity of the gold of the world?

Mr. VANDERLIP. Certainly it is, but it is not of importance whether that gold is in the bank or whether it is in the Treasury and the representative of it, the gold certificate, is in the bank. It is not the fact that that gold has been collected in the Treasury that is important, but it is important that in this country, in the reserves of the banks, and elsewhere, there is either the gold or the representative of it—the gold certificate.

Senator REED. It is important that you have it in the country.

Mr. VANDERLIP. Very important; tremendously so.

The CHAIRMAN. Mr. Vanderlip, I want to ask you a question: Suppose the Government were to take the gold which is now in the Treasury as a current fund and place it in the redemption division as a reserve fund, and issue against that the Treasury gold notes, payable in gold at Washington, and put them out in small denominations as legal tender, would it not have a beneficial effect on the gold reserve of the United States?

Mr. VANDERLIP. Well, of course, you are presuming the calling in of the gold certificates.

The CHAIRMAN. No.

Mr. VANDERLIP. Why, it would have a most disastrous effect, for you to take the gold that is back of the gold certificates out of the Treasury.

The CHAIRMAN. I am not proposing anything of the kind; I made no such suggestion. What I said was that suppose the current gold that is there as a part of the general fund we have now in the Treasury, as part of the current fund, over \$100,000,000 of gold, and I was suggesting that the Treasury issue in lieu of that a Treasury gold note of small denomination, payable in Washington City, but taking the gold itself and putting it in the redemption division as against those notes issued in that way.

Mr. VANDERLIP. I can see no essential difference between that note and the gold certificate, but in making them payable in small denominations you encourage their use in the hands of the people instead of retention in the reserves of the banks. That is where the gold should lodge. The money in the hands of the people should be bank notes, and the gold certificates should lodge in the banks. Your plan would merely give a Treasury note dollar for dollar, payable in gold, instead of a gold certificate dollar for dollar.

The CHAIRMAN. It would have the effect, would it not, of putting these notes out in the hands of the people, where they would not come back for redemption, and in that way leave this additional gold as an additional reserve against the outstanding greenbacks?

Mr. VANDERLIP. It would have that effect; yes.

The CHAIRMAN. And in that way it would strengthen the position of the Government as far as redeeming those notes is concerned?

Mr. VANDERLIP. The position of the Government would be strengthened, so far as redeeming the greenback was concerned.

Senator REED. How could you redeem the greenback? That is gold put away and gold certificates issued against it.

Mr. VANDERLIP. He does not propose to issue gold certificates against it.

The CHAIRMAN. It is not to be a warehouse receipt, but simply an issue, dollar for dollar for gold, payable at the Treasury in Washington, in gold.

Mr. VANDERLIP. Yes.

Senator NELSON. The volume would be measured in the volume of the gold?

The CHAIRMAN. But the gold would belong to the United States, and not belong to the holder of the notes, unless he would come in and bring them for redemption. They would not be a warehouse receipt.

Mr. VANDERLIP. No. But the notes you issued would be on a parity with the greenback—that is, they would have a claim of the same nature as the greenbacks against the total fund, dollar for dollar, of gold, to be represented by Treasury notes, plus \$150,000,000 now back of the greenbacks and plus the free gold.

The CHAIRMAN. Yes; a claim against assets or funds of the United States.

Mr. VANDERLIP. Yes.

Senator SHAFROTH. Mr. Vanderlip, I read an interview with you in the newspaper four or five weeks ago, in which you stated in New York there was a demand, in your judgment, for \$2,000,000,000 for the purpose of developing water power in the United States. Can you tell what, in your judgment, is the legitimate demand for development of all kinds in the United States?

Mr. VANDERLIP. In the first place, I would like to correct the impression as to what my exact statement was. You probably read an address I made in regard to the development of the electrical industry of the country.

Senator SHAFROTH. Yes.

Mr. VANDERLIP. I stated that in the next five years I believed the total electrical development, power stations, water power, railway electrification—all things incidental to the electrical business—might properly consume \$2,000,000,000 capital. I believe that is a conservative estimate. I do not say they will, because I doubt if that amount of capital is readily available for that purpose.

Senator SHAFROTH. What, in your judgment, is the total demand for all enterprises that could legitimately be considered as good enterprises in the United States in the next five years?

Mr. VANDERLIP. I would not want to make an offhand estimate of that. I do know that the needs for railroad development are perfectly tremendous. I believe so great an authority as Mr. Hill stated they would equal \$1,000,000,000 a year. That would seem to me to be a pretty high estimate. Certainly it is more than they are likely to get, but there will certainly be several hundred millions a year, right along, necessary for railroad development.

Senator SHAFROTH. Well, in other lines do you think that there will be in fact a great deal?

Mr. VANDERLIP. We are now spending a vast amount the country over on building good roads. There is need for a large sum for municipal loans and other loans of that character. All sorts of in-

dustrial development will go on and will require capital. It is quite impossible to say, with such information as I have at hand, what would be a fair estimate of the total.

Senator SHAFROTH. Now, Mr. Vanderlip, the difficulty with the national-bank notes at the present time in seeking redemption at Washington is due to the fact that it is not constituted a legal reserve of the bank, is it not?

Mr. VANDERLIP. Yes.

Senator SHAFROTH. That is the reason it comes to Washington?

Mr. VANDERLIP. Yes.

Senator SHAFROTH. And that redemption now amounts to pretty near the total issue every year?

Mr. VANDERLIP. Yes.

Senator SHAFROTH. If this bill goes into effect and all the State banks come into operation under it, the State banks would no longer use the national-bank notes as reserve.

Mr. VANDERLIP. No; the State bank which would become a member bank, presumably, could no longer use these notes as reserve, though it is not specifically so stated in the bill. There is merely the word "regulation," which is open to any construction you may choose to put upon it.

Senator SHAFROTH. What is required of the reserves here in this bill is that it shall be the same as that now required for the national banks to keep in their vaults.

Mr. VANDERLIP. Yes.

Senator SHAFROTH. Which, I take it, would not include the notes that are issued in this system here.

Mr. VANDERLIP. That is certainly presumable, and would surely be desirable.

Senator SHAFROTH. Then, if State banks come in there will be an enormous demand for more reserve money, will there not?

Mr. VANDERLIP. No; not a very enormous demand for more reserve money, because part of the reserves, which they now presumably keep in cash, could be kept as balances with reserve banks. I am not aware, and I think no statistics are available, as to how many national-bank notes are in the reserves of State banks. I think it is not considerable.

The CHAIRMAN. That is reported.

Mr. VANDERLIP. That is reported? I was not aware of that. At any event, I do not believe it is large.

The CHAIRMAN. That is not large.

Mr. VANDERLIP. No. That, as you say, would not make an enormous new demand for reserves.

The CHAIRMAN. The national-bank notes in State banks and national banks combined would not exceed \$75,000,000. That is the reason why I was asking you about building up this reserve, because I thought it would prove to be an expedient to retire that amount of national-bank notes, taking up the 2 percents, and putting the 2 per cent bonds then in the redemption division as 3 percents, and issuing a legal-tender note in lieu of these national-bank notes, payable in gold at the Treasury, which might be used as reserves by the member banks.

Mr. VANDERLIP. I have two or three rather important suggestions I want to make before the hearing closes.

The CHAIRMAN. It is 20 minutes to 12 now, and I think we had better proceed.

Senator REED. Mr. Chairman, Mr. Swinney is here, and I wanted him to have at least 30 minutes.

Senator BRISTOW. We will meet this afternoon.

Senator REED. But he is leaving on the 3 o'clock train.

The CHAIRMAN. The committee can meet at any time it wishes, or might continue the session.

Senator NELSON. We might meet at half past 1 o'clock.

Senator REED. I was going to suggest that in view of the fact that he does have to leave, and I think has a short message to deliver, possibly we might hear him now.

Mr. Vanderlip is not going to be able to get through, and as Mr. Swinney will only take a few minutes, I was going to suggest we hear him now, if that will be satisfactory to Mr. Vanderlip.

Mr. VANDERLIP. It is perfectly satisfactory.

Senator NELSON. You can be with us this afternoon?

Mr. VANDERLIP. I am entirely at your service.

Senator REED. However, as it has been suggested that we meet at half past 1 o'clock, suppose we let Mr. Vanderlip go on for the present.

The CHAIRMAN. I remind the committee that there are some gentlemen here from Iowa, bankers or business men from that State, who have been advised they could be heard to-day.

If it is agreeable to the committee, we will hear Mr. Swinney now.

Senator REED. The final suggestion was that we meet at half past 1 o'clock and hear him then.

The CHAIRMAN. Very well; that will be the order if there is no objection.

Mr. VANDERLIP. I can finish in five minutes myself, unless you have questions to ask me.

The CHAIRMAN. All right; proceed, Mr. Vanderlip.

Mr. VANDERLIP. In regard to the section on farm loans, I do not believe in a commercial bank having real estate mortgages. Practically, however, the limitation in here, that no bank shall use more than 25 per cent of its capital and surplus for this purpose, makes it safe. I recognize the competition that national banks are under with State banks in the West, and the fact that these loans are perfectly secure, as a rule. They may be perfectly secure, but they are also perfectly unliquid. I do not believe in encouraging that type of business for commercial banks, but even with that view, I do not think that the clause as here drawn will lead to any disaster, and the limitation is a proper one.

Senator WEEKS. Won't you add to the suggestion also that it limits the commercial bank on demand deposits?

Mr. VANDERLIP. Of course that is what I mean. A commercial bank having demand deposits ought not to devote any considerable amount of its resources, at least, to investment in unliquid assets in making unliquid loans. Taking up the savings-bank feature, I have paid no great attention to that, because in any event it probably would not interest the large city banks. In one particular it is so drawn that it could not interest the large city banks. It states that the amount segregated as the capital of the savings departments shall in no case be less than \$15,000 or a sum equal to 20 per cent of

the paid-up capital and surplus of the national bank. That would mean that the National City Bank, in order to establish a savings department, would have to segregate \$11,400,000 of its capital to do so. This 20 per cent ought to be changed, if you desire at all to encourage the large banks to have savings-bank departments. It means a segregation of too much. A \$15,000 limitation is probably wise, and perhaps at the other end you might have a \$200,000 or \$500,000 limitation. But to say that the bank, no matter how large, if it desires to start a savings department, must segregate 20 per cent of its capital and surplus is equivalent to saying a large bank never will do it.

Senator BRISTOW. Your suggestion would be, after "\$15,000," in line 6, to strike out "or than a sum equal to 20 per cent of the paid-up capital and surplus of the said national bank," in the next two lines, and then make it read "not less than \$15,000 or more than \$200,000"?

Mr. VANDERLIP. No; I would let it be as much as any one wants it to be, but if you feel that a large banker should not be governed by the \$15,000 limit, then I would say that banks of a million capital should segregate 5 or 10 per cent. But to make them segregate 20 per cent practically prohibits them from ever undertaking the business.

Senator REED. What is the use of making any limitation at all?

Mr. VANDERLIP. None at all that I see.

Senator REED. What is the use of saying a bank should set aside 20 per cent in the savings-bank business? Why not prohibit them from doing it at all?

Mr. VANDERLIP. Oh, but it is done, to a very large degree. Every report of the comptroller shows that.

The CHAIRMAN. There is now \$820,000,000 invested in savings-bank departments.

Mr. VANDERLIP. \$820,000,000, according to the last call?

Senator REED. What is the amount held on deposit?

Mr. VANDERLIP. That is the same thing.

Senator HOLLIS. Half of them have savings-banks departments now. Just about half.

Senator REED. I do not believe they have any legal right to establish a savings-bank department.

Mr. VANDERLIP. The comptroller winks at it.

Senator REED. Then, he is not following the law.

Senator NELSON. I do not believe the small country banks would avail themselves at all of this. They prefer the present system. It has worked well.

Mr. VANDERLIP. On page 45, line 11, the power is given national banks to act as trustee for mortgage loans. Taking that in connection with this section, I presume that means farm-mortgage loans. It ought to be cleared up. I should be glad to see it extended, so that a national bank may act as trustee for any mortgage loan—that is, corporate mortgages. That is one of the things that a trust company does that a national bank can not do, and it is very profitable to the trust companies. I see no reason why a national bank should not act as trustee in such cases. The language is not clear, however.

The provision in regard to foreign branches is a very desirable thing. It is impossible for any national bank to engage in foreign business now. I have given careful consideration to the subject of banking in South America, and have found it was quite impossible for us to engage in business as the laws now stand. There are other reasons, too, that make the development of this business difficult. I think the law is not clear where it says a certain amount of capital shall be set aside. I do not know just what that means—set aside.

Senator NELSON. What page are you on?

Mr. VANDERLIP. Page 50, line 4; whether there shall be the complete segregation that is provided for in the savings-bank clause, where all capital segregated shall be used to pay all deposits of the particular department where it has been segregated, before any of it is used to pay other deposits or not. That is not fully enough explained; it does not tell exactly what is meant.

Senator NELSON. Would you weaken the foreign department if you limited it?

Mr. VANDERLIP. Very much. And if you do not limit it, the "setting aside" means nothing.

Senator NELSON. Ought not that to be left optional with the banks?

Mr. VANDERLIP. I think it ought; yes. As a matter of fact, if you have a foreign branch, your whole credit is really involved in its success or failure.

Senator NELSON. And ought to be involved?

Mr. VANDERLIP. And ought to be involved. There ought to be no setting aside whatever. The Aldrich bill permitted the formation of a specific foreign bank, the stock of which could be owned by the parent bank. That made the two somewhat distinct, but did not involve the capital of the national bank any more than to the amount of the capital held in the foreign bank. I do not recommend that particularly as the course to be followed; at any event, I call your attention to this as not being clear.

Senator NELSON. It seems to me the foreign branch bank should be on exactly the same basis as the domestic bank.

Mr. VANDERLIP. I should think so.

Senator REED. And then they ought to have some means of inspecting that foreign branch bank.

Mr. VANDERLIP. That is provided and should exist, of course. The Federal reserve board is given power to refuse the application for a foreign branch if there are reasons—that is, for any reasons it sees fit. All those grants of power when you do not know how a board is going to act or what may be intended are uncertainties in the minds of the business men. You do not know what to think of the law when you do not know just what the law means.

Senator SHAFROTH. It can not be worse than it is now, where they have no law.

Mr. VANDERLIP. Oh, yes. A very unsound banking system, I suppose, could be worse.

Senator SHAFROTH. I means as to the discretion given to the board.

Mr. VANDERLIP. That is perfectly true, although it might permit one of our competitors to have a foreign branch and to say to us that we could not, and we would not like that.

Senator SHAFROTH. There is no authority now to establish a foreign bank?

Mr. VANDERLIP. None whatever.

Senator HITCHCOCK. Can you not accomplish the same thing through a correspondent there?

Mr. VANDERLIP. By no means.

Senator HITCHCOCK. Suppose those interested in your bank organize a private bank in London; can you not do business with each other, practically?

Mr. VANDERLIP. Let us think about that. Those interested in our bank. That means a good many hundred people, interested in different relations. Say we attach the ownership of a foreign bank to the stock of our bank, in some way. What shall we do? There would at once arise a complicated situation. You have got to have the interest of the foreign branch on all fours with the interest in the parent institution. You must not make it possible for a few insiders to own the foreign branch and juggle the United States bank for their benefit. That would not be wise or desirable. The interests of the two must be on all fours; they must, in some way, be part of one another. It may be either by a branch, provided here, with a clear understanding as to what "setting aside the capital" means, or by the establishing of an entirely distinct foreign bank, all of the capital stock of which is owned by the national bank that considers it a branch.

Senator HITCHCOCK. Can a State bank in New York have a branch in London?

Mr. VANDERLIP. It can and does. Several of them now have; also in Berlin and Paris.

Senator HITCHCOCK. That is one of the advantages they have, the State bank, in New York City?

Mr. VANDERLIP. Yes.

Senator NELSON. It seems to me, Mr. Vanderlip, in order to help our foreign commerce, our branch banks in foreign countries, for instance, in London, ought to be of such a character that the acceptance of that bank which would represent the foreign bank in this country, should be of such value that their acceptance would be as good as the acceptances of the foreign bank.

Mr. VANDERLIP. And to have it of value, you must have all of the capital stock back of that acceptance—the whole strength of the bank must be back of it.

Senator NELSON. Yes; the whole strength of the bank must be back of it. For instance, I had a case here of importing coffee—

Senator O'GORMAN (interposing). Senator Nelson, I call your attention to the fact that it is now nearing 12 o'clock, when the Senate meets, and you want to be there.

Senator NELSON. Yes; I will not ask any further questions now.

The CHAIRMAN. The committee will stand adjourned until half past 1 o'clock.

(Thereupon, at 11.55 o'clock, a. m., a recess was taken until 1.30 o'clock p. m.)

AFTER RECESS.

Senator REED. Gentlemen of the committee, you all know Mr. Swinney, the president of the First National Bank of Kansas City. Will you permit me to ask Mr. Swinney one or two question in order to put certain facts in the record?

Senator WEEKS. Before you begin will you let me refer a matter to the committee?

Senator REED. Certainly.

Senator WEEKS. Mr. Wilson Gilbert, who was president of the New York Clearing House in 1907, has indicated that he would come before the committee if he were invited. He is an old man and in somewhat infirm health and does not feel like making the trip unless he is wanted. I suggested the other day to the chairman that perhaps he was a man from whom we could get valuable information. If the committee desires it and wishes to secure him I think it might be well.

The CHAIRMAN. You might bring that up when we have a quorum.

Senator WEEKS. I have to go away early, and will ask you to bring it up.

Senator REED. Personally I am in favor of hearing him.

Senator BRISTOW. Yes; I am very much in favor of hearing him. I think we ought to get all the information we can.

STATEMENT OF EDWARD F. SWINNEY, PRESIDENT OF THE FIRST NATIONAL BANK, KANSAS CITY, MO.

Senator REED. Mr. Swinney, you are president of the First National Bank of Kansas City, Mo.?

Mr. SWINNEY. Yes, sir.

Senator REED. And what is its capital stock?

Mr. SWINNEY. \$1,000,000.

Senator REED. What is its surplus?

Mr. SWINNEY. \$1,000,000; and undivided profits, \$1,000,000.

Senator REED. What do its deposits ordinarily amount to?

Mr. SWINNEY. About \$27,000,000.

Senator REED. They run very much higher than that, I think, at times?

Mr. SWINNEY. Yes.

Senator REED. How many country banks are depositors with you?

Mr. SWINNEY. Between 700 and 800.

Senator REED. And, generally speaking, over what section of territory are they spread?

Mr. SWINNEY. We cover the West largely—Kansas, Missouri, Nebraska, Texas, and Oklahoma, principally.

Senator REED. What amount of deposits do you keep in eastern banks, or in other banks, and where? I do not mean all the time, but as a general proposition.

Mr. SWINNEY. Well, we keep our reserves, of course, in the three central reserve cities.

Senator REED. St. Louis, Chicago, and New York.

Mr. SWINNEY. Yes. Our reserves with those reserve banks will run from \$5,000,000 to \$7,000,000.

Senator REED. Now, Mr. Swinney, you told me there were one or two matters about this bill to which you would like to call the attention of the committee.

Mr. SWINNEY. Well, Mr. Vanderlip has covered the proposition so thoroughly that it hardly leaves anything for me to say.

The CHAIRMAN. Do you substantially agree with Mr. Vanderlip in his views?

Mr. SWINNEY. Largely; yes, sir. But what I am going to say on one or two matters—one especially—shows that men in the same business look at matters from a different standpoint on account of the fact that they do business in different localities.

I wanted especially to speak of these country banks having to keep their entire reserve either in their vaults or in the regional bank. As it is to-day we use our reserve as working cash, and are able to manipulate it from one city to the other as we need it. Mr. Vanderlip, though, in his talk this morning, seemed to think that would all be done away with, on account of the regional banks being general clearing houses for all of the national banks doing business with them. If that is the case, perhaps it could be worked, but it strikes me that when they got started on it they would find that the national banks doing business with these regional banks would have such an enormous amount of business it would simply flood the institution.

I did not bring this memorandum with me for the purpose, but happened to have it, and will refer to it just to give you a little idea of that. In our institution alone we in one day handled 25,518 country checks—checks on country banks. Now, that is not an unusual day, but we take it off once a year. We do not take it off on the largest day, but any day in the week. Now, if every bank in Kansas City piled that into the regional bank, and the banks all around the country in the same proportion, you see they never could get through the business.

Senator REED. Mr. Swinney, you have a tabulation that you showed me of that one day's business, which you say you took off merely as a bank record?

Mr. SWINNEY. Yes, sir.

Senator REED. And it was not a selected day, but just a day that you took an account of your business, and that was done some months ago?

Mr. SWINNEY. December 18, 1912.

Senator REED. Will you put into the record that day's business, in order that we may have some gauge to go by?

Mr. SWINNEY. The entire thing?

Senator REED. The entire day's business.

Mr. SWINNEY. Well, through the mail that morning we received on ourselves 1,707 checks, amounting to \$900,000. I won't give you the odd figures.

Senator REED. You will put the tabulation in later, will you?

Mr. SWINNEY. Yes. On other Kansas City banks there were 2,826 checks, amounting to \$1,000,000. Of out-of-town checks—those from the country—there were 15,119, amounting to \$1,600,000. Total checks received in the mail, 19,654; total amount, \$3,500,000.

We received over the counters 1,651 checks on ourselves, amounting to \$1,500,000. On other banks we received 9,413 checks, amount-

ing to \$1,000,000. Out-of-town checks, 8,865, amounting to \$1,000,000. Total checks over the city, 19,929, amounting to \$3,600,000. The total business for the day was \$9,098,000. The total number of checks handled that day was 45,454, and the total amount of cash handled was \$353,127.85.

Senator REED. What was the amount of business you did through the bank that day by checks?

Mr. SWINNEY. \$9,098,000.

Senator REED. And how much was cash?

Mr. SWINNEY. \$353,000. The cash decrease that day was \$150,000.

Senator REED. Does that complete the tabulation you have?

Mr. SWINNEY. There are a lot of other matters there. It shows the changes in various items, how much was eastern and how much was western. We sent to the East 2,568 checks, amounting to \$817,000. Indirectly we sent 1,451 checks amounting to \$166,000.

Senator REED. I should like to have that tabulation printed in the record.

The CHAIRMAN. Let it go in the record.

(The statement referred to is as follows:)

Checks handled Wednesday, Dec. 18, 1912.

	On this bank.		On other Kansas City banks.		Out-of-town items.		Total.	
	Num-ber.	Amount.	Num-ber.	Amount.	Num-ber.	Amount.	Num-ber.	Amount.
Received by mail.	1,707	\$918,753.84	2,826	\$1,021,798.35	15,119	\$1,610,446.74	19,652	\$3,550,998.93
Received over counter	1,651	1,542,758.39	9,413	1,029,791.05	8,865	1,057,893.07	19,929	3,630,442.51
Paid through clearing house	4,339	1,822,918.01	.....	.....	1,534	93,646.76	5,873	1,916,564.77
	7,697	4,284,430.24	12,239	2,051,589.40	25,518	2,761,986.57	45,454	9,098,006.21

	Number.	Amount.
Total number checks handled.....	45,454	
Total amount of checks handled.....		\$9,098,006.21
Total amount of cash handled.....		353,127.85
Cash decreased.....		150,672.15
Deposits decreased.....		53,174.42
Total number of individual checks.....	4,482	1,876,460.04
Total number of individual credits.....	816	1,732,565.35
Individual balances which changed.....	1,765	
Individual accounts.....	6,669	
Sent for credit charged on country books.....		562,886.99
Total bank drafts on us.....	3,059	2,486,805.17
Total bank credits.....	796	3,210,923.81
Bank balances which changed.....	624	
Country bank accounts.....	772	
Certificates of deposit outstanding.....	1,752	
Holders of certificates of deposit.....	1,185	
Sent eastern banks:		
Direct.....	2,568	817,761.05
Indirect.....	1,451	166,632.17
	4,019	984,393.22
Sent to country for credit:		
Direct.....	5,753	483,742.65
Indirect.....	888	28,796.44
	6,641	512,539.09

Checks handled Wednesday, Dec. 18, 1912—Continued.

	Number.	Amount.
Sent to country for returns:		
Direct.....	7,853	\$865,356.98
Indirect.....	955	50,710.59
Sent to country clearing house.....	8,808	916,067.57
Paid under instructions.....	1,999	90,239.14
Railroad items payable here.....	257	50,548.58
Total direct items.....	3,670	208,215.07
Total indirect items (including 1,178 items, \$43,436.19, through other Kansas City banks).....	22,100	2,515,863.47
Exclusive of railroad and other items payable here:	3,294	246,139.20
Sent direct from Kansas City to point on which drawn.....	19,351	2,300,536.01
Sent through intermediate point.....	2,116	202,703.01
New York drafts written (130).....		99,753.56
Chicago drafts written (65).....		271,325.99
St. Louis drafts written (31).....		184,629.24
Cashier's checks written (18).....		11,704.34
Certificates of deposit written (19).....		19,581.26

Senator WEEKS. How much of that business would go through the reserve bank, Mr. Swinney? What part of it?

Mr. SWINNEY. As I understand it, all of it except what was on ourselves.

Senator WEEKS. What would be the relation between that amount of business and the total business of Kansas City?

Mr. SWINNEY. Well, I would say we do perhaps a fifth of the business of the town.

Senator WEEKS. You naturally assume that there would be branches in every considerable city of these reserve banks anyway, and, of course, one in Kansas City, so that one bank would be doing the whole exchange business of Kansas City if this bill becomes a law?

Mr. SWINNEY. Yes, sir.

Senator WEEKS. And not necessarily the exchange business of any other locality?

Mr. SWINNEY. They would have to do all tributary to Kansas City.

Senator WEEKS. You are doing that, are you not?

Mr. SWINNEY. But under this bill we would not do it.

The CHAIRMAN. How many employees do you have to handle those checks?

Mr. SWINNEY. We have about 135 employees.

The CHAIRMAN. Handling those checks?

Mr. SWINNEY. In the bank, all told.

The CHAIRMAN. I mean handling those exchanges.

Mr. SWINNEY. I could not say about that. Of course, it is divided among the different departments. I could not tell you.

Senator HITCHCOCK. You have only 135 altogether?

Mr. SWINNEY. That is all, sir.

Senator HITCHCOCK. Is not that a very small number for the size of the bank you have?

Mr. SWINNEY. I expect it is the smallest in the United States in proportion to the business.

Senator HITCHCOCK. There is one bank in Missouri, much smaller than yours, with 200 employees. Can you explain that?

Mr. SWINNEY. No; I can not. We manage to take care of the business.

Senator REED. I can explain it. Mr. Swinney knows how to establish a system. He is too modest to say.

The CHAIRMAN. Perhaps Missourians are about twice as efficient, too, as Nebraskans.

Senator REED. No; I would not say that. I might say that if it were not for my regard for Senator Hitchcock.

Mr. SWINNEY. Regarding the capital of the proposed regional banks, I will say in the first place that I am thoroughly in hopes you gentlemen can get to some kind of proposition that will be workable regarding the regional banks. We all realize, perhaps, to start with, there will have to be many changes. There never was a business in the world, no matter how long you worked on the proposition, that when you got it started you did not have to make changes. And I am sure some of you gentlemen have seen, even since I have been here, that it is advisable to make changes; things have come up that you had not suspected before.

The matter I was getting at is this, that the small country bank has no use whatever for the regional bank. Their paper is not of a class that could be used for that, and really I believe it would be better if banks of say less than \$50,000 were not required to take stock in this regional bank.

And right there I will say also that, while no man wants to be forced, to be told he must do a thing, at the same time I believe that in this bill you will have to use the word "must" to ever get it through. I am free to say that I would not go into it if I did not have to until I found out how it worked.

Senator BRISTOW. Mr. Swinney, don't you think it would be very much better for us to provide a remedy for the things complained of, without having to resort to a system of coercion, compelling men to do things they do not think they ought to do?

Mr. SWINNEY. That is exactly what I say, Senator; but still, at the same time, how would you ever get it started if you did not do it?

Senator BRISTOW. Suppose we had a Federal reserve bank established here in Washington, governed, if need be, by a board similar to this board that is created in this bill. Let that be a bank of discount, and a bank of issue, and perform the functions that are intended to be performed very largely by these regional banks. Let it have branches out through the country. Then suppose we let any bank that wants to have its paper discounted transact business with that bank without having to put up any capital stock or be a member of anything.

Mr. SWINNEY. I do not think there is anything in the world the matter with our banking system regarding the banking part of it; it is only the currency part of it.

But I really believe, to make and have a safe currency proposition and a credit proposition which would be elastic, that you must have something of this kind. I really do not believe, Senator, that would work. I do not believe it could work successfully where the Government has to deal directly with the individual.

Senator BRISTOW. Well, suppose the bank dealt through its branch banks with the individual banks?

Mr. SWINNEY. Oh, I see. That simply gets to a Federal bank.

Senator BRISTOW. A Federal bank, yes; a Federal reserve bank.

Mr. SWINNEY. Well, if the Government wants to go into the banking business that is a different proposition.

Senator BRISTOW. Is it not in the banking business when this bill passes?

Mr. SWINNEY. Well, indirectly, but not directly.

Senator REED. I wanted to ask you about obtaining the capital for these banks. Let us assume that the 12-bank idea is accepted, or four banks or six banks. In any event this bill provides for each bank paying in 10 per cent of its capital stock. Assuming that 10 per cent is to be paid in, when and how, in your opinion, should it be paid in to least disturb the financial market and still permit this plan to be carried into effect?

Mr. SWINNEY. I do not believe I have expressed myself on that subject, but I think that 12 banks would make the proposition unwieldy. I believe that, to begin with, anywhere from 3 to 5 banks would be plenty, and if we should need any more we could add to the system. I think that 4 or 5 banks, new institutions, could be handled in a better way than could 12.

As to the payment, if there should be, say, 5 banks, you would put into those banks, say, 25 per cent to start with—

Senator REED (interposing). Twenty-five per cent of the 10 per cent?

Mr. SWINNEY. Yes; 25 of the 10; and then, as the national bank does now, pay in so much monthly. As you know, a national bank now pays in, I believe, 50 per cent and then 10 per cent every month.

Senator REED. And would that furnish money, do you think, rapidly enough, so that the bank would have plenty of money on hand to transact the business and increase the capital as the business increased?

Mr. SWINNEY. I think it would prevent them having too much money, perhaps.

Senator REED. And that would be done in that way, by the banks paying in a part at a time on their capital stock, with less disturbance to financial conditions than would result if you paid it in all at once?

Mr. SWINNEY. Of course it would. Some banks, I suppose, to pay their reserve in would be required immediately to discount paper. There is no doubt but what some of them would—perhaps not a great many of them.

Senator REED. Or contract loans?

Mr. SWINNEY. Yes.

Senator REED. Now, Mr. Swinney, there is one matter here that has been much discussed, and you have referred to it—I will say to the committee frankly that I was talking to Mr. Swinney the other night and he mentioned this matter to me—and that is the use of your present reserves. There has been a prevalent idea that a bank when it carried its reserve over to another national bank was not able to check that reserve out, utilizing it as an absolute balance, and at the same time maintain the reserve and comply with the law.

Now, you stated to me that that was done every day, and I wish you would tell the committee how it is done and the law complied with.

Mr. SWINNEY. Well, by transfer of reserves. As it is, under this law you make your reserve just as inelastic as our national currency

is to-day. It specifies that you must have so much reserve in your bank and it must remain there. What I was saying to you, Senator, was that if we have money in the three reserve centers and we want to transfer from St. Louis to Chicago or New York, we can do so by checking from one to the other. But, as I said, Mr. Vanderlip's proposition does away with all of that, if such a thing should go through.

Senator REED. As I understood you in that conversation—and I am more anxious to get the point than I am about the way I get it—assuming you had to have as a reserve under the law in other banks \$6,000,000, just for an arbitrary figure, and you had \$2,000,000 in Chicago, \$2,000,000 in New York, and \$2,000,000 in St. Louis. You would just have your reserve. As I understood you, if you wanted to draw on St. Louis for the entire \$2,000,000, drawing it all out, you could do so; and then that same day, by increasing your fund in Chicago or New York to an equal amount, you would still have complied with the law, and nevertheless you would have been able to use that money.

Mr. SWINNEY. Yes; simply transferring your reserve from one point to another.

Senator REED. So that, as a matter of fact, you do, to a large extent, get the use of your reserve under present conditions?

Mr. SWINNEY. Yes, sir; it is a working reserve that we can transfer from one point to another.

Senator HITCHCOCK. I just want to ask you a question right there, Mr. Swinney. The provisions in the bill which make checks of member banks upon the reserve bank go at par would probably enable you to draw your check upon the reserve bank and have it accepted at par in New York, although your reserve bank was located in St. Louis, would it not?

Mr. SWINNEY. I will say this, that if that proposition goes through it would be a mighty good one for the banks.

Senator HITCHCOCK. Would there be any need of your carrying the balances in New York if your check on the St. Louis regional bank were taken at par in New York?

Mr. SWINNEY. None whatever. To give you an idea of that, in 1911 we had to ship \$10,000,000 East to make our transfers good. In 1912 we shipped \$10,300,000. In 1913, up to October 1, we shipped \$8,200,000. We would get rid of all that expense if this proposition should go through.

Senator REED. You have a table there, have you not, showing how much money you have shipped during certain years?

Mr. SWINNEY. Yes.

Senator REED. How is that table expressed? Are the figures carried out?

Mr. SWINNEY. They are in thousands.

Senator REED. So that if that table were printed, and it were understood that these figures represented thousands, it would express the right idea?

Mr. SWINNEY. I will say also that this table not only gives the money we have shipped to the East and from the East, but it gives the amounts by months that we have shipped to the country and received from the country.

Senator REED. I should like to have that printed.

The CHAIRMAN. Let it go in the record.

(The statement referred to is as follows:)

Currency shipments.

[NOTE.—The amounts given in the following statement are expressed in thousands of dollars.]

TO THE COUNTRY.

	January.	February.	March.	April.	May.	June.	July.	August.	September.	October.	November.	December.	Total.
1911..	358	587	489	357	387	432	546	718	970	906	786	654	7,190
1912..	280	512	411	500	353	344	536	1,058	1,279	1,100	882	1,022	8,277
1913..	388	723	551	418	469	579	750	1,040	1,191	.....	.....	.....	6,109

FROM THE COUNTRY.

1911..	781	356	816	700	371	630	365	273	243	218	293	250	5,296
1912..	521	229	288	386	420	574	417	259	164	344	362	494	4,458
1913..	874	401	503	448	472	537	376	264	296	.....	.....	.....	4,171

TO THE EAST.

1911..	1,619	414	1,032	797	829	1,165	880	597	462	611	619	990	10,015
1912..	1,179	582	525	806	879	1,515	1,050	270	415	802	1,180	1,142	10,345
1913..	1,432	634	953	930	760	1,294	1,050	596	632	.....	.....	.....	8,281

FROM THE EAST.

1911..	.....	.....	.....	.....	.....	.....	.....	100	.....	.....	500	100	700
1912..	.....	300	.....	.....	.....	.....	.....	350	.....	250	300	300	1,500
1913..	500	450	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	950

Senator HITCHCOCK. You would not be compelled to ship that currency to New York?

Mr. SWINNEY. It would fall to the lot of the regional bank.

Senator HITCHCOCK. You would not be under any necessity of having an account in New York at all, would you?

Mr. SWINNEY. No, sir; not under this proposition, as I understand it.

Senator HITCHCOCK. Would not that be a great benefit to the country?

Mr. SWINNEY. Well, I do not know. I am a sort of old-fashioned banker, and we have had these associations for a great many years, and there may be a great deal of sentimentality about it, but I should hate to destroy all those connections.

Senator HITCHCOCK. Now, would the regional bank be put to a similar expense in making shipments?

Mr. SWINNEY. More or less; yes, sir. The trend from our country is to the East for money.

Senator HITCHCOCK. It must come back some time; it can not always be going in that direction.

Mr. SWINNEY. The trend is in that direction pretty much all the time.

Senator HITCHCOCK. Where do we get it from? Where does the West get it from?

Mr. SWINNEY. Oh, it comes through the pockets of the people into the banks.

Senator REED. Senator, you have evidently entirely overlooked Senator Tillman's picture of the cow that was printed in the Record. You notice the money all goes in one direction through that cow.

Senator HITCHCOCK. I am not an expert on cows, but I wanted to ask whether you thought the regional banks would be put to a considerable expense in making a shipment of currency for members.

Mr. SWINNEY. In shipments of currency and collections—yes, sir; to a very large expense, but still, I think, they could afford to do it for the free deposit which they would get.

Senator HITCHCOCK. It would not be really as large an expense as that which is now borne by the members?

Mr. SWINNEY. No; you would simply transfer the debtor and creditor balance.

Senator HITCHCOCK. So Mr. Vanderlip was correct when he said that the banks of the United States would no longer keep their balances in New York, for the reason that customers would be satisfied with a check upon the regional reserve bank?

Mr. SWINNEY. No; they would have no use for New York then.

Senator NELSON. But the country banks complain of this clearing-house paragraph. They say that it deprives them of a great deal of their source of revenue.

Mr. SWINNEY. It would be very unpopular with the country banks, Senator.

Senator HITCHCOCK. Have you any estimate of the proportion of national banks in Kansas which would come into the system?

Mr. SWINNEY. Well, I can not say. I think that, with some changes in the bill, pretty much all of them would.

Senator HITCHCOCK. Take the bill as it is now.

Mr. SWINNEY. No; they would not come in.

Senator HITCHCOCK. Would half of them come in?

Mr. SWINNEY. I do not believe half of them would. Of course, Kansas has a very good State law, and so has Missouri.

Senator HITCHCOCK. How would those banks which stayed out of the system conduct their exchanges and care for their reserves?

Mr. SWINNEY. Exactly as they do to-day.

Senator HITCHCOCK. So that they would continue to deposit their reserves in the reserve centers, but they would only be State banks?

Mr. SWINNEY. Yes.

Senator NELSON. They would be guided by State laws in each case as to the amount of reserves and where to keep them.

Senator HITCHCOCK. Well, they would not have the privilege of using the regional bank for exchange, and they would have to draw New York drafts just as they do now—

Mr. SWINNEY. You mean those who were not members of the regional bank?

Senator HITCHCOCK. Yes.

Mr. SWINNEY. Now, my proposition—I want to be understood on that. When I said that I did not believe smaller banks should be required to take stock in the regional bank I did not mean to give the impression that they should not be required to do business with it

and keep their reserve there. I believe they should keep their reserve there just the same as if they held stock.

Senator HITCHCOCK. I do not think you have discussed this yet, but I should like to ask you, as a practical proposition, if you join this new organization and subscribe for 20 per cent of your capital and pay one-tenth of it and transfer to the reserve centers the proper proportion of the country-bank balances which you now have, where are you going to procure that money?

Mr. SWINNEY. We would have to draw it out of New York.

Senator HITCHCOCK. What do your country-bank deposits amount to of your national banks?

Mr. SWINNEY. About \$8,000,000.

Senator REED. All together?

Mr. SWINNEY. All the national banks.

Senator HITCHCOCK. How much of that \$8,000,000 would you be required to turn over to the reserve bank, probably?

Mr. SWINNEY. Oh, I figure—I thought I had the figures, but I have not—that we would have to pay over to the regional bank somewhere between \$3,500,000 and \$4,000,000.

Senator HITCHCOCK. In what length of time?

Mr. SWINNEY. At the end of the working season—36 months.

Senator HITCHCOCK. How much would it be in 60 days after the banks formed?

Mr. SWINNEY. Well, not to any great extent would you have to check on banks, because we could take our excess currency out of our vaults to start with.

Senator HITCHCOCK. You keep a large surplus over your reserve?

Mr. SWINNEY. No. Your required reserve in the vault would be less, and therefore you could take the cash out of the vault first and put it in the regional bank.

Senator HITCHCOCK. Now, to what extent do you think you would be under the necessity of contracting your loans?

Mr. SWINNEY. Why, that is very hard to say. It would just depend upon whether we have any business from national banks. If the entire \$8,000,000 would go out, you can see we would have to contract our loans very largely.

Senator HITCHCOCK. What are the total country bank deposits in the other national banks of Kansas City?

Mr. SWINNEY. \$32,000,000; that is the total.

Senator NELSON. Is that in your bank?

Mr. SWINNEY. No; that is the total of country national bank deposits in Kansas City.

Senator REED. You say the country national banks. Now, what are the total deposits of all banks in Kansas City? Can you give that?

Mr. SWINNEY. What do you mean by that?

Senator REED. The State banks and trust companies that deposit with the banks of Kansas City.

Mr. SWINNEY. I have not that.

Senator HITCHCOCK. Now, assuming that your national banks in Kansas City would be required to turn over the full \$32,000,000 of country bank deposits to the reserve bank of that district; where would that \$32,000,000 come from?

Mr. SWINNEY. It would have to come out of the eastern exchanges which we have, and the cash out of our vaults, and quite a reduction of loans.

Senator HITCHCOCK. What would the borrowers do when those loans were called?

Mr. SWINNEY. Well, the banks would either have to go to the regional bank and borrow or have them to pay.

Senator HITCHCOCK. To what extent do you estimate that would contract the loans in Kansas City?

Mr. SWINNEY. I have some figures that were made by our clearing-house manager, but I do not know that they are correct. He estimates that for the first 60 days in Kansas City the loss of deposits would be \$11,000,000.

Senator HITCHCOCK. Does he say anything about the contraction of loans?

Mr. SWINNEY. No; he could not figure on that at all, because he was figuring on the amount of money that would have to be paid out.

Senator HITCHCOCK. Now, assuming that the contraction of loans occurs not only in Kansas City, but in Omaha, St. Paul, Minneapolis, Cincinnati, and all the other 40 or 50 reserve cities of the country; what would be the effect on business of that in the aggregate?

Mr. SWINNEY. Just as I said in the beginning, Senator; I do not agree with Mr. Vanderlip. I think it would be a serious proposition to the country to have to withdraw from the business the amount of money that would be required. To a certain extent you eliminate the national banking system, which would make greatly against business, I believe. I do not believe that anybody cares to go and put himself on record as having to borrow money right away to start this proposition, which would be done, unless you cut loans.

Senator HITCHCOCK. Now, have you any recommendation to make as to any amendment to this bill so as to mitigate that possible contraction?

Mr. SWINNEY. Well, we hear that there is a pyramiding of deposits, and that it finally gets into New York. I would suggest that banks in reserve cities be allowed to keep one-third of their reserve with central reserve cities, but in no central reserve city to exceed 2 per cent. For instance, we have 18 per cent—6 per cent in the vault, 6 per cent with the regional bank, 2 per cent in St. Louis, 2 per cent in Chicago, and 2 per cent in New York.

Senator HITCHCOCK. And yet you said you would have no use for New York exchange, possibly.

Mr. SWINNEY. Under this other proposition is what I spoke of.

Senator HITCHCOCK. But it would be kept there simply for the purpose of not disturbing the banking business of the country unnecessarily?

Mr. SWINNEY. Yes, sir.

Senator HITCHCOCK. That would give relief to the central reserve cities, but it would not relieve the 48 or 49 reserve cities?

Mr. SWINNEY. Well, let the country banker do the same thing on exactly the same proposition. He could keep 4 per cent of his deposits there, 4 per cent with the reserve agent, 4 with the regional bank, and 4 in his safe, which would be 12 per cent.

Senator NELSON. That would keep up the volume of reserves to some extent that we have now?

Mr. SWINNEY. It cuts it down considerably.

Senator NELSON. But it would perpetuate the system.

Mr. SWINNEY. Yes, sir.

Senator REED. If I understand, now, Mr. Swinney, speaking about the immediate contraction, the first thing the banks of Kansas City would have to do would be to take an amount equal to 10 per cent of their capital stock and transfer that to a regional bank which, let us say, is located in St. Louis—

Mr. SWINNEY. Which would be \$875,000.

Senator REED. From what bank?

Mr. SWINNEY. The national banks; the capital of the national banks.

Senator REED. If the State banks and trust companies came in it would be a very much larger sum?

Mr. SWINNEY. Yes, sir.

Senator REED. Now, that you would have to take out of your vaults or you would have to call loans in order to get it. Then the next proposition would be you would have to take an amount equal to 6 per cent of your deposits, and that you would either have to take out of your vaults or withdraw from New York, St. Louis, or Chicago. And if you withdrew from them, of course, it would contract their currency to that extent and they would have to contract loans to get the money. Now, you have in these banks in Kansas City \$38,000,000, did you say?

Mr. SWINNEY. \$32,000,000.

Senator REED. \$32,000,000 of country bank deposits, and that largely represents their reserves, does it not?

Mr. SWINNEY. Largely; yes.

Senator REED. So that if those country banks were to be required to put up their reserve, not with you, but with the regional reserve bank, they would have to draw that money away from you?

Mr. SWINNEY. Yes, sir.

Senator REED. And the result would be that whatever amount was taken away in the aggregate would have to be deducted from the loans that are made by the Kansas City banks?

Mr. SWINNEY. Or borrow from the regional bank.

Senator REED. Or else they would have to discount at the regional bank. That would look like a very radical contraction if it were put into effect at once.

Mr. SWINNEY. Yes, sir; it certainly would, and it would cause quite an upheaval in the credits of the country in my opinion.

Senator REED. Now, if this system were put into effect gradually, and you were required to put in only, say, 2 per cent of your capital at first, adding 2 per cent of your deposits and the amounts thereafter to be gradually increased, that would at least give more time for readjustment?

Mr. SWINNEY. Oh, yes; the more gradual you could make it the better it would be.

Senator REED. Now, Mr. Swinney, I want to ask you one other question, and that is one I asked Mr. Vanderlip and which he has not yet answered. What inducement or reason is there for a bank re-

maining a national bank after this bill is enacted, if it goes through in its present form?

Mr. SWINNEY. None whatever, except to get credit—a place to use credit; that is all.

Senator REED. That is, with the regional bank?

Mr. SWINNEY. Yes.

Senator REED. But that is now opened by this bill to every bank and trust company in the country that has a certain amount of capital and which conforms to certain conditions.

Mr. SWINNEY. Oh, with the bill as it stands at the present time I am confident it would be to the interest of the banks to go into the State system.

Senator REED. To go into the State system?

Mr. SWINNEY. Yes; because they could get so many more privileges.

Senator REED. Can you suggest to us any improvement that might be made to this bill which would keep the national banks in the national banking system?

Mr. SWINNEY. Well, just as I have said, this reserve proposition, to a country bank, of which I am one, is one of the main points of the contention with us, and one which would come nearer driving them out of the system than anything else. That is the way they feel about it.

Senator REED. Well, if we modify that, still the advantage would be with the State bank and trust company, because they have a wider range of business, and of course if we modified as to one we probably would as to all. What is there in the way of an advantage which could be given justly to a national bank in order to have it maintain its charter and continue as a national bank? Do you think of anything that could be done? He used to have an advantage on the matter of currency.

Mr. SWINNEY. At one time he had that advantage.

Senator REED. What is there left, and what can be done?

Mr. SWINNEY. Nothing except that the only advantage they would have is that there had always been just a little sentiment in favor of a national bank, considering it, you might say, as a Government institution, especially in a new country.

Senator HITCHCOCK. What is the total of capital of national banks in Kansas City?

Mr. SWINNEY. \$8,750,000.

Senator HITCHCOCK. Suppose a subtreasury were located in Kansas City, with the provision that the national banks there might procure currency at any time at a reasonable rate of interest from the Government, to the extent of 75 per cent of their capital, which, in that case, would be something like \$6,000,000, would it not?

Mr. SWINNEY. Yes, sir.

Senator HITCHCOCK. Possibly a little more. Would that facility afford to the banks of Kansas City a means, in seasons of extra demand, for something to accommodate their customers?

Mr. SWINNEY. You open up there a very wide subject, Senator. I have not time to take the matter up, but it is only in one season of the year when we need credit, and that is only for about six or eight weeks in the fall of the year, and a clearing-house proposition

whereby they could join together and get currency, in my opinion, is as good as anything we could have. Take, for instance, in 1907 when we banded together in Kansas City, as they did in other places. We issued, against the law there, I might say, a currency, and in two weeks that currency was going as good as a national-bank bill. There was no question raised about it. Senator Reed will tell you the same thing. It passed there, and we had occasion to make up a pay roll for the Sante Fe Railroad of \$100,000, and we used \$50,000 of that and sent it out into Kansas, and it went right straight through.

Senator BRISTOW. It circulated all over the State?

Mr. SWINNEY. Yes, sir.

Senator HITCHCOCK. We had the same experience in Omaha, but there seems to be an objection that I can hardly appreciate, which is made by some bank, to being compelled to show their hands to each other in forming a currency association to guarantee others' obligations.

Mr. SWINNEY. There is nothing in it, I think. It is simply a supposition. We might take the same thing right here on this money that the Treasury is putting out now. You might say the banks did not care to show their hands. We met in Kansas City and agreed what each one would ask for, submitted our collateral one to the other, and it never caused any trouble. Nobody thought anything about it. If they would get that proposition to working, there would not be any question about it.

Senator HITCHCOCK. That is the Vreeland-Aldrich Act?

Mr. SWINNEY. Partly; only partly.

Senator HITCHCOCK. Under that Vreeland-Aldrich Act banks in any community or neighborhood having an aggregate of \$5,000,000 of capital, and numbering 10, can form a currency association, guarantee each other's paper and secure this additional bank note circulation.

Senator REED. These were not bank notes; they got Government money.

Senator HITCHCOCK. That was a direct loan of the fund of the Treasury, and the Treasury might or might not have a balance to its credit. I am talking about a permanent arrangement for procuring, direct from the Treasury, from the United States, notes, which this bill provides shall be furnished to the banks through the machinery of regional banks. I am wiping out the regional banks, and suggesting to you an arrangement whereby the Treasury can furnish this currency direct to the individual national banks in, say, 50 cities of the United States where subtreasuries might be located.

Mr. SWINNEY. Well, if such a thing could be worked, Senator, I think, as I say, I would believe it a good proposition. But we could never work it. I do not think you could work it here in Washington.

Senator HITCHCOCK. Will you explain why?

Mr. SWINNEY. I do not think you could ever get a proposition of that kind through here.

Senator HITCHCOCK. I am assuming that it would go through.

Mr. SWINNEY. Assuming it could go through, as I said in the beginning, the main thing we are after is to try to get an elastic currency, or a currency that we can use a few months in the year, and

a proposition of that kind, to my mind, if it could be put through, would be as good as you could ask for.

Senator HITCHCOCK. It is only a few months in the year when your banks would borrow that currency, and that particular season is in the fall?

Mr. SWINNEY. Yes.

Senator HITCHCOCK. In New Orleans it would be another season, and in the San Francisco region it might be another, so that in the aggregate the Government would not be advancing at any particular time a very tremendous sum of money, but the currency would be elastic in the neighborhood where it was called for. At the end of the particular period the banks would take up their securities, pay back, either in gold or United States notes, and you would pay the interest, and that would end the transaction. Do you think that would work?

Mr. SWINNEY. It would suit me exactly.

I have only a few moments, gentlemen, and there are just one or two other things I desire to call to your attention.

I am going to suggest a change, on page 40, in regard to bank examinations. It says:

The Comptroller of the Currency shall so arrange the duties of national-bank examiners that no two successive examinations of any association shall be made by the same examiner.

That is different from our present form, and really I do not think it is a good proposition. I believe a man who examines a bank once and then comes to examine it again in six months is much more capable of doing it than if he had never been in the bank before. He becomes familiar with the credits and workings of the bank.

I go now to page 41, beginning at line 14, where it says:

The Federal reserve board shall, as often as it deems best, and in any case not less frequently than four times each year, order an examination of national banking associations in reserve cities.

With our clearing-house examinations which we have in Kansas City, and which they have in other places, I think that is out of reason. Two examinations are ample, and the comptroller can have as many more as he wishes. That is the law now.

Here is another proposition in regard to the Federal board. We all talk about the power of the board, but here is one place where they should be given discretion which they are not given. It says:

The Federal reserve board shall, at least once each year, order an examination of each Federal reserve bank, and upon joint application of 10 member banks the Federal reserve board shall order a special examination and report of the condition of any Federal reserve bank.

Now, if you take 10 banks in the country and they should get to a place where they did not like something a regional bank had done, they could make that application and the Federal reserve board would have to make the examination. Why not use the word "may" instead of "shall"?

Senator REED. You think a few fellows might be disgruntled and make an unnecessary disturbance?

Mr. SWINNEY. Ten men could make a request for an examination of a Federal bank, and then in three or four weeks make another

request, and keep on examining that bank right along. The Federal board does not seem to have any discretion whatever there. By changing that word from "shall" to "may," I think you would cover that point.

Senator REED. On what page is that?

Mr. SWINNEY. On page 41.

Senator SHAFROTH. Will you read the language of it again?

Mr. SWINNEY (reading):

The Federal reserve board shall at least once each year order an examination of each Federal reserve bank, and upon joint application of 10 member banks the Federal reserve board shall order a special examination and report of the condition of any Federal reserve bank.

Senator NELSON. It is peremptory; there is no doubt about that.

Senator SHAFROTH. The only thing is if 10 large banks want an examination, why is it not proper that it should be done, and that it should not be left discretionary?

Senator NELSON. It says 10 banks; it does not say 10 large banks.

Senator SHAFROTH. Or 10 small banks.

Mr. SWINNEY. If they were doing it to annoy a bank, it strikes me the Federal reserve board ought to be given discretion as to whether they should order an examination or not.

Senator NELSON. It would depend upon what the application presented. If it presented facts that would warrant the board to go ahead and make an examination, they would undoubtedly make it, and if the application was simply a matter of pure cussedness they ought not to be compelled to make the examination. I think Mr. Swinney is right on that subject.

Senator REED. At least that ought to be limited in some way.

Mr. SWINNEY. That is all I have to suggest, Mr. Chairman, and I thank you for giving me the privilege of appearing before you.

The CHAIRMAN. We are much obliged to you for coming before us, Mr. Swinney.

STATEMENT OF FRANK A. VANDERLIP—Continued.

Senator BRISTOW. Mr. Vanderlip, I understood you to say that you believed national banks ought to be permitted to establish branches. You limited it to the cities where they were located, but I inferred that in your judgment you thought that limitation was not really necessary, but probably you thought you could not get more than that because of the prejudice against it. Do you believe there ought to be such a limitation?

Mr. VANDERLIP. I would not use the word "ought." There is no inherent right of a national bank to have branches. I think it would be desirable for the bank to have branches in the city in which it is located, and desirable not altogether from the bank's point of view, but desirable from the point of view of the citizens of the city, from the point of view of properly conducting the bank's business, and of giving to all the citizens of a large city the facilities of a large bank.

In regard to branches elsewhere than in the city where the bank is located I think, from the bank's point of view, the weight of evidence would be that it would react in its favor if it had a right to

have branches anywhere. I think there are some factors of weakness on the side of a bank having branches, but on the whole I think many large banks would welcome the opportunity to have branches. I do not regard it as their right.

Senator BRISTOW. That would reduce the number of national banks, would it not?

Mr. VANDERLIP. I should think it would very much reduce the number of fly-by-night private banking institutions in a city like New York, where we have banks started that get the money of rather ignorant depositors and frequently fail to pay it back.

Senator BRISTOW. Why would it reduce that kind of banking especially?

Mr. VANDERLIP. Because it would bring the branch of a well-known bank in competition with a little private bank, or with a little State bank, or even with a small national bank, and it would give the strength of a great institution to that branch, just as much as to the parent bank.

Senator BRISTOW. Do not your State laws protect the people from these spurious banks?

Mr. VANDERLIP. No, sir; they do not protect the people from a private bank.

Senator NELSON. You have private banks in New York?

Mr. VANDERLIP. There are a great many private banks on the East Side of New York City.

Senator NELSON. Protected under your State law?

Mr. VANDERLIP. Yes, sir.

Senator NELSON. We have abolished them in Minnesota.

Senator BRISTOW. It would add to the power and strength of the large banks, would it not?

Mr. VANDERLIP. It would add to their size; I am not certain it would add to their power and strength. There is great strength in having all your resources under one roof.

Senator BRISTOW. Is not a big bank more powerful than a small one; does it not control vaster resources?

Mr. VANDERLIP. Yes; but a bank is not so very powerful, except to do the right thing, because, no matter how big you are, you are not powerful enough to make a bad loan.

Senator REED. And make it into a good one.

Mr. VANDERLIP. You could make the loan, but you could not collect it.

Senator SHAFROTH. I have known banks to make loans to parties who would pay nobody else but the bank. I have known of that frequently. Is that not a good influence, a good power to exercise?

Mr. VANDERLIP. The bank probably had collateral which made that necessary.

Senator SHAFROTH. I have seen them do it without collateral.

Mr. VANDERLIP. They probably wanted to establish some connections in the future. Of course, there was probably some hope of reward in it.

Senator BRISTOW. Do you think that the democratic system of banking that we now have—that is, where it is so widely diversified, where there are so many different individuals engaged in it, is it desirable or undesirable?

Mr. VANDERLIP. The whole question of the respective merits of a general branch banking system, and the present democratic principle, is a clearly debatable one, with some excellent reasons on each side.

The branch system will tend to equalize rates. It will take the funds of a low-interest community into a high-interest community. It tends toward stability. It gives to a new community a sound bank. It gives to the managers of branches experience that would be valuable in a new community, where otherwise a bank might be organized by people without banking experience.

The Democratic principle gives a local interest in the bank, gives the management to people who thoroughly understand local conditions and local character, and keeps the money of the community in the community where it originates, which may be good for the particular community, but is not, I would say, for the best good of the whole country if there is a surplus of funds there. Those, I think, are the chief arguments on each side.

Senator BRISTOW. Do you think it is desirable, especially in the banking business, that the bank should have the local friendship and good will of the people with whom it comes in daily contact in the management of its business?

Mr. VANDERLIP. It is always desirable for a bank to have the friendship and good will of the community where it is doing business. It is not at all impossible for a branch of a great bank to have that friendship and good will if that branch has been conducted in a broad-minded way.

Senator BRISTOW. But it would rob that bank largely of the individuality which it now has, would it not?

Mr. VANDERLIP. Undoubtedly. It makes it a part of that great bank.

Senator BRISTOW. It would be more mechanical in its operations than it is now and have less personality in it?

Mr. VANDERLIP. I would say, perhaps, it would be less sentimental.

Senator BRISTOW. Do you not think it would take from a great many men the opportunity of initiative in the building up of a business of their own?

Mr. VANDERLIP. I do. I think there is a distinct advantage on the Democratic side in interesting the best men in the local community in the conduct of the bank. That, perhaps, is the great argument for our present system as against the branch-bank system, and it is an argument of weight.

Senator BRISTOW. The branch banking system existing in European countries will result in very large banks?

Mr. VANDERLIP. There is one bank in England with 600 branches.

Senator BRISTOW. And how much in deposits?

Mr. VANDERLIP. About \$400,000,000. That is the London City and Midland, which is now the largest bank in the world.

Senator BRISTOW. And there are other banks that approach that bank?

Mr. VANDERLIP. Yes, sir; both in England and on the Continent.

Senator BRISTOW. What are the deposits of your bank?

Mr. VANDERLIP. Recently it has been running about \$250,000,000 gross and around \$200,000,000 net.

Senator BRISTOW. You have the largest bank in the United States?

Mr. VANDERLIP. Yes, sir.

Senator BRISTOW. If the branch banking system that prevails in England prevailed here, it is fair to presume that your bank would be very much larger than it is now, would it not?

Mr. VANDERLIP. If we had embraced the branch-bank idea, I should say it is fair to presume it would be larger. You see, the banking resources of the country have grown very much more rapidly in percentage outside of New York City than in New York City.

Senator BRISTOW. There is another matter that I am interested in having your views on, Mr. Vanderlip. I have observed that the gentlemen who have been before us so far—the bankers—are very tenacious for commercial paper to be made a basis for currency, additional currency that is issued, and rediscount, etc. It seemed to me that they have more interest in the enactment of legislation that preserves or maintains or promotes the branch of the business which is conducted in that way, by short-time loans. Now, we have got just so much currency and money. Most of you gentlemen seem to resent the idea of long-time paper, mortgages, or securities of that kind from being used in this way, which is a distinct advantage to the security. It makes it more desirable and therefore will have a tendency to lower the rate of interest. The more of the country's resources or its money that is used in handling commercial paper, the smaller amount of it there will be used in these investment loans, will there not?

Mr. VANDERLIP. Yes, sir.

Senator BRISTOW. England is pointed to principally as a model country by some people. Now, in a country like ours, where we are a producing Nation more than a commercial Nation, do you think it is to the best interests of the country as a whole to favor the commercial end of our affairs more than the productive part of our affairs?

Mr. VANDERLIP. No question that has been asked would permit me to make an answer that I am clearer about or that I feel more certain that my answer will be right.

Any other conception than a conception that you say the bankers have generally given here, that commercial paper should be favored, is a misconception of the function of a bank. It is no part of the function of a bank holding deposits repayable on demand to use those deposits in any form that will tie them up in an unliquid shape. The test of a proper bank loan is the self-liquidating character of that loan within a reasonable period. I have already explained my view of a self-liquidating loan, and I think you are familiar with that. That is the test of sound banking. You can vary it to some extent by employing some of your capital in the purchase of real-estate mortgages, and, as I have said, the section that will permit a country bank to employ half of its capital in the purchase of such mortgages is not altogether sound, judged on a scientific basis, but I believe is not dangerous. A city bank can use some of its funds in investing in corporate securities. They are better for the purpose of investment than some real-estate mortgages, not because they are more liquid—in that respect they are exactly the same as a real-estate mortgage—but because they have a larger market. But neither is the ideal investment for a bank.

Banks are the great debtors of the country, not the creditors. You asked me what our deposits are, and my answer means that we have subject to demand between \$200,000,000 and \$250,000,000. We are the great debtor of this country. No institution in America owes so much money on demand as the National City Bank. Therefore the National City Bank must keep its investments in liquid form in order to meet that demand obligation. It is not because of any discrimination against the character of a real-estate mortgage that we do not take it, in so far as the safety of that mortgage goes. The discrimination comes entirely from the lack of liquidity, the fact that it can only be turned into money by selling it to somebody else; that it will not in course of manufacture or transportation or consumption or the distribution of goods in any form liquidate itself. That is the ideal loan, and when a bank gets away from that it is getting on dangerous ground. It can get away from that by putting some modest percentage of its capital into real-estate loans or by taking a note of a railroad corporation or some large industrial corporation, but any loan that will not liquidate itself is not ideal, and if it is taken to a large extent is a dangerous element in the assets of a bank.

Senator BRISTOW. Now, Mr. Vanderlip, I can see the force of your argument, if the bank's business is confined to these deposits due on demand. But, contrary to the law, as Senator Reed suggests, national banks have gone into the savings-bank business, and the money which is deposited in the savings department of these banks is used in the commercial business, and objection has been made here that to deprive them of the savings-bank department would be unjust, and that the provisions of this bill would take out of the commercial business the deposits in the savings department of the national bank.

Mr. VANDERLIP. You have raised a fair point there, and it is proper to take out of the commercial deposits deposits that are held on time and devote them to some other class of business. We have, of course, great savings banks in New York. Their loans are wholly of the type of business that I am describing as undesirable business for a bank.

Senator WEEKS. For a commercial bank?

Mr. VANDERLIP. For a commercial bank; yes, sir. A savings bank in New York never invests in commercial paper; it always invests in real-estate mortgages or the bonds of corporations.

Senator NELSON. There is another thing, Senator Bristow. You seemed to make a distinction a while ago between what you call commerce and trade and production. Now, we must not overlook the fact that commerce is the handmaid of production. The moment the farmer takes his wheat to the elevator and sells it and it is shipped that moment it enters the field of commerce, so that commerce is the necessary handmaid and appendage of production. It would not do a manufacturer any good to manufacture goods and leave them in the warehouse. He has got to put them into trade, so that production and commerce must go together, hand in hand.

Senator BRISTOW. I understand that, Senator, but in a country as vast as ours is, with undeveloped resources, it seems to me, with my limited experience and observation and study of the subject, that we can not shape our financial legislation after that of a country like England, whose business is commerce and very little production.

We have, it seems to me, got to take that into consideration and give great weight and encouragement to that line of investments that will result in production. If you do not have production here you will not have commerce, because we are not situated as England is. And that is why I have, in the questions I have been asking, given more consideration to these investment securities than others, because it seems to me, when the national banks, which are commercial banks, which are supposed to deal in commercial paper and credits that relate to commerce, are permitted to draw from the normal and natural resources which would go to the banks that handle this other kind of security, then you have got to give an opportunity for the national banks to invest in those securities, or you will discriminate against those securities. It is proposed here to permit trust companies and State banks, which can invest their funds in this other kind of securities, to become a part of this system. And they go into the commercial business. It seems to me that if we are going to merge all of these banks into this system so that they are all in commerce, then they ought to be permitted to go into the other line of investments, or you discriminate against the one and encourage the other. Do you think, Mr. Vanderlip, considering this from the standpoint of commerce and the handling of commercial paper, that a trust company or savings bank ought to be permitted to become a member of it?

Mr. VANDERLIP. I think it is extremely desirable to have all banks doing a commercial business become members. If trust companies do a commercial business in addition to their trust business they should, if possible, be induced to become members. There is no reason why a savings bank should be a member.

Senator O'GORMAN. There is no likelihood of a State savings bank seeking membership?

Mr. VANDERLIP. I should see no reason why they should, at all.

Senator O'GORMAN. Do you think it would be a wise policy to confer the benefits proposed in the new banking system upon the State banks and trust companies which are denied the national banks?

Mr. VANDERLIP. The corollary of that proposition is that national banks will surrender their charters and take out the more liberal State charters.

Senator O'GORMAN. What would you think of enlarging the present functions of the national banks in order to create some uniformity with respect to the functions of the two classes of banks that come in under this system?

Mr. VANDERLIP. I think that will be necessary if the national banking system is to be saved.

The CHAIRMAN. I would like to put in there at the end of Mr. Vanderlip's remarks an abstract of the powers exercised by each of the State banks under the 48 States, which will give the committee access to the precise powers which they enjoy.

Senator O'GORMAN. Suppose we should enlarge the power of the national banks and yet not confer all the powers now enjoyed by State institutions in order to bring about this uniformity that I speak of, do you think it would be practicable to have the reserve board establish by resolution certain restrictions and limitations upon the powers now given State institutions under State law?

Mr. VANDERLIP. It would be perfectly practicable, but the nature of those restrictions established by the board would determine whether or not the State banks joined the system. This particular matter should be covered by specific statute as completely as possible.

Senator O'GORMAN. I understand you would have to make it fairly attractive to the State banks.

Mr. VANDERLIP. If there were any practicable way of separating the functions of a commercial bank from those of a trust company, it would be desirable. I see no way in which you can do that. I think there are pretty sound arguments why those functions should not be united in the same institutions—not determining reasons why they should not, but there are some reasons why the functions of a trust company and a commercial bank should not be united. You are, however, facing the problem of driving your national banks to surrender their charters and take out State charters where those functions are united, and I am inclined to think you will have to liberalize the charter of the national banks to approximate the powers of the State bank or you will lose the national banks from the system.

Senator O'GORMAN. Other things being equal, what, in your judgment, is the advantage in having a national bank charter now instead of a State bank charter?

Mr. VANDERLIP. Do you mean now or under a provision of such a nature?

Senator O'GORMAN. Now; ignoring the pending bill.

Mr. VANDERLIP. There is some profit in taking out national-bank notes, and there is considerable profit in holding the deposits of other banks. There is some small sentimental reason in the confidence that the examination gives to a bank holding a national charter. Those are the principal reasons.

Senator O'GORMAN. Then, among other reasons, you think there is some prestige attached to the national charter?

Mr. VANDERLIP. I think there is in a small place. I do not think there is in a great city like New York. There was formerly some profit for banks in Government deposits, and there is now a little, with the interest rate charged, but not much.

Senator NELSON. There is one thing, if you will allow me, Senator, to call your attention to, in this connection, and that is while scientifically it may be proper enough, it may be the right thing, to separate a savings bank and a trust company from a commercial bank, it is utterly impossible in these small country towns, towns of 1,000 to 10,000 people. A bank there, in order to be successful, and to accommodate the wants of the people, must be prepared to do all kinds of that business—commercial business, savings business, and in some form a trust business—and a bank can not exist without doing it. There is not enough business in these towns to keep a bank alive doing just one kind of business. It has got to be done altogether. You realize that fact, do you not, Mr. Vanderlip?

Mr. VANDERLIP. Perfectly.

Senator O'GORMAN. Now, Mr. Vanderlip, what would you suggest, in your judgment, ought to be the modifications in the charter of the national bank with respect to the increased functions that might be conferred on national banks?

Mr. VANDERLIP. Senator Reed has already asked me that question, and I have suggested I would like to consider it carefully and communicate promptly with the committee my views.

Senator O'GORMAN. I would be very glad to have you do it.

Mr. VANDERLIP. I will do that promptly, after having given it careful consideration.

Senator O'GORMAN. I think, in the same connection, if you will give your views as to what powers now enjoyed by State banks and not conferred on national banks might be curtailed without making this system unattractive to the State banks, it would be beneficial to the committee.

Mr. VANDERLIP. Yes; I think I comprehend the point.

Senator O'GORMAN. Of course, the general idea is, as I have already suggested, that if these two systems of banks are to come in under this new system, we must, as far as possible, have uniform privileges and rights enjoyed by State as well as by national banks.

Mr. VANDERLIP. Yes.

Senator BRISTOW. We have asked a number of witnesses to prepare amendments to the bill which they would recommend and furnish them to us for our consideration when we take the bill up. Why would it not be well, in connection with these requests, for Mr. Vanderlip to submit a modified bill as he thinks it ought to be.

Senator O'GORMAN. If you will take the time to do it, it will aid the committee.

Mr. VANDERLIP. I know of nothing so important for me to do. I will do it with great pleasure.

Senator NELSON. I want to suggest to you, Mr. Vanderlip, about the number of regional banks. If you do not have one, it seems to me if you have more than one it ought to be five; it ought to be one for each of the central reserve cities we now have, and one for New Orleans and one for San Francisco. That, it seems to me, ought to be the plan, if you have more than one. I think one is best, as you do, but it seems to me if you do not have one, then you ought to have that distribution.

Mr. VANDERLIP. It would be vastly better than 12.

Senator O'GORMAN. I did not get that last question of yours, Senator Nelson.

Senator NELSON. I said if you limited the number of national banks, reduced it from 12 to a minor number—

Senator O'GORMAN (interposing). You mean regional banks?

Senator NELSON. Regional banks. I think the reduction should be to five, and I put it on this ground: We have three central reserve cities, New York, Chicago, and St. Louis. They should undoubtedly be regional bank centers. Now, in addition to that, I think New Orleans ought to be one place and San Francisco, on the coast, the other. That is my notion about it.

Senator O'GORMAN. In your judgment, Mr. Vanderlip, would five regional banks, under the general features of this system, be preferred to one national discounting reserve bank here in Washington, with branches throughout the country?

Mr. VANDERLIP. No; I would much prefer one.

Senator O'GORMAN. Why?

Mr. VANDERLIP. I think there are profound reasons.

Senator O'GORMAN. Will you state them, if you have not already done so?

Mr. VANDERLIP. I have already gone into that pretty fully.

Senator O'GORMAN. Then I will not ask you to state it again.

Senator BRISTOW. As I understand, I think, having your question in mind, Senator O'Gorman, Mr. Vanderlip suggested that one would be preferable, but he did not understand fully just the kind of Federal reserve and discount bank that you suggested to one or two other witnesses. Senator O'Gorman suggested on another occasion, as I remember it, that we have one Federal reserve and rediscount bank, supervised by this board.

Senator O'GORMAN. By a Government board, with a supervisory council for the bank.

Mr. VANDERLIP. That brings a new element into the matter. That makes the Government officials judges of the paper that is being rediscounted, and I would disapprove of that.

Senator BRISTOW. How is that?

Mr. VANDERLIP. I say that brings a new element into the situation, that makes the Government officials judges of the paper that is to be rediscounted. In the system that is built up in this bill there is a board of nine men, three of whom are bankers, directly elected by bankers, and three of whom are business men, directly elected by bankers, to pass on the paper that the central reserve banks are to rediscount. That I regard as a very important feature, that you shall have bankers pass on this paper. I think there would be grave objections to having Governmental officials passing on the paper offered for rediscount. Those objections are on the ground of the training and the experience of the officials.

Senator BRISTOW. Well, I can see the force of that suggestion. But suppose these Government officials are bankers that managed the central banks; that it is their business to run that bank, and the branches are conducted by men who are bankers and whose business it is to pass upon the paper which they discount.

Senator O'GORMAN. And are familiar with the conditions of the several localities.

Senator BRISTOW. And must be familiar with the conditions. Do you not believe that if this board has the responsibility of the managing of the Federal reserve bank, and comes in relation with the banks of the country, with which it is doing business, that you will get better service out of them than if they are simply a board here supervising at a distance, which they necessarily would, the operations of the 12 banks, and to whom complaints are made and controversies are taken up and discussed? They necessarily would not be familiar, as they should be, with the questions that will come before them.

Mr. VANDERLIP. You will get better service out of your Federal reserve board; yes; but the total of service you get out of the Federal reserve board and out of the board of the regional banks, as it is provided to elect them, by the bankers, six out of nine, at least, would be greater than the service you would get out of such a board as you suggest.

Senator BRISTOW. What part of the service which these gentleman would render would be more efficient, do you think—the duties that they would perform? There would be, we will say, a branch at

Kansas City, this Federal reserve and discount bank, and probably one at Wichita, Kans., and one at Omaha, where the reserve banks are now. The business of these men in charge of these Federal branches would be to accommodate the banks in the community, whether they were members or not.

Mr. VANDERLIP. You have very well outlined the objections to the branch banking system in the earlier questions that you asked. Could you not apply those same objections to such a proposal as you now make?

Senator BRISTOW. No; it is not a banking institution, except it deals with banks and banks only, and it is there to help the banks when they need help upon their application.

Mr. VANDERLIP. And to be a judge of the credits of those banks and of the collateral they offer. I think a board selected from among bankers—made up of practical bankers in part—will render that service and will execute that judgment better than will a board of Government officials.

Senator BRISTOW. Even if those officials were the same bankers?

Mr. VANDERLIP. Yes; even if the officials were the same bankers, because they will become dissociated from the active work. Of course, if they were the same bankers, certainly for a time they would probably perform the functions in the same way, but they would not be the same bankers. You can be pretty certain of that.

Senator NELSON. Let me suggest what I think would be a solution to the matter suggested by Senator O'Gorman: Have one central reserve bank, under control of the Government boards, and have a discount committee; have provision made for a discount committee, consisting of nine, appointed in the same manner as these managers of the regional banks, and let that committee pass upon discounts, subject, as the regional banks are now, to the supervision of the central board. Could it not be solved in that way?

Mr. VANDERLIP. That seems a very sound and practical suggestion, to meet the particular point.

Senator O'GORMAN. What would be the difference in the judgment of those nine men, constituting the so-called discount committee, sitting here in Washington, and the judgment of seven men, constituting the officers of the Federal reserve board?

Mr. VANDERLIP. I do not think you have understood the suggestion as I understood it at least. The suggestion is that this discount committee is composed of bankers, elected by bankers, but its function is only to pass on the question of credit, and the Federal board would be constituted as you suggest, and would be the power operating the bank.

Senator NELSON. The discount committee would be constituted in the same number as the managers of the regional banks. That is, there would be three of the discount committee Government appointees and six would be bank appointees.

Mr. VANDERLIP. And the duty of that discount committee would be to pass on the character of the collateral offered, and the Federal board would then take up the question of loans.

Senator BRISTOW. Now, Mr. Vanderlip, I am going to be perfectly frank with you as you have been with the committee. What I am trying to get away from is the power which certain great dominating

interests in this country have to veto security that I think is good but which interferes with their business and their interests, and I do not believe there would be any objection to a central bank in the United States if there was not a belief that I think well-grounded and wholly justified, with all due respect to your opinion, that there are certain interests in this country that do control credits and can veto a legitimate and proper loan, if that loan will interfere with their interests. I may be mistaken, but I believe that nine-tenths of those who are studying the question believe a central bank with branches, that would not interfere with the legitimate conduct of the banking business we have, but supplement and strengthen it, would be very desirable; and if it could be gotten away from any possibility of such control, so that no doubt can rest in the mind of one of suspicious mind, I think we would all be for it.

Senator NELSON. Now, you see under this plan, Senator Bristow, of a central institution, the discount committee would pass on the quality of the paper, but whether the loan should be granted by the bank and currency issued, would be under the control of this general board.

Senator HITCHCOCK. Senator Bristow, let me ask you a question. In referring to the loans that you have in mind there, are you not forgetting that those loans are generally for the purpose of big enterprises, and are in the form of a permanent advance on bonds, whereas the only paper that can be put up with the reserve bank, whether a regional bank or a central bank, is commercial paper which is liquidating?

Senator BRISTOW. Yes; but you know I have very pronounced objections to the plan that is outlined here in limiting the paper that is to be given advantages under this system to this commercial paper. I think that is unjust and discriminatory against other investments.

Senator HITCHCOCK. What I object to is the 90-day paper, which is specified in this bill.

Senator BRISTOW. Yes.

Senator HITCHCOCK. You feel and I feel, as we both live in the West, that we have commercial paper out in our region which I might say is indigenous, which is characteristic of our region. It is much longer than 90 days. It is 4, 5, or 6 months paper—

Senator NELSON (interposing). Or for a year.

Senator HITCHCOCK. Or it may be for a longer time. But it is to all intents and purposes commercial paper, by reason of the fact that it liquidates itself out of the transaction from which it arises—that is, paper which represents loans to men who have cattle and feed those cattle during the winter and market them in the spring, and the funds thus received liquidate the paper.

I think if the bill is so extended as to cover that class of paper it would be an improvement.

Senator BRISTOW. That would be a very great improvement. I admit that. I will not take up the matter of the subtreasuries, because that is Senator Hitchcock's special notion, and I think a very good one, and he can present that very much better than I can.

I am very much interested in the statements made by Mr. Fowler before the committee the other day, and the statement which he suggested, if it were practicable, would seem to me to be a very good one—that is, of leaving the banking situation just as it is, so far as

the organization of the banks goes, and permitting a bank to issue currency.

Senator NELSON. On its assets.

Senator BRISTOW. On its assets, when it is needed. And he illustrated it, when being interrogated by Senator Nelson. His idea was in this way, that if a customer came to a bank and wanted to borrow \$10,000, he gave his note for the \$10,000. That was a loan which the bank was perfectly willing to make.

Senator NELSON. A good loan.

Senator BRISTOW. A good loan. He wanted a part of it in cash and a part of it to leave subject to check. He took \$5,000 in currency and left \$5,000 subject to check, and he took a check book to check against his account, and the currency he took was the bank's notes which, according to Mr. Fowler's system, were secured by a 5 per cent deposit with the Government—a lien on the assets of the bank and on its assets, the capital stock and so forth, and which he pronounced would be perfectly good. This 5 per cent fund that was collected was to be a guaranty fund against these notes collected in the Treasury, and his idea was that only so much currency would be used as the commerce of the country demanded, and that it would be automatic—if a man wanted currency he could get it. What would you think of a system like that?

Mr. VANDERLIP. The last proposition is so perfectly true that I wish you could all recognize it, that there would be only so much currency used as is wanted. I have referred to it a number of times, and I just want to emphasize that point. The most important thing that we need, however, the thing I referred to when I began this examination yesterday, is the mobilization of the reserves. Such a plan as you outline there makes no reference to it. The next thing is the elasticity of currency—an important thing, but not so important as mobility of reserves—the amassing of reserves in a single reservoir. That is what you must get in some form into a bill if it is to be correct. That expression makes me think that I heard myself severely criticized in the Senate during recess for having said in an interview that you must do this or that. Of course you know when I say you must do a thing, I mean you must do it to make the bill harmonize with what my views are of correct legislation. I do not sit here or talk to newspaper reporters, and say that the Senate of the United States must do this or that. I have a little sense left, and certainly enough to guard me from such a foolish position.

Senator BRISTOW. I was interested in the suggestion you made yesterday, which conveyed the idea to me that we ought to reduce the amount of national-bank notes that are now out, if this system is adopted, because any additional notes would make too much currency.

Mr. VANDERLIP. We certainly have currency enough for a normal period. It is only in the exigencies of a crop-moving period that we need any more currency. Unless you will reduce the bank-note currency we now have, you will not be able to provide true and complete elasticity by means of your new note issue.

Senator BRISTOW. You think the new note issue would not be taken out?

Mr. VANDERLIP. Yes; it would not be taken out, except for the peak of the load, except for that season where an excess is needed.

Senator BRISTOW. What harm comes—you say you would take it out for the peak and drop it after the work it does is ended. What harm is there in stopping there?

Mr. VANDERLIP. One of the harms is that these several reserve banks ought to have the earnings that would come from such ability to issue currency. Another of the harms is, I am inclined to believe, that we have a redundant currency at certain seasons. You might challenge me to prove that, and I might have some difficulty in proving it. Certainly if there is a variation of \$200,000,000 to \$300,000,000 in our notes, then we are either redundant at one season or very scant at another. Now, we are going through the crop-moving season without any strain whatever for currency. Apparently we have ample currency to go through this crop-moving season. We have had some addition to it by the deposits which the Secretary of the Treasury has made, but if we had currency enough to conduct business at this season of the year, we have altogether too much currency to conduct business next March. We can not get away from that. There is where the harm comes. That is where you would fail to get true elasticity unless you took away some notes and made room for new notes.

Senator HITCHCOCK. If the currency is redundant next month, will not the inevitable result be the exportation of gold?

Mr. VANDERLIP. That is certainly the tendency.

Senator HITCHCOCK. Will not that relieve the situation?

Mr. VANDERLIP. It will relieve it; yes.

Senator HITCHCOCK. And will not that gold come back to us again, when the stress on the currency is there?

Mr. VANDERLIP. Yes; except that it does not flow with perfect freedom. There is harm done to the trade in the exporting and importing movement. It would be so much better for trade to have you retire the notes than to have a movement of the gold, and then have the difficult conditions which attend the bringing of that gold back. We can issue a bank note very easily; we can not always import gold easily. We can retire that note very easily, and it is expensive to export gold. Expansion and contraction should be provided for in the notes, and not in the expansion and contraction of the volume of gold.

Senator HITCHCOCK. With the volume of currency depending wholly on the commercial paper, what would guarantee that against inflation?

Mr. VANDERLIP. The guaranty of redemption, the fact that the note does not count in reserves, but will be turned in for redemption by the bank as soon as it comes in and the certainty that there is a no more fixed thing, no quantity that you can influence less by your legislative acts than the amount of money people will carry in their pockets. You might start with that as a fixed thing, but you really haven't anything to do with it.

Senator HITCHCOCK. You have already stated to the committee these notes will be accepted by 17,000 State banks as reserves.

Mr. VANDERLIP. There is one of the troubles and weaknesses which I have no suggestion for removing, unless you can bring State banks into the system.

Senator HITCHCOCK. Some even advocate making them available for national banks as reserves.

Mr. VANDERLIP. I can not agree with that view.

Senator HITCHCOCK. And is there not some danger, in a currency based on commercial paper, that at certain times the country will become very venturesome and the demands for loans extensive?

Mr. VANDERLIP. It is not money in the hands of the people that makes the country more venturesome; it is the ability to obtain credit. If this bill were drawn so as to be dangerous on the side of the expansion of credit, then I would say, "Beware." Now, it is so drawn that there can be a great expansion of credit, but I do not believe it will be too great, because I do not believe the bankers will permit this power to be unwisely exercised any more than at the present moment. The national banks have 60 or 70 millions in excess reserves, but they do not loan because they have that excess reserve.

Senator HITCHCOCK. Is it a matter of caution, of timidity, that now restrains the bank, often, from loaning money when there is quite an urgent demand? And if you take away that timidity, by giving a bank a resort it can go to with commercial paper, won't you remove the restraint and throw down the bars and permit a bank to lend money to borrowers to whom it would not lend if watching its reserves?

Mr. VANDERLIP. Undoubtedly a bank will feel freer if it has a central reserve bank to go to to rediscount than it does now. You have to depend on the good judgment and conservativeness of that banker. If he feels he can rediscount any time, anything he has, and he is a reckless man, he will loan too much. But you will have as a governor the power of control of your regional reserve bank board, and of the Federal board. That is why I said that there is not an authority given to this Federal reserve board which it ought not to have. My objection is to the constitution of the board and not to the authority. If the bankers in a locality are getting reckless, if they are loaning more because they can rediscount than is wise for them to loan, there ought to be some authority higher up which can put a restraint on them.

Senator HITCHCOCK. Would you have it in the reserve bank?

Mr. VANDERLIP. It will be in the reserve bank, and I would have it all the way up. I can well imagine, with as many as 12 reserve banks, you might find one with the territory represented getting less conservative than it should be and you might need a power higher up to control that.

Senator HITCHCOCK. Do you think there ought to be embedded in this law any guaranty to the individual bank that it can get discounts to any given limit?

Mr. VANDERLIP. It is impracticable. You have got to leave that discretionary.

Senator HITCHCOCK. You would allow, then, the Federal reserve bank the full discretionary power to say to one man from a certain town, "We won't discount any of your paper," and to another man across the street, "We will discount half of your portfolio."

Mr. VANDERLIP. You have got to leave that power to the reserve board, I think. You may say it will treat one banker unfairly. On the other hand, you might say if a bank knows, under any conditions, it can get rediscounts, it will act unwisely. Of the two, I will take the chance of unfairness, because I do not believe there will be any unfairness. I am a great believer in the fairness and honesty of

people in general, and certainly the fairness of people in responsible positions.

Senator HITCHCOCK. I want to give you an illustration of the unfairness of persons holding a responsible position. I suppose the character of the men that run the railroads of the country is as high as the men who run the banks of the country, and yet one of the most outrageous discriminations grew up in the railroad world, in which the States and Congress had to take a hand. They were saying to one shipper, "We will charge you one rate," and to another shipper, "We will charge you another rate." They would say to one passenger, "You pay full rates," and to another passenger, "You go free." The law had to step in for the protection of the men and compel equal treatment. So should not the law step in and say to these banks that they shall give equal treatment?

Mr. VANDERLIP. You have provided for the law to step in by creating this Federal reserve board. Of course, back of the law that you speak of, there first had really to grow up a new body of ethics. They were new problems. We had gone on a great many years supposing when we sold wholesale we sold cheaper, and men's minds did not grasp the ethics of that situation, and that is one of the troubles to-day. We have developed industry and we have gotten many new elements in our social system. We are developing new ethics, and that is part of this radicalism we are talking about. We are developing a new code of ethics that did not exist before our time, and we ought to have patience with one another about that.

Senator HITCHCOCK. Do you think any injury would come if the law provided that the reserve bank should rediscount the notes of a bank in any community to an extent, say, of its capital stock, providing the notes were good?

Mr. VANDERLIP. Right there—providing the notes are good. Who is to be the judge?

Senator HITCHCOCK. I will say, without that provision, discount the notes.

Mr. VANDERLIP. I would certainly think a loan under compulsion, where you could not scan the credit, would be an impossible thing.

Senator HITCHCOCK. These banks are all under constant inspection, and the law provides an inspection of these regional reserve banks.

Mr. VANDERLIP. Nevertheless, you can not trust to inspection. Anybody who ran a bank recklessly might get bad paper in its portfolio, which could be offered for rediscount.

Senator REED. Would not that leave a bank in dire straits, in this sort of condition: It could take, say, \$100,000 of its absolutely worthless paper and bring it up to the Federal reserve bank, and compel the Federal reserve board to cash that absolutely worthless paper, where the bank itself was tottering to its fall?

Mr. VANDERLIP. Oh, yes. There must be the right of discretion by the loaners of money.

Senator HITCHCOCK. In the first place, a bank has one tenth of capital already invested.

Mr. VANDERLIP. Yes.

Senator HITCHCOCK. It has its reserves impounded to the extent of nearly one-half. Can you conceive a condition under which it should not be assured of anything at all as the result of its joining the enterprise?

Mr. VANDERLIP. Practically I can not conceive that there would ever be a time a properly run bank would not be able to borrow. I think the reserve banks will be run with wisdom, discretion, and fairness and any bank will be able to rediscount. They must hold themselves in such a position so they will have the power to rediscount.

Senator HITCHCOCK. Now, let me ask you this question, Mr. Vanderlip: Suppose the reserve bank rediscounts half of the portfolio of the bank. Say it discounts half a million dollars of its portfolio and it gives it that line of discount. A bank across the street, of the same size, it gives one-tenth of the portfolio, worth \$100,000. What advantage does this give to the favored bank? Is not it a very large advantage? Would not it result in enabling it to get control of the business?

Mr. VANDERLIP. It would be a great advantage for one bank to be able to discount half of its portfolio while the other was permitted to discount only one-tenth. There certainly would be just grounds for complaint. If the two institutions were on all fours, a complaint to the Federal board would certainly bring action, but I do not believe any board of directors elected to the Federal reserve bank would discriminate in that way. They would be fair-minded men. That would be a rank, gross discrimination if the two banks were on all fours. Nevertheless, I think they ought to have the power to permit one bank to discount half its portfolio and another bank to be restricted to one-tenth if the other bank was being run in a way not to warrant the discount.

Senator HITCHCOCK. Then you would place no limit at all on the amount of discount that might be made for a single bank?

Mr. VANDERLIP. No, sir.

Senator HITCHCOCK. You would leave that discretionary with the board?

Mr. VANDERLIP. I think it can well be left to the board.

Senator HITCHCOCK. What is the motive for that? What is the reason for having any limit to the amount of discount?

Mr. VANDERLIP. If you want to have some limit, I would put that on for fear there might be inflation. That would be the motive. I would limit it to twice the capital and surplus—something like that—which would be a point that no bank ought to reach, and probably would not.

Senator HITCHCOCK. I am glad to hear you say so. I think there ought to be some limit.

Mr. VANDERLIP. I think it would be a desirable thing to put a limit that was large enough.

Senator REED. Put a limit on the extent of credit, but not upon the right to refuse to grant the credit?

Mr. VANDERLIP. No; I should leave the right to refuse with the board.

Senator REED. That is what I say.

Senator O'GORMAN. You would feel satisfied that if the power of the officer of the reserve bank was improperly used that the Federal reserve board, on appeal, would correct the injustice?

Mr. VANDERLIP. Yes, sir.

Senator O'GORMAN. And perhaps remove the offending officer of the regional bank?

Mr. VANDERLIP. I should think it would be very proper.

Senator POMERENE. There has got to be a discretion lodged somewhere.

Mr. VANDERLIP. I think so.

Senator O'GORMAN. I have only one question further to put to you, Mr. Vanderlip. Yesterday you said, I think, that the plan contained in this bill, to issue Government notes, is unscientific. I do not know whether you amplified that viewpoint or not. If you have not, I should be glad to hear from you further, why it is unscientific.

Mr. VANDERLIP. The note is really the obligation of the bank. It is secured by segregation of the bank's assets, in the form of commercial paper. It ought to have almost the same relation to the bank that a deposit balance of the bank has. It is a demand obligation of the bank. It is not a Government note; it does not pretend to be that, although it is issued and bears the name of the Government. Its whole security lies in the bank, in the segregated assets, in the reserve held against it, and in the superior lien which it has upon all the assets. I see no reason why the Government should have any relation to that note in the way of a guarantor. The Government will have an outstanding obligation with no gold cover back of it. Except for the 5 per cent redemption fund which the bank deposits, the only resource which the Government has is by turning to the bank, and the enforcement of the lien on its assets. And it seems to me entirely improper that the Government should be the maker of this note, or the guarantor of it. Indeed, I think it improper that it should receive so-called interest for it, as all of the profits of this bank are to come in the hands of the Government eventually.

Senator O'GORMAN. It is not anticipated under the system planned that there will be a profit beyond 5 per cent. As Senator Owen has very properly phrased it on other occasions, it is really to be an eleemosynary institution, and there is to be no motive to earn anything beyond the guaranteed 5 or 6 per cent.

Mr. VANDERLIP. I can see no more reason for the Government to guarantee one of these liabilities of a bank, in the form of a note, than to guarantee a deposit. The note is fully guaranteed, I believe.

Senator O'GORMAN. In other words, you would not expect the Government, even under this plan, to take the risk?

Mr. VANDERLIP. No. If it is not safe I think the Government ought not to take a risk, and I think if it is safe it need not take the risk.

Senator O'GORMAN. And you feel if it is safe, the person dealing with the regional bank, ought to be satisfied with it?

Mr. VANDERLIP. Certainly.

The CHAIRMAN. I think it my duty to remind the committee that only an hour and a half remains, and there are some gentlemen here from Iowa whom we promised to hear this afternoon.

Senator HITCHCOCK. There is one more question I would like to ask. I see under section 6 of this bill when a bank becomes insolvent and a receiver is appointed, the stock held by it shall be canceled and the balance, after deducting from the amount of its cash paid subscriptions all debts due by such insolvent bank, shall be paid to the receiver of the insolvent bank.

Mr. VANDERLIP. That would seem to be a proper provision.

Senator HITCHCOCK. So that the bank would have some security—the reserve bank would have some security.

Mr. VANDERLIP. Yes; for a forced loan you speak of it would have to depend on the stock value and the security of whatever reserves are held.

Senator NELSON. And whatever the subscription will be.

Mr. VANDERLIP. And whatever the subscription will be also.

Senator HITCHCOCK. Now, I want to ask you whether you do not think it better for the reserve bank occasionally to suffer a possible loss, as a result of a certain commercial paper turning out to be deficient, than to leave the banks absolutely without any assurance that they will get relief even to the extent of their capital?

Senator NELSON. You mean the member banks?

Senator HITCHCOCK. The member banks.

Mr. VANDERLIP. It would probably be safe enough to say that the reserve bank shall loan to an amount equal to the stock subscription and the reserves which they hold. I do not consider it at all necessary. I do not believe any bank would be afraid it would receive no consideration at the hands of the board at the Federal reserve bank—that there would be such discrimination as you indicate there might possibly exist. I can not conceive that.

Senator HITCHCOCK. You mentioned a moment ago in such a case the bank might appeal to the Federal board. But what chance do you think there would be, after a bank had perhaps suffered a loss and it had gone to the reserve bank for relief, appealing to Washington under those circumstances?

Mr. VANDERLIP. The appeal would be in the nature of a post-mortem communication.

Senator HITCHCOCK. Not only that, but the very fact that the bank had been turned down at the reserve bank would intensify the fear in the community, and might result in greater loss.

Mr. VANDERLIP. It would not be turned down under those circumstances if it had any proper collateral.

Senator HITCHCOCK. Why not say so in the act?

Mr. VANDERLIP. Because it might not have proper collateral, and if you leave it discretionary as to whether or not the collateral is proper, you leave the whole thing discretionary.

Senator HITCHCOCK. I do not know. I think, as I said formerly, you ought to specify the whole thing in the bill and leave as little as possible to the discretion of the officers.

Mr. VANDERLIP. May I be excused?

The CHAIRMAN. Yes; we are much obliged to you.

Mr. VANDERLIP. I thank you.

The CHAIRMAN. Judge French, we will be glad to hear you now, and we will be glad to have you state to the reporter your business and your point of view from which you speak.

STATEMENT OF NATHANIEL FRENCH, OF THE FIRM OF FRENCH & HECHT, MANUFACTURERS, DAVENPORT, IOWA.

Mr. FRENCH. I reside at Davenport, Iowa; and I am a member of the firm of French & Hecht, which is engaged in manufacturing.

I am here as a business man who, unfortunately, at times has to borrow. For that reason, in common with all the business men of

the country, I am very much interested in having a banking system which will be both safe and yet able to accommodate the solvent business men of the country when increased business needs compel them or make it desirable for them to borrow money from the banks.

My experience from 1893 to 1896 was that our present system at that time—owing largely to the uncertainty in regard to the standard of value, and also to its inelasticity and the rigidity of reserves—did not take care of the business man. In 1907 I had the same experience. While not a personal sufferer, I saw a great many business men suffer who had ample means, plenty of collateral, and yet could not obtain currency from the banks.

The business men of the country sincerely hope that Congress will succeed in passing some law which will make our currency elastic and which will mobilize our reserves. We are of the opinion that, as a practical proposition, we have about the worst banking and currency law that was ever enacted in any country. We have heard of the Bank of England, which is cursed with an inelastic currency, but which mobilizes its reserves in such a wonderful manner that the business man in that country can get accommodations if he is solvent and has good collateral, even in times of financial stress. In Germany there is not only the mobilization of reserves, but there is elasticity to the currency. In France there is the greatest elasticity and also mobilization. In this country alone we have neither mobilization nor elasticity. This looks wrong to us business men, and we hope you will bring about better conditions.

Now, as regards this bill, I want to look at it from a plain, business standpoint. I think that if you enact the bill, even as it stands now, it will create a great reform; you will have gone a long way in the right direction. But I do not think the bill as it stands now could easily be put into successful operation. It would be difficult to get all the national banks, particularly the country banks, to go into it. Many of the State banks, perhaps nearly all of them, would refuse to go into it.

It does not do much good to enact an admirable law if you can not put it into working operation, and you gentlemen are confronted with the problem of how to make this law acceptable to the national banks and also to the State banks which do commercial business. As a business man I have had occasion to talk with my fellow business men on this subject and have been impressed by certain objections which seemed to be prominent in the minds of all of them.

One objection is that they are afraid that through the power of the administration or the President to appoint the Federal reserve board—the dominant authority over the whole system—it may possibly drift into politics. They do not think it will, but they are afraid it might. And they also think that the banks which furnish the capital and the deposits to a large extent should have something to do with this board of control which will really manage the whole system. Now, I for one—and I think I represent the average business man—would not be willing to have the banks have control of the system. We do not believe the bankers are any better or any worse than men generally, but we believe it would be entrusting too much power to people whose sole business is to make money.

For that reason we should like to see the Government control it, but we naturally want it kept out of politics. We should not like to

see the President have the power to appoint the entire board of control during his administration. The provision in the bill that no more than two or three, whichever it is, shall belong to one political party is excellent so far as it goes, but the bill would be greatly improved if you provided that two or three of those members should be chosen by the banks; not directly chosen by a vote, but by making out a list of men experienced in banking, not at the time actively connected with any bank or who would sever their banking connections, and having the President choose from this list of names.

Senator O'GORMAN. Do you not think the President will select competent and probably experienced men for the board?

Mr. FRENCH. I think the President will. The present President I am sure will; I am not sure that every President always will. I think there is a good deal of scare that is not warranted, perhaps, but still it is there, and a great many people feel it. I know some people have named a certain ex-President and said they would be afraid of him. I would not be, but a great many are.

And then I think, as a measure of justice, it is only fair that if you tell the banks they must put into the new bank a portion of their capital and deposits—and I think you have a right to do it as a matter of law—

Senator NELSON (interposing). You mean their reserves?

Mr. FRENCH. Yes; if they must put in their reserves as well as a certain portion of their capital, they will have the natural feeling, and I think the business men of the country agree with them, that they ought to have something to say as to the make up of the board of control which will dominate the whole system. If we want to get the banks to enter the new system, we must make it acceptable to them. By not giving any representation to the banks on the board of control, we prevent the bill from being acceptable to the banks and also to many people (whether interested in banks or not) who fear that some President at some future time might misuse his power to control the board. This fear may have little basis, but exists in the minds of many.

Senator O'GORMAN. Do I understand you to say there might be a President who would remain forever?

Mr. FRENCH. No; who would like to remain forever.

The next objection to the act is in regard to the constitution of the directors of the regional banks. The banks select six of the nine. This Federal board of control, the dominating influence, selects three, one of whom has to be the agent of the Government and have certain large powers. Of the three selected by the banks, denominated directors of class A, there is no provision for arbitrary removal. As to the three denominated directors of class B, who are to represent commercial and agricultural interests, there is a very general provision that the board of control may remove them when they think they do not fairly represent those interests. There is no provision for accusation or hearing or trial or anything. It is absolutely arbitrary power.

So you see this board of control, on which the banks are not even to have a minority representation, can also control the regional bank through its arbitrary power of removal. You may say the board of control does not appoint the three in class B, but it has the power of removal, which is something a great deal more powerful than the

power of appointment. Men, after they are appointed, sometimes become independent, but men who can be removed by the arbitrary action of some superior power are apt to be very subservient to that power.

Senator POMERENE. Do you think the banks would elect somebody who could be subservient?

Mr. FRENCH. They select the names, and I think these men, when they found they were subject to decapitation at any moment if they did not comply with the wishes of the board of control, would be subservient at some time or other.

Senator O'GORMAN. Subservient to whom?

Mr. FRENCH. The board of control.

Senator O'GORMAN. It is to be expected that that would be the dominating influence in this system. You must have a dominating influence. On the other hand, the members of the board of control would be under the influence of the power of the President, and the people should have confidence that the power would be wisely and judiciously exercised.

Senator SHAFROTH. The power of the board would not likely be exercised. When they have not the power to reappoint—

Mr. FRENCH (interposing). I know, but if they have the power of removal I think those men would be very likely to comply with their wishes rather than be removed.

Senator SHAFROTH. Not so much so as if they had the power of reappointment.

Mr. FRENCH. No; that would be an even greater power.

Now, another suggestion. The Federal board of control is to appoint three members of that board. I think it would be sufficient to appoint one and let him be paid by the Government of the United States and be absolutely independent. He is the one who is to receive this collateral to secure the notes.

I am mentioning these things as things I have heard in common talk.

Now, as regards the country banks, from what little I know about them, I should judge they feel that 5 per cent is altogether too small a return upon the capital which they invest in the bank; that they ought to get at least 6. Then there is a strong feeling that they ought to get interest on their deposits. In these respects it is not made, I believe, sufficiently attractive to them.

Senator SHAFROTH. Suppose they could borrow this amount which they put in—borrow it back at 2 per cent? Would not that be an inducement for them to go in, get 5 per cent on it, borrow it back, and have that to loan out at 2 per cent?

Mr. FRENCH. They do not figure in that way. I was talking to a gentleman the other day and he said he hoped the bill would be passed. I said, "Will you go into the new system?" He said, "No; we would be under certain disadvantages; we can get the benefit of the rediscounting feature through our correspondents without going in ourselves."

Senator O'GORMAN. Suppose there should be a prohibition in the act preventing any bank from securing the benefits of the system through a correspondent. That particular bank, then, I suppose, would go into the system?

Mr. FRENCH. I think likely. I think perhaps such a provision might become necessary.

Senator HITCHCOCK. You can not make it work. If this imaginary country bank comes to a city bank for a rediscount, the city bank can rediscount for it, and then present other commercial paper with the regional bank, and accommodate its country depositor very easily.

Senator SHAFROTH. Do you think a national bank would undertake that if it were a penal offense?

Senator HITCHCOCK. It would not be a penal offense.

Senator SHAFROTH. You could make it a penal offense. Of course, it might be difficult to find it out.

Senator O'GORMAN. That would be altogether too drastic a provision. We might have a provision that no national bank should attempt to rediscount accommodation paper of that character that it had received from a bank not in the system.

Mr. FRENCH. Is not the real solution of the question to make it an advantage to the banks to go in?

Senator O'GORMAN. Surely.

Mr. FRENCH. I very much fear that if the national banks find that after this law is passed they are at a disadvantage with the State banks they will drop their charters, become State banks, and then take advantage of the law by entering the system as a State bank. Well, from one point of view that may not be so objectionable, but the transition stage, I am afraid, would be bad for the business of the country; it would be unsettling.

There is another thing in the bill I wish to call your attention to, and that is this: You have a very wise provision that the reserve against deposits may be suspended on payment of a progressive tax. That is a very wise provision, but in the same paragraph you add, but you shall not suspend the reserve requirement as regards notes. Now, to an ordinary business man who does not pretend to be a banker, a reserve that you can not use is worse than useless. The only country in the world, so far as I know, that ever required a bank reserve and then prohibited its use, is this country. And it seems to me that reserve against the notes should be utilized when made necessary by some great emergency.

In England, where they have not any currency to speak of at all, where the notes issued by the Bank of England are practically warehouse receipts for so much gold lying in the other division of the bank, with the exception of \$90,000,000 which has been always outstanding and secured by the public debt—in that country when there is a great need for money, when, despite the admirable mobilization, they are near a state of panic, the Government says: "We will suspend the provisions of the banking act and allow you to issue uncovered notes," and it always stops the panic. In Germany they go on issuing notes, but pay a certain tax; as the reserve goes down the tax goes up. As regards the Bank of France, there is no limitation at all.

Senator HITCHCOCK. I think in France there is a limitation upon the amount of notes the bank can issue.

Mr. FRENCH. There has been a limitation, but placed very much beyond its needs, and every time it has asked for a change that limit has been pushed further off. It is believed by all the banks, by the

French people, and by every writer on the subject, that that limitation is a mere matter of form rather than of substance.

Senator HITCHCOCK. Why is it kept?

Mr. FRENCH. I do not know why they have put it there.

Senator HITCHCOCK. Is it not just kept for emergencies?

Mr. FRENCH. Why, whenever an emergency comes they change the limit.

Senator HITCHCOCK. But is it not kept as against an emergency, so they would have that margin to go upon?

Mr. FRENCH. No; I should not say so, because in ordinary times they would never issue anywhere near that limit.

Senator HITCHCOCK. That is true, but I understand the change has come that the growth of the Bank of France has never been met in an emergency. It is to accommodate the increasing business of the bank and add in part to the increased reserves which the bank holds.

Mr. FRENCH. They have always put it ahead in times of prosperity and made it so much beyond the notes they were issuing that there could be added enough note issue to take care of the emergency.

Senator SHAFROTH. Do I understand you to say the national banks are prohibited from using their reserves?

Mr. FRENCH. Yes.

Senator SHAFROTH. I understand the law to be that they can use them and can cut into them to any extent, except that the comptroller can notify them to replace them in 30 days.

Mr. FRENCH. If they obey the law they will never cut into the legal reserve. A bank usually carries a bigger reserve than the legal reserve. The excess over the legal reserve, of course, they use to suit themselves. The legal reserve, if they obey the banking law, they have no right to cut into.

Senator HITCHCOCK. Don't you mean that they can not continue loans after they get down to the legal limit; they can pay depositors, but they can not continue loans.

Mr. FRENCH. No; they can not make additional loans. They have to stop and make that good.

Senator HITCHCOCK. But they can continue paying depositors.

Mr. FRENCH. They might continue paying depositors. I do not doubt that part of it; that is discharging a liability.

Senator HITCHCOCK. And they can continue to take deposits if they are in a solvent condition, but the reserve might be down to 10 per cent.

Mr. FRENCH. Oh, it can go still lower than that.

Senator HITCHCOCK. They could still pay depositors and continue taking deposits.

Mr. FRENCH. But for an institution performing the functions of a bank, one of which is to lend money, it seems to me that a reserve is utterly useless, as regards this function, if you are not allowed to use any part of it for that purpose.

Senator SHAFROTH. But you still have the use of it in paying out to persons who demand it at the counter on their checks.

Mr. FRENCH. Yes; but that alone would not stop a panic. The panic usually comes from the fact that solvent business men are unable to get the money at banks to pay their current bills, whether it be for labor or for merchandise or for other things. The foreign systems stop the panic by loans to solvent business men.

Senator SHAFROTH. They can get it if they have it in the bank, but can not borrow it.

Mr. FRENCH. They can get it until the bank closes its doors. The system is so bad that in 1907 the banks of the country had to go to work and devise some way outside of the law to issue money when they got down to their reserves. They issued what might be called clearing-house checks.

Senator SHAFROTH. What would you suggest as a remedy?

Mr. FRENCH. Why, to loan the reserves.

Senator SHAFROTH. And put no limitation on it?

Mr. FRENCH. It is under the control of the Federal board of control. They would fix the limitations. It would be well to increase the tax, as is done in Germany, when the reserve goes down, and as is required by this bill with respect to the reserve for deposits.

While we are talking on this subject of loaning reserves I wish to be understood as expressing the opinion that this will often help to prevent panics, but not as saying that we will never have commercial crises and industrial depressions which grow out of the unwise actions of business men. We can prevent such a panic as occurred in 1907—through the breaking down of our banking system—by provisions for an elastic note issue, the mobilization of reserves, and their use in time of need.

There is another thing that occurred to me in reading this act. After reading it carefully I could not make out what became of these Federal reserve notes after they had been redeemed, either at the counter of the bank or at the Treasury of the United States. I asked a banker what he understood, and told him I would put a case. Suppose that bank A, a national bank in Davenport, Iowa, has called upon a regional bank to rediscount its paper to the extent of \$100,000, in order to get \$100,000 of these new notes, saying, "We have here for your inspection the collateral, 60-day business paper." The answer is, "Yes; we believe that the conditions warrant the issuing of that much additional money; business demands require it. You shall have it. Here it is."

That same day that bank A pays out \$50,000 of that money to different people who borrow it. On that same day some one who has come into possession of these notes takes \$50,000 of them to the regional bank for redemption. The notes are redeemed. What becomes of these notes? Are they to be canceled or is the bank to pay them out again?

Senator HITCHCOCK. It is prohibited from paying them out under heavy penalty.

Mr. FRENCH. No; another regional bank is prohibited from paying out notes not its own. I am now asking you—

Senator NELSON. Here is the point about it. If the notes come into the bank and are redeemed by the bank they can not go out again unless there is a demand for them and they are loaned out again. If a regional bank redeems its notes in gold and retains the notes they can loan them out again upon proper security.

Mr. FRENCH. The collateral of \$100,000 to secure the notes is still in existence, held by the bank, to secure \$100,000 of notes, the issue of which was required by business needs. Some one who happened to want to send gold abroad has presented \$50,000 of them at once.

What I ask is whether it is necessary for the regional bank to make application to the board of control, perhaps the next morning, and say, "The power which you gave us yesterday to issue \$100,000 of these notes has become nugatory through force of circumstances as to \$50,000; \$50,000 of these notes have been redeemed by us. We hold collateral for \$100,000 of these notes and wish to reissue the \$50,000 of notes we have redeemed.

Senator SHAFROTH. But he has already got it, and he has loaned his money out that he got from the regional reserve bank, and no demand can be made upon it until the 60-day paper matures and then it comes in automatically.

Mr. FRENCH. You understand, then, he would not be required to redeem that paper; that is, the member bank that has deposited it for collateral?

Senator SHAFROTH. Of course he would be required to pay his paper that he has hypothecated. There is a confusion as between the redemption feature of the notes and the credit system which he exercises by reason of going there and hypothecating his collateral. He may get new notes issued to him, or he may get notes that are in the bank already, consisting of these reserves or consisting of the capital stock. For that reason, it seems to me, when they are redeemed and he gets his gold, the bank holds them there until there is some kind of demand for them, and when this 60-day paper matures it also pays back, and consequently they have gotten into their hands, of course, a large amount of money, but they can give it out again if anybody presents paper.

Mr. FRENCH. How are they going to hold them out? They may come into the regional reserve bank, exhausting its gold. How is that to get out again?

Senator HITCHCOCK. I do not think there is any doubt of this proposition that if a note belonging to one regional bank goes to another, that other bank can either charge it to the Government of the United States and send it to the Treasury, or it can send it to the regional reserve bank which issued it. If a note issued by a regional reserve bank comes in it can be paid out again—

Mr. FRENCH (interposing). By the same bank?

Senator HITCHCOCK. By the same bank; but it is not valid as a part of its reserves.

Mr. FRENCH. I understand that, but whether it can be paid out by the same bank—

Senator HITCHCOCK (interposing). Undoubtedly; the same bank can either present it to the Government—

Mr. FRENCH (interposing). What is the object, if I may ask the question, of the provision requiring one regional reserve bank to send for redemption the notes of another regional reserve bank, irrespective of whether the collateral put up to secure the note is still there or not? The Federal board of control has decided that business requires the expansion of the currency by so much. By mere chance a large part of this money issued by one regional reserve bank drifts into another regional reserve bank. Now, that bank is required not to issue it, but it is sent off by train to the other bank. It becomes dead from that minute, notwithstanding the decision of the Federal board of control that that much increase of currency was needed and notwithstanding the collateral is up to secure it and notwithstanding

the gold reserve is up. It seems to me they have provided for a lot of unnecessary machinery.

Senator SHAFROTH. It is done, no doubt, for the purpose of retiring this currency in some form and thereby getting over the exigency of its issue. I do not know that it is a wise provision.

Mr. FRENCH. Let me suggest why it was done. That provision was taken from the rules governing the Suffolk bank, where they depended entirely upon constant redemption to keep the notes on a parity with gold. In this case we have a deposit of commercial paper and also a gold reserve. And when you say that when a regional reserve bank gets the note of another reserve bank it must withdraw it from circulation, you have then come into direct opposition to the decision of the Federal board, which has decided that the needs of the country for currency were such that this currency ought to be outstanding.

Now, you can not say that it is the policy to have each regional reserve bank in the country redeem all its own notes, because you will find another provision in the law which says that any regional reserve bank may at any time decrease its liability on account of its notes by paying into the Government of the United States or to any Federal reserve agent lawful money of the United States, recognizing that when this note is once out it may never be redeemed, and recognizing also the principle that, although you do not redeem the particular note, yet, when the time for contraction has arrived, if you decrease some part of the currency, whether it be greenbacks, national-bank notes, or gold coin, and lay that aside, you have accomplished exactly the same purpose as if you hunted up these notes and canceled them to the extent of the money laid aside.

Senator SHAFROTH. But will not this provision have a tendency to cluster that bank currency, or this reserve note, and thereby place it so they can retire that absolutely and let loose these United States notes which have been taken up and which you say have been set aside? Is it not a means of clustering the paper issued under this bill—

Mr. FRENCH (interposing). It would help them to get it, but is there any object in their doing that?

Senator SHAFROTH. Some people think when you once issue money it is only needed for a short time, and thereafter should be retired.

Mr. FRENCH. When you set aside gold coin or greenbacks against these notes, do they not occupy the position of the gold certificate? There is gold set aside for the gold certificate in Washington; you might as well provide that every two or three months it should be sent on and redeemed in gold.

Senator HITCHCOCK. Judge, following up this hypothetical case that you state, suppose a regional reserve bank receives a bundle of notes that have been issued through another regional reserve bank, and it sends them to the Treasury of the United States for redemption. They are there redeemed out of the 5 per cent gold fund belonging to that particular regional bank, and then forwarded to the regional bank. Now, the regional bank can then issue that again.

Mr. FRENCH. That is just the proposition I started out with. I asked two gentlemen and I got opposite answers from the two; one said they could not reissue it and the other said they could.

Senator HITCHCOCK. Now, if, instead of that process, this first regional reserve bank sends these notes to the regional reserve bank through which they were issued, it will get a credit in return on the books of that bank, or a remittance of gold, and the bank receiving these notes will then have the option of paying them out again to those who may come for money.

Mr. FRENCH. If that is the fact, it will carry out the spirit of the act. The act will then keep in existence the money until the need for it has passed by. But unfortunately a great many people understand it just the other way. They tell me they are to be canceled whenever they are redeemed.

Senator HITCHCOCK. But that would not be possible because of the provision that the Treasury, when it redeems those notes in gold out of the reserve fund, immediately sends them to the bank through which they were issued, giving that bank the privilege of retiring them.

Mr. FRENCH. It should have it. But, as I said before, people understand the act differently. It should be made plain. You can only have such expansion as the board of control desires, and one regional bank ought to have an option whether it will pay out the notes of another regional reserve bank or send them in for redemption. The moment the collateral which secures them is paid off, then the currency should be decreased by the amount of the collateral, either by retirement of that amount of these notes, if at hand, or the deposit of a like amount of lawful money with the Government.

Senator HITCHCOCK. Of course, it is true the regional reserve bank which has received these notes must either pay them out or ship them for redemption, because it can not count them in its reserve.

Mr. FRENCH. Why should it not pay them out? But the law does not permit them to pay them out; it says they must ship them for redemption.

Senator SHAFROTH. It will take some little time to send them to Washington and get United States notes, but it seems to me it is not any more than right.

Mr. FRENCH. The point I make is that to the extent that the redemption does take place you are contracting the currency in violation of the spirit of the act, and you are incurring a needless expense in doing it.

Senator HITCHCOCK. That contraction is only momentary.

Mr. FRENCH. It may be only for a day or two, but why have even temporary contraction when not warranted by needs of business? Why not give the regional bank the option to pay them out or send them to the other bank for redemption?

Senator SHAFROTH. The national banks which get hold of the national-bank notes of another bank could reissue those to the people, but they do not do it because they need some money for reserve money and consequently they send it to the Treasury.

Mr. FRENCH. They do not have to.

Senator SHAFROTH. No; they do not have to except to get more money.

Mr. FRENCH. They do it when it will serve their purposes. In the case of the regional reserve notes they have to send the notes in for redemption.

Senator SHAFROTH. Do you think there ought to be more money that will act as reserves than we have at the present time?

Mr. FRENCH. Do you mean to let all reserves be increased?

Senator SHAFROTH. No; I do not mean that. I am referring to the character of the money that can act as reserves.

Mr. FRENCH. No; I would have a reserve of nothing but gold.

There is another thing that I have heard often discussed. Business men think from 1893 to 1896 we suffered, and it was because the people of this country had not fully made up their minds as to whether we were to be on a gold or some other standard. Now that it is decided we are on a gold standard, there should not be anything in this bill that will throw any possible doubt on the standard, but there should be everything in it that can appropriately be put in to maintain the standard. Instead of requiring the regional reserve bank to redeem in gold or lawful money it should be in gold.

Senator SHAFROTH. Do you not think that would have a tendency to deplete the gold reserves instead of fostering the gold standard?

Mr. FRENCH. No; I think it would be the other way.

Senator SHAFROTH. Take, for instance, \$100,000,000 issued by the Government, and they have \$100,000,000 of greenbacks payable in gold and then \$100,000,000 of this currency payable in lawful money. Suppose a man who had \$1,000 of this currency goes to the regional reserve bank and says, "I want gold," and the regional bank says, "No, we can not give you gold, we will give you lawful money, and we will send them to Washington. If you want to get gold for that you can take it down there." Suppose he takes it to Washington and he gets \$1,000 in gold in Washington, according to the terms of the bill. So the Government, by this operation, has practically redeemed \$2,000 in currency by \$1,000 in gold. The regional bank says, "If there is going to be plenty of gold I will lock this regional money up." When they come down to the National Treasury he says, "I will lock those United States notes up," and by the payment of \$1,000 in gold you have practically put out of power and out of the existing gold reserve \$2,000, and is that not an advantage to the gold reserve instead of a disadvantage?

Mr. FRENCH. I have not been able to follow you, but I think I can answer your question.

Senator SHAFROTH. Let us take it this way, then. Do you not see that the moment you have 12 places where a man can go and demand gold it is going to make 12 competing points for gold, each of them competing against the Treasury of the United States, because the United States has to have a reserve to redeem these very things that come in from other banks, and each one of these banks has to have a gold reserve, and they can not limit it to a certain amount. They have to have sufficient to protect them, and thus it will take a great deal more gold under those circumstances than if you make them redeemable in gold or lawful money.

Mr. FRENCH. I should think the amount required to supply the demand for gold would be exactly the same whether you had it scattered in 40 places or only had it in one place. It would be only a little more inconvenient.

Senator REED. I would like to ask how the Government of the United States is going to have a single dollar of gold. It also says

that every dollar shall be taken out of the Treasury and put in the reserve banks, on special deposit.

Senator SHAFROTH. There ought to be a central place.

Senator REED. I am suggesting if you had your idea in operation it would involve a somewhat radical change in the other statute.

Senator SHAFROTH. It might do that, but it involves a radical change now. In fact, you have created a gold reserve in Washington for the redemption of those notes.

Senator NELSON. The bill provides for 5 per cent of the capital and a $33\frac{1}{3}$ per cent reserve should be kept on deposit.

Senator REED. That is inadequate.

Senator NELSON. I think it ought to be 10 per cent.

Senator SHAFROTH. Do you not think the national-bank notes, by reason of being payable in lawful money, has relieved the national banks very largely from holding gold?

Mr. FRENCH. It has not relieved the amount of gold that had to be held either by the Government or the national banks—one or the other. One or the other of them has to hold, to maintain the gold standard, that gold so that there will be a sufficient amount of it, or you can not maintain it.

Senator SHAFROTH. Was that not put in the national-bank act for the very purpose of relieving that strain, and letting a large amount of money flow, which would ultimately be redeemable in gold, but which, by reason of the difficulties that exist in getting it there, would not be the case except with a person who wanted it for foreign shipment?

Mr. FRENCH. I do not think the character of the money you can ship can affect the demand for gold or the amount necessary to keep your currency safe. The point I make here is that at the present time there is an ample supply here of gold for these reserves. If, through any cause or other, our currency should ever become redundant, the money which would leave this country would be the gold. If we require a certain amount to be kept for our reserves in gold, it is not so likely to leave the country.

Senator NELSON. What about these bills? The bill provides they shall be a promise of the Government and issued by the Government.

Mr. FRENCH. I would either leave off the promise of the Government or I would put it on and make them legal tender. I would not have a halfway thing. I do not believe it is necessary to have any promise of the Government. I believe they will be strong enough without it. It can not hurt them. I am not afraid of having the Government help to maintain the banking system.

Senator SHAFROTH. What objection is there to making them a legal tender?

Mr. FRENCH. I do not think there is any, as far as I am concerned.

Senator SHAFROTH. Would it not strengthen the currency to make them legal tender?

Mr. FRENCH. Then it would strengthen something that would be perfectly good. The objection made by some to the Government making the promise to pay the notes and the objection to making them legal tender comes from the idea held by these persons that the Government should not go into the banking business, and that there-

fore it ought not to promise to pay the notes or make them legal tender.

Senator NELSON. And it ought not to do it?

Mr. FRENCH. It ought not to do it according to this conception of those who object to having the Government connected with the banking business. Personally I do not think the banks should be allowed to manage the whole thing themselves. The Government should be in control, and, on principle, I see no objection to making the notes legal tender. I think it would be unwise to have the Government redeem in the first instance, and the banks should do this.

Senator REED. I want to say that the statement I made about the money coming out of the Treasury ought to have been made with a qualification, and I intended to make it, was the qualification in regard to the 5 per cent fund for redemption, which is left there.

Senator NELSON. It is a question there whether it would not take the \$150,000,000 gold in the Treasury that is left there as redemption fund for the greenbacks.

Senator REED. The section reads:

That all moneys now held in the general fund of the Treasury except the 5 per cent fund for the redemption of outstanding national-bank notes shall, upon the direction of the Secretary of the Treasury, 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.

Senator NELSON. I think, Senator Reed, that \$150,000,000 under the act of 1900 is a special fund.

Senator REED. It is; and any man who wants to can take the greenbacks and have them redeemed and get it, and in that way it can be defeated. Banks could take the gold certificates and take that fund up, and, as far as I see, there would be practically nothing left except this 5 per cent fund. However, that is a matter which can be easily fixed in the bill, and I am calling attention to it because I think it is a matter that should be considered.

Senator SHAFROTH. Under the bill as it is, it is redeemable in gold or lawful money, which contemplates that these bills, if the banks are short of gold, will be redeemed in lawful money, and that as they find their way into other banks or come into the National Treasury for redemption that only 5 per cent will be necessary to redeem them all in gold—all that come in.

Senator NELSON. That has been the theory we have acted upon, but it has not been sufficient.

Senator SHAFROTH. No; it is still 10 per cent.

Senator REED. To redeem?

Senator SHAFROTH. Yes; and the experience with national-bank notes—

Senator REED (interposing). Ten per cent there and 33 per cent at the banks might do it.

Senator SHAFROTH. Ten per cent there would do it, without any gold in the banks at all.

Senator NELSON. Here is the point: If we require the banks to keep 10 per cent, we will always have a supply of gold in the country.

Senator SHAFROTH. I suppose it is impossible to prevent gold from going out of the country if it is demanded in a foreign country and if the demand there is worse than in our own.

Senator REED. When it is taken away it stops the issuance of paper to that extent.

Senator NELSON. It would put up the rate of interest at once and call it back.

(Thereupon, at 4.50 o'clock p. m., the committee adjourned, to meet at 10 o'clock a. m. to-morrow, Friday, October 10, 1913.)

FRIDAY, OCTOBER 10, 1913.

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

The committee assembled at 10.10 o'clock a. m.

Present: Senators Owen (chairman), Hitchcock, O'Gorman, Reed, Pomerene, Nelson, Bristow, and Weeks.

The CHAIRMAN. We will hear first, this morning, from Mr. Dawson, of Iowa.

STATEMENT OF A. F. DAWSON, PRESIDENT FIRST NATIONAL BANK, DAVENPORT, IOWA.

Senator POMERENE. Will you give us some particulars about your bank, as to the capital stock, deposits, and so forth?

Mr. DAWSON. The capital stock of the bank of which I am president is \$200,000; its surplus is \$200,000, and its deposits are about two and a half million.

I want to say to the committee at the very start that I did not come here to discuss this matter from the standpoint of the individual bank with which I happen to be connected. I think I can say to the committee at the very beginning, without regard to what this committee does in the way of legislation, that the bank with which I am connected will become a member of your new system. There are certain sentimental as well as other reasons which make that statement possible. The First National Bank of Davenport, Iowa, was the first national bank in operation in the United States. The bank which first began operations under the system 50 years ago is the bank with which I happen to be connected at this time. Having been the first one to go into the present system, we are going to be the last one to ever go out of the system, no matter what changes may take place in the meantime.

I came here to represent, primarily, the small country banker. Ours is a country bank. But it is not that class of banks that I expect to represent in what I have to say to the committee. I want to speak for the banks in Iowa, the banks of \$25,000 capital, and of \$50,000 capital, and of \$100,000 capital.

As soon as it was announced that we were to come to Washington—and I cite this only as an evidence of the interest which our people have taken in this legislation—I was called up by the chairman of the group organization in the group in which we reside, Mr. Wyman,

the president, stating that they had been considering the advisability of sending someone here, to represent the 118 banks in the group of the Iowa State Bankers' Association. So he insisted on sending on to me my credentials and asking me to represent the banks of that group before the committee. And the same thing was true with regard to the Davenport Clearing House. We have in Davenport eight banks represented in the clearing-house association, with total deposits of about \$30,000,000. Along with the Commercial Club of Davenport, representing 1,100 of the business men of that city, they asked me to take a letter showing that I was authorized, along with Judge French, who spoke yesterday, to speak for the business interests of that city.

It seems to me that the country banker is entitled to very great consideration in the matter of the formation of the new system. I regard him as the backbone of the system which we have now. And I ought to say at the outset that I have great respect and great admiration for the system which we have now, and the average national banker in Iowa and in the Middle West, and I think it is true of the whole country, the average man who is now connected with a national bank feels a pride in the system that we have at this time. He appreciates that for 50 years it has been serving a very useful purpose in the country; that it has been of material assistance to the Government in a great many ways, both at its inception and during the 50 years that it has been in operation.

The bank with which I am connected, at its very inception, in addition to the purchase of bonds to secure the circulation, sold over its counter during the Civil War several million of bonds direct to the investors out in that western community. So that we regard the national banks as having been more or less of a prominent prop to the national credit from the time of its establishment down to the present day.

I had some familiarity with the act of 1900, the gold-standard act, under which the national banks became subscribers, practically in whole, of the issue of 2 per cent bonds called the consols of 1930. I happened at that time to be associated with the gentleman who wrote that refunding provision, Senator Allison, of this body. Some of you who were here at that time may remember that the Secretary of the Treasury, then a distinguished Illinois gentleman, thought that it was utterly impossible for the Government of the United States to float its debt at the 2 per cent rate. That was from 1 to 1½ per cent less than any of the nations of the world were able to float their obligations at that time. And yet the author of the refunding provision was wise enough to see that there was a market for those bonds at 2 per cent, that the national banks were virtually obliged to take these new consols of 1930, no matter what rate of interest they carried.

Senator NELSON. Therefore they were really the instrumentality of saving us from 1 cent to a cent and a half a year interest?

Mr. DAWSON. Yes, sir. The members of the committee are, perhaps, familiar with the fact that some of the mathematicians of the Treasury Department at the time of that refunding transaction prepared a public document, which was a document of the Treasury Department not of Congress, which sets forth in dollars and cents the

exact saving to the Federal Government by reason of the refunding transaction of 1900.

Senator NELSON. Mr. Chairman, I wish you would take steps to get that document for the members of the committee.

Mr. DAWSON. You will find that in that document it is made plain that by that transaction the Government of the United States saved or made a profit of upward of \$17,000,000. Those are some of the things that are matters of pride to men who are in the national banking system. They have felt that as they went along they have not only served the communities well in which they have been located, but they have had that connection with the Federal Government that gives them some dignity and some standing.

Senator WEEKS. Mr. Dawson, would it not be fair to add, in that connection, that if the refunding was done on a 1 per cent lower basis than could otherwise have been the case the Government has been saving 1 per cent interest on those 2 per cent bonds every year since that time?

Mr. DAWSON. All these 13 years.

Senator WEEKS. Which means a saving of about \$100,000,000.

Mr. DAWSON. Then there is one other large fact in connection with the national banking system that should entitle them to the friendly consideration, it seems to me, of the Congress of the United States, and that is found in a statement of the report of the Comptroller of the Currency last year. In examining that report you ought at least to observe the statement he made, and I put it down so that I might have it accurate. He said:

The national banks have paid into the Government in taxes more than \$198,000,000, or more than thirteen times the amount appropriated by the Government for the business of the currency bureau during its entire existence.

In other words, Congress, during the existence of the national-banking system has appropriated \$15,000,000 and the national banks have paid in in taxes \$198,000,000, making \$183,000,000 and odd of taxes which the banks have paid to the Federal Government. But I think there is no difference of opinion among men who have respect and admiration for this system; there is no difference of opinion among students of this question that it is a defective system.

Senator REED. You are not laboring under the impression that this committee or Congress is inclined to make any war on the national banks, are you?

Mr. DAWSON. Not at all. And yet I find among the bankers out in the country the feeling, after reading some of the provisions of this bill—I would not say that they are punitive in their character and any of its provisions—at the same time some of them feel that the provisions are not as liberal as the banks are fairly entitled to have.

Senator REED. I thought we were trying to do so, to help save the banks from the disasters which occasionally fall upon them, instead of having any desire to punish them, and in that connection, while it is almost irrelevant to the issue, it strikes me that if both sides approach this question in that spirit, instead of passing denunciatory resolutions and calling people various names, complimentary or otherwise, we would be much nearer a solution.

Mr. DAWSON. I agree with you thoroughly in that last statement, and while men may get together in conventions and do certain things,

I think what this committee wants to know is the sober opinion of the men back at home, and I think I can say to you with perfect frankness and with entire truth, that the people of the country are considering this matter in a calm manner and from a nonpartisan standpoint. I think they are approaching it with the hope of a solution, and that it will be the best solution we can have at this time. I am sure that is the attitude of most of the bankers out in our country.

Of course, bankers are no different from any other class of men, but if a man is a successful banker he is at least broad-minded enough to see and appreciate that his only hope of success lies in the success of his community. It is along that path that his success lies. He can not hope for any advantage that is going to accrue to him at the expense of his community, and the things which will build up and best serve the community in which he is located is what is going to be best for him.

This system that we have now, there is general concurrence that it is a fair-weather system; when times are all right it operates to the satisfaction of nearly everyone; it handles the business of the country effectively.

So, as Senator Reed has said, I conceive it to be the duty of this committee—and in what I have to say I am only endeavoring to contribute a few observations in that direction—to create a system that will not break down in the days of financial stress and of financial stringency. This one has broken down four times since it was put into operation. My study of it leads me to believe that the first three times that it broke down we did not know what was the matter with us.

Senator NELSON. To what three times do you refer?

Mr. DAWSON. First, in 1884.

Senator NELSON. No; 1873 was the first panic growing out of the Jay Cooke failure; that was the first and most unnecessary up to that time.

Mr. DAWSON. The four that I have in mind, Senator, are the four times in most recent history when the banks were obliged to suspend specie payments. Of course, 1873 came before the resumption act. That was in 1884, and then again in 1890, in 1893, and in 1907. Those first three disturbances or breakdowns of the system, as you will remember, were complicated with commercial and political conditions.

Senator NELSON. Yes; and economic conditions.

Mr. DAWSON. So that the public was not enabled to see clearly that that breakdown was not the fault of the system. But when the disturbance of 1907 came along that made it clear to the business interests generally and to students generally just what the defects were in the present system. And, as I see it now, there is practical concurrence as to what the defects are. They all fall, it seems to me, under two heads, one the lack of elasticity and the other the reserve requirements, with no opportunity to unify the reserve.

So it is along those two lines that the banks of the country and the business men of the country are expecting relief. And at that point may I offer an explanation why there has not appeared before

this committee more business men instead of the men appearing here being practically all bankers?

Those of you who live in the smaller communities, or who have knowledge of conditions in the smaller communities, know that the business man in that community regards the banker as the credit merchant of the community. When he wants credit for the conduct of his business, he goes to the banker, and when it comes to considering a system whereby the business man can obtain his credit he has not the time nor the disposition to go into that. He naturally looks to the banker to provide or to at least look out and see that a system is in vogue under which the banker can supply the business man with his needs as he goes along.

There being now a practical concurrence, it seems to me, as to the defects of the present system, I have great hopes that Congress will apply the remedy. When we are able to diagnose a case, then the application of the remedy becomes much more simple.

For many years nobody could agree on what the trouble was with the present system, bankers or legislators, or anybody else. I remember that for many years it was a common saying in the House of Representatives that the Committee on Banking and Currency—that no two of the members of that committee could agree on anything.

But now the time seems to me propitious for the creation of a system that will measure up to the present needs of business and commerce throughout the United States. Being in substantial agreement upon the fundamentals, upon the fact that what we need in a system now is one that will introduce this element of elasticity and one that will provide for the mobilization and the unification of the reserves of the country; being in agreement upon that point, I think there is a very strong feeling among the people in my section of the country that the fundamental purposes of this bill are sound and good.

Now, there is not such a concurrence in regard to the details of the manner in which these principles are sought to be applied in this bill. But as to the fundamentals I believe the people are of the opinion that those fundamentals in the bill as it now stands are sound, and that they are the basis for a bill that will handle the business of the country successfully and efficiently.

Senator REED. Do you think that is also the opinion of the bankers of your State? You said that was the opinion of the people. Do you think that is also the opinion of the bankers?

Mr. DAWSON. I think it is. I have been in rather close contact with many of the bankers in my State. I have discussed the subject before group meetings and before State conventions of bankers. They have passed resolutions time and time again in concurrence as to what we need at the present time. And I am going to put that summary, with the consent of the committee, into the record.

The CHAIRMAN. We will be glad to have it.

Mr. DAWSON. I do not care to burden you by reading it, although it is very short. It is my idea of what a currency system ought to be.

Senator BRISTOW. You say that is your idea?

Mr. DAWSON. It is my idea, and I believe it thoroughly represents the ideas of the bankers in our section.

The CHAIRMAN. I think you had better read it.

Mr. DAWSON. It says, to summarize: What the country stands in need of is a banking and currency system, embracing these salient features.

That will give that element of elasticity to the currency which will respond to the varying needs of business at different seasons of the year, and as carefully safeguarded against inflation as against stringency.

The association of all banks into a national system, rather than one of scattered units, to obtain unity and cooperation in sustaining the commercial and public credit, but which should be absolutely secure against political domination or the control of concentrated wealth and which must preserve the individual independence of each bank.

Our people are very strong on that point.

The unification and mobilization of bank reserves, so that they can be concentrated and made available wherever most needed in times of trouble, and the machinery to strengthen bank reserves or increase their loaning power when necessary to avert danger.

To these three principal features there should be other additions to provide an acceptable standard for commercial paper and a well-organized market for the same, to secure more uniformity in discount rates in all parts of the country, permission to American banks to do business in foreign countries, and an agency which can deal effectively with the course of foreign exchange and the international movements of gold.

Now, it seems to me that the underlying purpose of this bill goes directly to those three fundamental necessities of the present situation, and I undertake to say that there is substantial agreement among all the bankers of our State as to the soundness and as to the necessity for those three things. Time and again at the State convention of the bankers' association there have been passed resolutions along those very lines.

The CHAIRMAN. Your statement seems to be very clear, and I believe really is pretty nearly in accord with the views of the members of this committee. If it is not, I will be very glad to hear to that effect from any member of the committee.

Senator HITCHCOCK. It is the most succinct statement I have heard. I am especially pleased to hear you emphasize what you said in regard to the maintenance of the independence of the banks.

Mr. DAWSON. That is vital.

The CHAIRMAN. That is the very basis of the system.

Senator HITCHCOCK. I have been afraid that this bill did not provide for that; did not guarantee to the individual bank the things which it ought to have as a matter of right, but left it too much to the discretion of men intrusted with power.

Mr. DAWSON. The integrity of the independent banker, it seems to me, is vital to the influence and advancement of our country as a whole. The branch banking system, it seems to me, would do more to retard the progress of our country out in our section. As it is now, an independent bank is owned by the people of the community, the stockholders all live in the community, and the little cashier who runs that country bank has at heart the welfare and upbuilding of that community. If it was simply a branch of a great institution in Chicago or New York, they would simply be skimming these

communities instead of building them up. So that the question of the integrity and independence is a vital question.

Senator HITCHCOCK. It is the only way to maintain competition between them. If you do not have competition between them you do not have facilities which you need.

Mr. DAWSON. You do not when you do not build up the community.

Senator REED. You do not retain in the community the wealth which the community creates.

Mr. DAWSON. That is true, also. The profits would go to some concern outside.

Senator NELSON. These big banks, Mr. Dawson, do not appreciate how much those little country banks do in a community. I have seen poor fellows come in and get money, mortgaging their last cow, and they could not get it from these big banks.

Mr. DAWSON. No; nor could they obtain it if the man who was running that bank was a representative or a clerk sent out from New York to run that bank.

The CHAIRMAN. That is really the basis of the American system, distinguishing it from the system of other nations?

Mr. DAWSON. Unquestionably; and that must be preserved in any system in the future, in my opinion.

Senator REED. I think we all agree to that. I think the most interesting question you will have to discuss would be whether this system does preserve the independence of the individual bankers.

Senator HITCHCOCK. I want to say to Mr. Dawson, as one member of this committee, that the question that most troubles me is the very question as to whether the banks' independence is preserved under this bill, and I make that suggestion in the hope that when you reach that topic you will discuss it fully.

Mr. DAWSON. I will be very glad to. There is practical concurrence, in my opinion, among the bankers of the West as to the value of the rediscount machinery which is created in this bill. Of the two defects—nonelasticity and reserve requirements—the one relating to reserves is of vastly greater importance than the one relating to elasticity. That is vital in time of stress. They have seen in the past a condition arise—a condition over which they had no control, a condition for which they were in no way responsible, the smaller banks of the West—they have seen a condition arise where this system of ours would break down and not perform the natural functions for which it was created.

Senator NELSON. Their reserves would be tied up?

Mr. DAWSON. Yes; when they could not get money that belonged to them.

The CHAIRMAN. They had less additional accommodation.

Mr. DAWSON. Yes, sir; so that I believe this reserve matter is of vastly greater importance than the element regarding elasticity.

You know how it works now. The banks are all put into a scramble the minute any trouble appears. Each one becomes a competitor of every other bank in its struggle to mass a sufficient amount of reserves to take care of any trouble which may come to its doors. This rediscount provision will unquestionably enable the country, as a whole, to increase the reserves when it is necessary to increase them. Under the present system, in the days of disturbance and panic banks

are not only embarrassed with respect to their reserve requirements, but they are obliged to slam the door in the face of the borrower at the time when he needs it the most.

Now, it is well understood that losses growing out of such conditions fall with greatest severity upon those who are least able to bear them. When hard times come it is the men of limited resources who are hit the hardest.

I think the interest of the general public, the interest of the farmer and the wage earner, in this legislation is much greater than the banker's.

The CHAIRMAN. There is no doubt about that.

Mr. DAWSON. Because the banker can trim his sails to the breeze; he can adjust his operations to the conditions as they exist.

The CHAIRMAN. He can force the sale of collateral and ruin the borrower, and is obliged to do it at times in order to save himself, is he not?

Mr. DAWSON. That is true; to sacrifice it. But what is the small business man going to do who is fairly entitled to credit? If he is unable to use his credit he goes to the wall. There is no escape for the wage earner if he is thrown out of a job. Nor is there for the farmer if there is a tremendous slump in the value of his products, by reason of a financial panic, such as occurred in 1907. There is no escape for him.

So this question of reserves is really the vital question. If banks are enabled to replenish their reserves in time of need—if you please, if they are permitted to use their reserves in time of need, for the purpose for which the reserves were created—they can undoubtedly do much to allay fear and to allay panics. As it is, men get scared, they are filled with fear; and fear is the stuff of which a panic is made.

Senator NELSON. Excuse me for breaking in, but I think it becomes necessary: Is not that one beauty of the system here, that the reserves put in the reserve bank can be utilized, as it never could under the old system?

Mr. DAWSON. Yes; and now it is scattered all through 25,000 little banks in the United States.

The CHAIRMAN. You regard that as a good feature of this bill?

Mr. DAWSON. The mobilization feature in this bill?

The CHAIRMAN. Yes.

Mr. DAWSON. Yes; I do. I am going to suggest some changes in the manner in which you propose to mobilize them.

The CHAIRMAN. I hope you do so, when you get to that point.

Mr. DAWSON. Yes. As it is now, some one, it seems to me, put it very forcefully: If you had a water system in your town, whereby each citizen had a cistern of water, only to be used to put a fire out on his own premises and could not be used to put out a fire on his neighbors' premises, and a fire breaks out, his neighbors could render him no assistance. There is no mechanism in this present system whereby to induce cooperation and unity in the 25,000 banks.

Senator POMERENE. In the present law, you mean?

Mr. DAWSON. Yes.

Senator HITCHCOCK. Of course, now, you are quoting from the Aldrich report. Do you approve of the Aldrich report?

Mr. DAWSON. I was not aware I was quoting from that. I have read that report. You refer to the report of the National Monetary Commission?

Senator HITCHCOCK. Yes. That was the illustration used there, and I wanted to know if you approved of it.

The CHAIRMAN. It has been used many times; it is an old simile.

Mr. DAWSON. I would not want to make a blanket approval of all the things in that report.

Senator NELSON. I think the president of the National City Bank, yesterday or the day before, used a term I do not know as I have heard before, but it was a very good one. He spoke about "piping" the reserves from one regional reserve bank to another, as I recall it. I think that was a new phrase, and a very apt and effective one.

Senator SHAFROTH. Oh, they have been using that a good deal—"reservoir."

Senator NELSON. Oh, no; he said "piping" the reserves from one bank to the other.

Mr. DAWSON. I recall some one in the House used that phrase in connection with this bill.

I do not think I shall inflict my individual views on this committee with regard to the character of the notes you have provided for in this bill. I do not believe the people of the United States care very much about the different schools of financial thought with regard to the bank notes.

Senator NELSON. That is, you mean whether they are the mere promise of the banks or the mere promise of the Government.

Mr. DAWSON. Yes.

Senator NELSON. Or whether they are legal tender or not.

Mr. DAWSON. Yes. The main thing that the average citizen of the United States wants to know when he receives a piece of paper money is that it is just as good as gold. That is the condition that prevails to-day. He does not care; he does not look to see whether it is a note of a national bank, a greenback, a silver certificate, or a gold certificate. He knows one is just as good as the other and can be exchanged for gold. So that in this new currency you create all that he wants to know is that it is sound; it has the assets behind it. A true bank note should embrace these three principles—security, convertability, and elasticity. That is my conception of the three fundamental principles of a bank note.

If you provide a note that he feels is sound and upon which he believes he can get the gold any time he wants it, I do not think he is going to care much whether it is a bank note or whether it is a Government obligation. So far as I myself am concerned, I do not agree to the principles which underlie the note that is created in this bill. I can not find anything like it in any of the systems of the world. It seems to me like a departure from what has generally been regarded as a scientific bank note. It is issued with the assets of banks primarily, along with other security, behind it. Then the Government steps in and makes it a direct obligation of theirs. It seems to combine the three principles that divide the bank notes of the world into the classes where they are now.

Senator HITCHCOCK. After all, is it not only another way of putting Government credit behind the paper? The Government credit is already behind the national-bank notes in the shape of bonds.

Mr. DAWSON. The systems of the world are based on one of three principles, as I understand it. They are the currency principle, the banking principle, and the bond-secured principle. The banking principle holds that the total assets of the bank are the proper security for its note issues. The currency principle is that of issuing notes against a reserve; and, of course, the bond-secured principle is the one we have with the national-bank note, where long-time bonds, good bonds, are the basis for the note issues. This new money which the bill provides combines the banking principle and the currency principle in that it puts behind it not only the total assets of the bank, but also puts behind it a gold reserve of 33½ per cent, besides also dollar for dollar of commercial paper. So that it seems to me that the question of doubt will never arise in the mind of the average person who takes one of these notes as to its security.

The CHAIRMAN. If the bank were to fail, and if the 2 per cent bonds were to go down to 75, do you think the notes of such a bank would ever reach a discount?

Mr. DAWSON. I can see where a condition of that sort might lead to—

The CHAIRMAN (interposing). Does not our statute at present compel the United States to maintain at parity the national-bank notes and the other forms of notes issued by the Government?

Mr. DAWSON. That is true.

Senator NELSON. Not the national-bank notes?

The CHAIRMAN. Yes; I think so, Senator.

Senator NELSON. Not directly?

Senator SHAFROTH. It says "all forms of money."

The CHAIRMAN. Yes; all forms of money.

Mr. DAWSON. You can trade one for the other and get gold.

The CHAIRMAN. What I am calling attention to is that the United States, in addition to these bonds, is putting its credit behind the national-bank notes. Therefore, the national-bank note, at present, has not only the bonds and the credit of the individual bank but also the credit of the United States, as such, behind it; and for that reason no citizen need examine a national-bank note to ascertain whether there is a possibility of a discount on it.

Mr. DAWSON. I think this new currency will have the same virtue, only in an added degree, I would say.

The CHAIRMAN. I only refer to that to show there was a precedent.

Senator SHAFROTH. Mr. Dawson, these notes are issued or made redeemable in gold or lawful money, and I want to see whether you can subscribe to my view on that.

Mr. DAWSON. I shall be very glad to have your view.

Senator SHAFROTH. My view is this, that where a currency of this kind is redeemable in lawful money, and the lawful money redeemable at the Treasury in gold, it presents a strain on gold where there is a run on the gold reserve. In other words, it is like the national-bank notes in that respect. The national-bank notes are redeemable in lawful money. A man who holds \$1,000 in national-bank notes can go to the bank and say, "Give me lawful money for this"; and they can give him a greenback. If it is in these regional banks that are to act with the Government they take that, if there is an apparent run, and lock it up in the vault, and say, "We will stop that run to

that extent." The man then takes the greenback, and takes it down to the Treasury of the United States, or presents it there, and says, "Give me gold for it." The Treasury says, "We don't want this endless chain going on, and we want this run stopped, and we will put this away." By that process the Government has redeemed \$2,000 of notes by \$1,000 of gold; whereas if that money is redeemable in every instance in gold the result will be \$1,000 in gold will redeem only \$1,000 in notes. Is not that sound?

Mr. DAWSON. I am not quite able to see how \$1,000 has performed a double function—a double duty.

Senator SHAFROTH. The note circulates just like the national-bank note circulates. Nobody, because he knows he can get gold for it, hesitates to take it.

Mr. DAWSON. Certainly not.

Senator SHAFROTH. And if a man took \$1,000 of regional bank currency to a national bank and said "I want you to give me gold, or give me lawful money," and the bank gives him greenbacks. And so, being allied with the Government, it does not want this run on the Treasury, and it will say "We will lock this up," that \$1,000 they have taken in and for which they have given you \$1,000 in lawful money. So that \$1,000 is locked up there and can not get into circulation again, and won't make a run on the Treasury for gold. The man takes down to the Treasury of the United States the greenbacks or United States notes, or lawful money or legal tender, and presents it to the United States Government, and the United States Government gives gold for it. The Treasury says "We will lock that up if there is a run on us," and we always have in the Treasury a good many millions of legal tender on hand and do not issue it, notwithstanding there may be provisions in the law it should be issued.

Mr. DAWSON. The law requires it to be reissued.

Senator SHAFROTH. And it means in time of normal conditions. Thereby you have gotten \$2,000 of currency that is ultimately redeemable in gold and have redeemed it by \$1,000 in gold in the United States Treasury.

Now, why does not that relieve the strain on gold if there is a run on gold? Of course it does not make any difference if there is no run on gold.

Mr. DAWSON. My own opinion is that any man who has a piece of paper money is entitled to exchange that for gold whenever he wants to, and your thought of impounding these notes after they have been redeemed in gold only emphasizes what has been in my mind in regard to this particular currency. Your statement of facts presupposes that there is a danger of dragging an endless chain through the Treasury of the United States under such conditions. We all saw how that worked during Cleveland's second term.

Senator NELSON. I want to call your attention, Mr. Dawson, how, at the time of Cleveland's second term, there was a firm of Jews in New York—whether they operated on their own account or others I do not know—who made a business of going to the Government with greenbacks and drawing out the gold and shipping it to Europe. There was a shipment regularly every week. I recall that very well. They used those greenbacks to draw out the actual gold, and the more you have of that in this bill the more you equip that kind of men, who want to get more for gold when it is at a premium, to call

on the Treasury for gold—the more you put in the hands of those men paper that is payable in gold.

Senator SHAFROTH. Unless you lock it up.

Mr. DAWSON. Certainly. But eventually the currency of the United States becomes the currency in these regional banks. That is, they are to displace the national-bank notes, and they are to be issued for seasonal expansion, etc. If it only displaces the national-bank notes and supplies this seasonal deficiency, there would be \$1,000,000,000 of that outstanding, not taking into account any natural increase in the necessities as time goes on.

Senator POMERENE. I want to remind the committee that every one of them is violating the rule which was formally adopted here some days ago. And, with all due respect, it seems to me it is going to be more satisfactory both to the committee as a whole and to the witnesses as well should they be permitted to complete their statement first and let the examination or cross-examination come afterwards.

Senator SHAFROTH. I thought he was through his statement.

Senator REED. I have always regarded it as a great impoliteness, Mr. Chairman, for any other member of the committee to interrogate the witness. [Laughter.]

Mr. DAWSON. So far as I am concerned I am perfectly willing to be interrupted at any time and answer any questions which the members of the committee may desire to ask.

The CHAIRMAN. That is the rule of the committee, Mr. Dawson. Had you completed your statement?

Mr. DAWSON. No, sir.

The CHAIRMAN. Then we will permit you to proceed.

Mr. DAWSON. I have been at both ends of the congressional interrogation point, and it does not matter to me when it appears.

So much for the character of the currency provided in this bill.

The fear that is lurking in my mind is that you are creating there a species of greenbacks by making it a direct obligation of the Government, and imposing on the Government the necessity for redemption in gold, or, at least, giving permission to the note holder to take it to the Treasury and ask for its redemption in gold; that you are adding to the system of credit money in the United States another billion of notes which might at some future time, either in time of war or even in time of peace when the receipts of the Government should happen to be less than its expenditures, embarrass the Government. My fear is that there will be a billion dollars of these new notes, which we might call a denatured or modified greenback, if you please. My fear is that there will be a billion dollars which can be dragged through the Treasury, the same as \$346,000,000 were dragged through during the second administration of Cleveland. So I have not been able to see why it was necessary to superimpose—I think the security which is behind these notes is ample—why you should superimpose the credit of the Government—why you should make it a direct obligation of the Government. That is not a true bank note. A true bank note is an obligation of the bank, based on the assets of the bank.

If there is any increase in the note issue it should be increased with due regard to the increase and decrease of business. That question of elasticity is another question that is one of great im-

portance. It seems to me that this certainty of elasticity is not quite sufficiently provided for in this bill. I may be wrong; it may be in here some place where I have not discovered it, but it ought to be so clear and so plain no one could misunderstand it, or no two men might differ in regard to it. We all understand that at certain seasons of the year there is necessity for an expansion of credit currency, or at least an expansion of credit. Just how much this is, men differ about, but substantially it is about \$200,000,000. We want the machinery whereby that additional currency can be obtained when it is needed; but it is just as important, in my opinion, to have the machinery so adjusted that when the need of that has passed, that additional currency will not become a permanent part of the circulation of the country. It wants to expand and contract, and the question of the contraction is just as important as the question of the expansion.

Now, I assume that the purpose of this bill is to do that very thing; that is, to create a currency that is based on the business of the country and which, therefore, expands and contracts with the business of the country. That is why you base it on short-time commercial paper. It seems to me there should be no doubt left at all that the commercial paper that is deposited with the regional reserve bank, as collateral for those notes—that when this collateral is paid off, that then the amount of notes or the same amount of some other sort of money ought to be taken out of the permanent circulation of the United States.

That can be done, it seems to me, with one provision, and while it is not in the bill, it may be implied, and that is this: That the parity should be maintained between the collateral held by the regional reserve bank and the amount of these notes outstanding that were issued against that collateral. For instance, suppose the First National Bank of Davenport should take to the regional reserve bank \$100,000 of its bills receivable and deposit them as collateral and receive \$100,000 of these Government notes provided in this bill. When those commercial notes are paid, those bills receivable are paid, and the circulation ought to be reduced by that amount, unquestionably. So, it seems to me, the principle can be established in here, without any chance of wavering one way or the other, if a provision is included whereby the parity will be maintained between the collateral held by the regional reserve bank and the amount of notes which they have issued against that collateral.

Senator REED. By parity you mean equality in amount?

Mr. DAWSON. Yes; one should go up and down with the other.

Senator NELSON. Let me ask you a question for information right at that point. I want to clear my mind on it. You mean that would be reached by retiring the note when it is finally presented to the issuing regional bank for redemption?

Senator WEEKS. Where is the watchdog? [Laughter.]

Senator NELSON. Well, I wanted this step cleared up as I went along. [Laughter.]

The CHAIRMAN. The witness will proceed.

Senator HITCHCOCK. I move a special watchdog be set over the member from Minnesota.

The CHAIRMAN. The members will hereafter observe the rule which the committee has adopted, not to interrupt the witness.

Senator REED. There is an obvious difference between an interruption and a question that is asked for the purpose of elucidating some point which a witness presents. [Laughter.]

The CHAIRMAN. Well, Mr. Dawson, we will proceed.

Mr. DAWSON. I want to say, Mr. Chairman, so far as the witness is concerned, I am perfectly willing to be interrupted at any time.

Senator NELSON. I will withdraw my question.

Mr. DAWSON. I say there ought to be in this bill an exact statement of policy with regard to the maintenance of equality in amount of the collateral and the outstanding notes. The country will naturally assume that that is the policy of this bill, and yet there is no positive statement that it is the case.

One other question with relation to this bill, and one in which the smaller country bank feels a proportionate interest with the larger banks, perhaps in a lesser degree, is the one of organization and control. With regard to the manner in which the new system is to be organized and the control which is to be provided for it, my own opinion is that some changes could wisely be made. It seems to me it would be wise to initiate this system with a less number of regional reserve banks than 12. There are many reasons that commend that to my mind. I think the system should start out with about 5 and with power reposed in the Federal reserve board, if you please, to increase that number as the system gets into operation.

This is a rather violent change from what we have now, and violent changes in currency or financial matters are not in accord with the spirit which guides or which controls financial transactions. The more conservative we can be in anything relating to so complex and so sensitive a subject as the finances and business of this great Nation of ours the better it is going to be, especially after we have determined in our own minds the end which it is sought to attain. The best way, in my opinion, to attain that end is by a most gradual process. So if I had my way I would start this system with five reserve banks, with power in the reserve board to increase them as necessity for it arose. With 12 banks, under the terms of the law, each bank subscribing 10 per cent of its capital, if all of the national banks of the United States were to come in, you might have regional reserve banks which would be smaller in capital than some of its constituent members, and that, it does not seem to me, would comport with the dignity of a great Federal bank—for instance, a Federal bank in the city of New York that in itself was smaller in capital than one of the members of the association.

Senator REED. Would that be the case in New York?

Mr. DAWSON. I have not gone into the exact figures of it, but it might. Of course, it would depend upon how the regions were arranged. It might occur in Chicago, where one bank has a capital of over \$30,000,000. That is one reason why we should start with a lesser number. Then if any considerable portion of the banks did not come into the new system, if 1 out of 5 of the national banks decline to enter the new system, then it would be impossible to organize 12 Government banks, each one with a capital of not less than \$5,000,000. Therefore my thought would be to start with five,

and then extend gradually as the needs of the country develop, and as we gather experience and knowledge of the workings of the new system, which is a wide departure from what we have now. So much for the question of organization.

On the question of control, I was glad that the committee agreed with me in the fundamentals I laid down at the beginning of the hearing, that a system which would meet the needs of the people of the United States ought to be free, on the one hand, from any possible political control, and on the other from its domination by the concentrated wealth of the United States. In the question of the make-up of this central board there is a feeling among the bankers and many of the business men that there is a possibility of political considerations entering into it. That, it seems to me, can be obviated. The question of Government control is one, I think, that is fairly accepted by the banks and the people of the United States. We have been moving on, in the last few years, and I think there is a consensus of opinion, at least among the people, if there is not among certain classes of bankers, that there is no objection to Government control of this system. Some complain, and, indeed, attempt to draw a distinction between control and actual management, but Government supervision is generally accepted by all the people. So that there is no question in anybody's mind on that, but they do want, if the Government is going to control, to have machinery which will make it absolutely certain it will be divorced from politics. Politics and banking do not mix at all, and I speak with some knowledge of the subject, because I have been in both.

Senator HITCHCOCK. You finally preferred banking?

Mr. DAWSON. I find it much more comfortable to be in a bank to-day in Iowa than to be in public life in Washington now, being a Republican. [Laughter.]

The bill proposes to put on three members of the President's official family. I can not see any justification for that. My view is that these seven men will have in their hands greater financial responsibility than any seven men in the world. It will require the undivided time and attention of the best men you can obtain in the United States to master the broad questions that will have to be handled by that board, to say nothing of the other almost autocratic powers which they exercise. So that it seems to me a Cabinet officer sitting as a member of that board must, in the very nature of things, be, to a large extent, a figurehead. I would except, however, the Secretary of the Treasury. I believe he should be a member of that board on account of the intimate connection between the Treasury Department and the finances of the United States. But I have not been able to understand why it is necessary to put on that board not only the Secretary of the Treasury, but the Comptroller of the Currency, who is a subordinate of the Secretary of the Treasury. You put on one man who is subordinate to the other, and in ordinary affairs that would simply mean that the superior officer would have two votes instead of one.

Nor can I see the reason for including the Secretary of Agriculture on that board, who has his hands full in the problems that are confronting him, the problems he has to solve in American agriculture, the great basic industry of our whole Nation. His advice would be

valuable, in my opinion, but instead of being on that board in an active executive capacity, if you want his advice, create the machinery that would enable you to obtain it, or enable him to act with the board in an advisory capacity. But as I see the duties of this board in the future, no man who has to perform the multitudinous duties of a department of the Government, or a Cabinet office, is going to have time to perform efficiently the services on this board. So I can not agree it is wise to put on either the Secretary of Agriculture or the Comptroller of the Currency. Of the other four members of that committee I want to discuss this in a practical way. The bill proposes to make their terms two, four, six, and eight years. That makes the terms of the members of this board, five out of seven, coincident with the term of a President. Every presidential term that comes along (and I want to state right here that I have no fear of anything in that direction under this administration; but no man can tell what the future holds in store for us), as the bill is drawn now, that President would have the appointment at the very beginning of his administration of five of these seven members. There is the machinery there, if any President sought to use it, whereby he could easily have control of this board from the very beginning of his administration.

Senator SHAFROTH. Four, you mean, do you not?

Mr. DAWSON. As it stands now he would appoint three members of his official family—the Secretary of Agriculture, the Secretary of the Treasury, and the Comptroller of the Currency.

Senator SHAFROTH. And one member immediately of the other board?

Mr. DAWSON. Yes; one member. That would be four of the seven, instead of five of the seven. I think that it should be so arranged, and I believe that it is the purpose of the framers of this bill, so as to have that board stand on the same high plane that the Supreme Court of the United States stands on or that the Interstate Commerce Commission stands on, and if that is so, would it not be wise to take out of the hands of the President, whoever he is, as he comes along down the years—take out of his hands the power, in his first term—to absolutely control the majority of the members of that board?

Senator REED. The first term? You know, there will not be but one term.

Mr. DAWSON. Well, one party will take care of that all right. [Laughter.]

Senator SHAFROTH. Where is the watchman? [Laughter.]

Mr. DAWSON. Then there is no doubt but what it is a source of great complaint, and it is a question in which there is a principle involved, whether or not the men, a class of men, if you please, that are selected to put all of the capital in this institution are to be denied any representation at all in its control. That is a pretty big question; that is a pretty broad question. I should say that if the Government supplied the capital to this bank, or if the people generally supplied the capital to this bank—

Senator BRISTOW (interposing). Voluntarily.

Mr. DAWSON. Yes; then the Government should select the men for the control and management of it. But this bill picks out a limited class of citizens of the United States, the stockholders in the national

banks scattered over the country, and requires them to pay a proportion of their capital to make up the capital stock of this bank, and yet it denies them any representation on the controlling board. Now, my thought is, and I am sure it is in exact accord with the thought of the committee, that that board should be made the most efficient board possible. And I believe it would produce an element of efficiency in that board, and I believe it would make it stronger, and I believe it would be better for the commercial interests and the business interests of the country and the successful operation of this new system, if the banks select a minority representation on that board—if they select two members, if you please.

Senator NELSON. Out of seven?

Mr. DAWSON. Yes; out of seven. I would not select those men and permit them to have active connections with any bank, of course. I would stipulate that these men should sever all active banking connections. But by permitting the stockholders to select two members of this board, a minority representation on this board, it will minimize the opportunity for political control of the board and would obviate a feeling of injustice that does prevail to a considerable extent among the men who supply the capital for the institution.

But the real test of this system, gentlemen, is whether the banks are going to come in. I do not care how perfect a system may be devised around a committee table or anywhere else, if you can not put it into operation of course it is useless. So that the principal question, and the question from which I want to speak, is that practical question of whether the banks—all of the national banks and a majority of the other banks, if you please—whether they are going to come into the system as it stands in the bill now before you. We have in the national-banking system now about 7,500 banks, and 7,000 of those banks, as you know, are the country banks. I maintain that the small bank is the backbone of the national-banking system, and if you create a system here that is only going to take the banks in the reserve cities and central reserve cities, then you have destroyed the system we have now instead of giving us a greater system.

Now, it may be well, in order to understand what I have to say, for me to call attention to the percentage of banks of various size in the present national-bank system—of these 7,000 country banks. Banks with a capital of less than \$50,000 comprise almost one-third of the system—and when I say less than \$50,000, that means banks of \$25,000 and \$40,000 capital. They comprise 32.34 per cent of the national banks of the United States.

Senator WEEKS. In number?

Mr. DAWSON. In number. The banks of more than \$50,000 and less than \$100,000 capital comprise 31.38 per cent. Banks of \$100,000—and out in the county-seat towns of Iowa a great many of the national banks have \$100,000 capital; that is, a strictly country national bank in the truest sense of that term. The banks of \$100,000 and less than \$250,000 comprise 27.12 per cent more. Therefore all the banks of less than \$250,000 capital make up almost 91 per cent of the national banks of the United States, while those of a capital of \$250,000 and up comprise only 9.26 per cent. My conception is that those little banks must be in the new system if we are to have some-

thing as good as, to say nothing of being greater, than the system we have now.

Now, I have my own idea of what a great national banking and currency system should be. I expressed it somewhat briefly at the beginning of my statement. It has always seemed to me a source of some humiliation as an American to contemplate that here is the United States possessing the greatest banking power of any nation in the world and yet helpless to exercise that power. It hurts my pride to contemplate the fact that we have a foreign trade of \$3,000,000,000 a year, going and coming, and yet that trade is not financed under an American system of banking and currency.

The value of the merchandise exported and imported is not expressed in dollars and cents, as it ought to be; it is expressed in pounds and pence. I can see no reason why the United States should not have a system that would enable us to take our proper place among the financial powers of the world. You have all been engaged in reading the views of foreign writers on financial subjects, and you find running through them constantly a spirit of derision and contempt for the system as it is in the United States. And it is fairly well merited, gentlemen, when you stop to consider it from the broader aspects of the national and international sides of it.

Another thing that is rather humiliating to Americans is that in the panic of 1907, you remember, we were obliged to send abroad for gold. We imported from Europe a considerable amount of gold to allay the panic of 1907.

Senator NELSON. Nearly \$100,000,000.

Mr. DAWSON. Nearly \$100,000,000. How did we get that gold? Of course, we had no machinery under our system whereby we could induce that gold to come here. We had simply to take our securities to the foreign markets and dump them in the foreign bourses for what they would bring.

Senator NELSON. I want to correct you, if I may. We obtained that gold—and I have Mr. Vanderlip's authority for it—on American bills of lading for American products—wheat, cotton, etc.—in that instance, and not on finance bills. It was obtained strictly on commercial bills.

Mr. DAWSON. Which makes it all the worse, it seems to me, from the standpoint from which I am speaking. We obtained that \$100,000,000 of gold finally from Europe. Most of it came from England, and the humiliating part was that right here in the Treasury of the United States at that very moment was twelve times as much gold as England possesses in her entire system.

Here was the United States, with the greatest gold supply of any nation in the world, with the greatest banking power of any nation in the world, and yet sitting helpless among the nations of the world so far as cutting any figure in international finance is concerned, not to say our own foreign trade.

So it seems to me what we ought to have here is a system that will bring together—that will knit together, if you please—not only these national banks, but all the banks of the United States—bring in the 25,000 banks and associate them together in such a way that the United States can exercise this great banking power.

In my judgment such a system can never be constructed on compulsory membership. I do not believe you can ever hope to attain the

kind of system that I think the United States ought to have by compelling banks to go into it. It seems to me that the broad view would contemplate a system such that all would delight to go into it, because the small banker wants to be a part of these great movements. He would be glad to become a part without destroying his independence of activity in his own community; he would be delighted, I think, to become a part of such a system. He would have a better appreciation of his citizenship.

We started out with a national banking system and 20 years ago it was the paramount system in the United States; it was the commanding system. The figures show—it was really only 19 years ago, in 1894—that there were more national banks in the United States than there were State banks. I have the figures before me. In 1894 there were 3,770 national banks and 3,705 State banks. In 1912 there were—these figures were taken from the report of the comptroller and consequently they are for 1912—there were 7,372 national banks and 17,823 State banks.

Senator NELSON. That included trust companies, did it not? I think so.

Mr. DAWSON. Of which there are not a very large number. Here are the deposits. In 1912 the deposits of the national banks were \$5,825,000,000, while the deposits of the State banks amounted to \$11,198,000,000. Of the banking power between the State and the national banks—and when I speak of banking power my understanding of it is that power represented by the capital, the surplus, the undivided profits, the circulation, and the deposits of the bank. That represents banking power, as I understand the term.

Senator NELSON. You include the deposits in that?

Mr. DAWSON. Capital, surplus, deposits, and circulation; those four items. The national banks possess \$8,500,000,000 of banking power in the United States and the State banks \$14,000,000,000 of banking power.

Senator BRISTOW. Have you those comparisons for 1894 also? You gave figures for 1894 and 1912 as to the number of banks. Have you the corresponding figures—

Mr. DAWSON. On the deposits? No; I have not those, Senator; but my recollection is—and it is fairly clear—that in the year 1900 the national banks possessed above 50 per cent of the deposits and the State banks below 50 per cent; that is, that 12 years ago the national banks held more than half the deposits.

Senator WEEKS. Mr. Dawson, will you, in looking over your figures, be sure you are making a proper comparison of deposits in 1912? The deposits which you have quoted there are the individual deposits in national banks, and I suspect that the deposits of the State banks are the total deposits, are they not?

Mr. DAWSON. No; the comparison is on the same character of deposits. I wanted to eliminate bank deposits, because I did not want to bring into this any element of the pyramiding of deposits that we have under the present system.

Senator NELSON. Will you file your tables with your remarks?

Mr. DAWSON. Thank you; I will do so.

The parting of the ways came about 18 years ago when the State banks began to draw away from the national banks, and the national-bank system became the system of lesser importance.

Senator BRISTOW. Would it be possible without too much trouble for you to give the figures for 1894 and make the comparison on the same basis in the tables you submit?

Mr. DAWSON. Very little trouble. You want a comparison of the deposits in those two years and a comparison of banking power in those two years?

Senator BRISTOW. Yes.

Mr. DAWSON. These are the figures: In 1894 national banks held \$1,742,000,000 of individual deposits, and all other banks \$2,973,000,000. Now, what was the reason the State banks drew away from the national banks? You will find in one of the reports of the National Monetary Commission a chart showing how they have gone up and down. It is a very interesting chart, and it shows that from that time, in 1894, the State banks have increased more rapidly than the national banks. Why is that so? It seems to me it is for just one great reason, and that is that the State banks are enjoying greater privileges than the national banks are enjoying.

That leads us up to the question whether or not the Congress of the United States wants to give to the people of the United States a well-rounded banking system or a system that is only going to serve one portion of the country? Should we have a system simply to serve the commerce of the United States, simply to serve the business of the United States, and let agriculture and labor take the incidental benefits that result? Or should we have a system, and have the people of the Nation a right to expect that Congress will create a system, that will not only take care of business but which will also serve the needs of the wage earner, the farmer, and all of the people?

My conception of a bank, I confess, may not be in accord with the committee's conception of a bank. I have not been in the banking business very long—about three years. On leaving the House of Representatives I entered the bank without any previous banking experience. We had a fine old bank out there. In the spring of 1911 that bank had deposits of \$1,500,000.

Senator NELSON. What was the capital?

Mr. DAWSON. \$200,000 and a surplus of \$200,000. It had been in operation for 50 years on the same corner in the same city. But it had grown to be to what seemed to me to be a rich man's bank. Its facilities were not being as widely enjoyed by all classes of people as it seemed they should be.

My conception of a national bank is that it should serve every class of people—just like the post office does; that it ought to be a place not only where the business man would come, but where the man who wanted to deposit his savings would come. They are a class of people that should be encouraged to visit the national bank. And so that has been the policy that has been pursued by that particular bank from that time until this. That is what gives the national banker an opportunity to make his bank greater—the adoption of a broad policy of service. The deposits of that bank have increased almost a million dollars since the spring of 1911.

Senator REED. How much of that is country banks?

Mr. DAWSON. How much of that increase?

Senator REED. Yes.

Mr. DAWSON. Very little. We have made no effort to extend our business in that direction very greatly, for reasons which I shall be

glad to explain in connection with this phase of the subject relating to privileges of banks.

The State banks have outrun the national banks because they have enjoyed greater privileges, and it seems to me that in drafting this bill the fact ought not to be lost sight of that the national bank out in the average town of Iowa or Missouri is competing with the State bank. They are in the same block or just around the corner. The banker has only one object to attain aside from the making of money, and that is service to the community, and he hopes to make his money through that service. If he finds he can serve his community better under a State charter than under a national charter, of course there is no room for argument as to what he is going to do. So you must apply the supreme test to this bill: Will the country banker go into it? He will go into it if you will fairly equalize his privileges with those of his competitors.

Senator NELSON. Will the committee allow me to ask a question at this point?

Senator REED. Certainly.

Senator HITCHCOCK. The present chairman has no objection, but refers it to the attention of the Senator from Ohio, who is the watch-dog of order.

Senator NELSON. I take it consent is given. [Laughter.] How would it do to say that the national banks in any given State should have the same privileges for doing local business as State banks have in that State? Would not that be a sufficient inducement?

Mr. DAWSON. Yes, it would; but that would not square with my idea of what ought to be done. That would make a Federal law contingent upon a State law, and I can not subscribe to that.

Senator REED. And some States have practically no banking law.

Mr. DAWSON. What would meet my ideas in the matter would be to ascertain what is the sound practice generally throughout the country and accord them those privileges that would square with some banking practices. I think there are some loose banking laws throughout the United States. We do not want a national law that is loose anywhere, in any State or Territory of the Union.

Now, let us get down to the actual, practical questions that confront the cashier in a bank in a town of 3,000 people out in Iowa or Missouri or Ohio or Colorado or any other State. Let us take a bank of \$50,000 capital—and, as I pointed out, 90 per cent of your present national-banking system is made up of these smaller banks.

Senator NELSON. I understand there are 2,000 of the \$25,000 banks.

Mr. DAWSON. I have not the numbers.

Senator NELSON. I wish you would put that in your table.

Mr. DAWSON. The number of banks of the various capitalizations?

Senator NELSON. Yes; of the \$25,000 banks.

Mr. DAWSON. I find the exact number of \$25,000 national banks is 2,004. The average \$25,000 bank consists of one man, so far as the actual operations of the institution are concerned. The cashier performs that service. He is bookkeeper, janitor, and cashier; he is receiving teller and paying teller, and he performs all the duties of conducting the bank. It is up to him how much his institution is going to earn. The men who have subscribed the stock for that little bank have put their money in it with the expectation of getting some return upon it. It rests upon the shoulders of the cashier whether

that bank is safe and whether that bank is profitable. So you must take into account his present condition and in what respect this new bill would curtail his present sources of revenue.

The first thing that confronts him is the fact that he must subscribe one-fifth of his capital stock to this new institution. It should be remembered that the capital stock in that \$25,000 bank—and I think we should take him into account, because Congress encouraged him to incorporate. In 1900 Congress reduced the limit to \$25,000 as the capital on which a national bank could be organized. Congress then adopted the policy of encouraging him and carrying the privileges of the national system down to more people than it ever reached before. He is confronted with the fact that he must take one-fifth of the capital that these farmers and business men in his community have gotten together there. He must subscribe one-fifth of that to an institution away off somewhere else. He sees that 10 per cent of his capital at least which has been gathered together for business in that community must be taken out of that community and sent to another place, and at a low rate of interest for him, 5 per cent. That is a little disturbing to him, though I think the least disturbing of anything there is in the bill. I do not think the average country banker would have any objection to subscribing 10 per cent of his capital stock. I would make it 10 per cent instead of 20, I think, because if you can get a large percentage of all the banks to go in at 10 per cent you will have ample capital in your new institution.

Senator O'GORMAN. May I ask a question there? If there be no objection, I understand the rule is waived.

Mr. DAWSON. The witness is entirely willing to waive the rule at any time.

Senator O'GORMAN. It is an important matter. I do not know who adopted this rule. I was not here when it was adopted, and I therefore feel at liberty to disregard it.

Senator POMERENE. This will be no precedent.

Senator O'GORMAN. There has been fear expressed from time to time that if this 12-region feature of the bill were retained in some of the regions a sufficiently large number of the national banks would not come in to make up the required capital of \$5,000,000.

Mr. DAWSON. I expressed that same fear to the committee shortly before you arrived.

Senator O'GORMAN. Very good. Now, what is your view regarding the possible modification of the bill in that respect by permitting the reserve board to invite individual subscriptions to the stock from the citizens residing within those regions after a certain period, if there be a deficit in the \$5,000,000 contributions from the banks?

Mr. DAWSON. My opinion, Senator, is that if certain changes are made in this bill there would be no question that the necessary capital will be subscribed to these regional banks of rediscount. It seems to me that, without any great change in the fundamentals of this bill and only some changes in detail it will be made sufficiently attractive, not only to the national banks, but to State banks as well, that they would be pleased to come into it. If they did not, I could see no reason why you should not go on and take the next step—provide the capital in some other way.

Senator O'GORMAN. Then, whether we have a system providing for one bank of reserve and rediscount in Washington, or whether we have a system of four or five regional banks plus the reserve board, or whether we attempt to carry out this system which contemplates 12 regional banks, you think that the power might be confided to the reserve board to invite contributions to the capital from the people of the country after a certain period in the event of the requisite capital not being provided by the national banks?

Mr. DAWSON. I could see no objection to that. I think if you reduce this capital stock subscription to 10 per cent—

Senator O'GORMAN (interposing). To payments of 5 per cent each?

Mr. DAWSON. To payments of 5 per cent each; and then increase the dividend rate and, possibly, make it 6 per cent—I think that is a very small matter, so far as the average bank is concerned, although he is in the habit of obtaining 6 and 7 per cent on his money—after you have built the surplus of this new bank up to your required 20 per cent; 6 per cent would then only be 5 per cent on the book value of the stock.

Senator O'GORMAN. Do I understand you to express the opinion that if the contribution from the national banks should be reduced to 10 per cent instead of 20 per cent, and the 10 per cent to come in in two payments of 5 per cent each, sufficient would be subscribed by the national banks to make up the required capital in each regional bank?

Mr. DAWSON. Well, I could not answer that question directly, Senator, because I do not know what the regions are to be.

Senator O'GORMAN. I have reference in this question to the 12 regional banks. Of course, as I see it, this particular element of danger and uncertainty would be completely eliminated if we had but a single reserve bank where the contributions from the country would come. The danger would be more or less minimized if we had four or five regional banks.

Mr. DAWSON. I advocated that a moment ago.

Senator O'GORMAN. But with 12 banks there must necessarily be some uncertainty as to whether all of them can secure, in the manner indicated in this bill, the required capital of \$5,000,000.

Mr. DAWSON. I feel greatly honored to find that my views and yours are almost in accord on this particular subject. I expressed them to the committee a few moments ago, but I think it was perhaps during your absence from the table.

Senator NELSON. Will you allow me to interrupt? It seems to me that there has been a confounding here of the subscription. The subscription is 20 per cent, but the payment within the 60 days is not to be more than 10 per cent. It is only a matter for call; the balance is—

Mr. DAWSON (interposing). It seems to me this way: Suppose the bill should go through in its present form, which is not entirely satisfactory. Suppose the call should be made for the first 10 per cent under the provisions of the bill. The very situation arises that the Senator from New York has just called attention to—enough of the banks stay out so you can not organize each of these 12 regional banks. Then, of course, the Federal reserve board would call for the other 10 at once. They have that power; there is no limitation as to when they may call for it. So the average manager of the small

bank, for whom I am undertaking to speak, sees before him all the time that he will at once have to take 10 per cent of his capital—

Senator REED (interposing). Do you think they would hesitate to ante in the first instance if they did not know what the limit was going to be?

Senator POMERENE. You are talking about a subject we do not know anything about. I insist on the regular order.

Senator REED. It seems to me that the Senator protests rather quickly. [Laughter.]

Mr. DAWSON. The average country banker objects to this in that way, particularly when it comes to him somewhat in the nature of an act of violence. He does not relish the idea of the Federal Government saying to him, "You must do this; you must take one-tenth of your capital out of your community and invest it in this institution, and you must later take another 10 per cent and invest that." So I say the feature of the subscription is somewhat objectionable to the smaller banker at this time.

But a subject of more concern than that is the shifting of his reserves. That means more to him in the way of financial returns than the difference in interest on his stock subscription to the regional bank.

As I recall the terms of the bill, the country banker does not have 60 days as the central reserve city banker has. He has to produce instantly, and he must shift 3 per cent of his total deposits from their present location over to the regional reserve bank.

Now, it may seem like an anomaly, but it is true nevertheless in actual banking practice, that those reserves to-day are a part of active checking accounts, and so it is entirely exact to say that the reserves of the country national banks are now in the active channels of business. It seems like a contradiction in terms that a reserve should be part of the regular currents of everyday business, and yet I shall endeavor to explain how that is so.

The First National Bank, of Davenport, Iowa, is required to keep its reserve in either Chicago, St. Louis, New York, or some other reserve city. Along with the question of reserves, there is the question of daily exchange. I asked the boys in the bank to figure up how active our New York and Chicago accounts were. Most of the financial relations of our portion of Iowa are in the direction of Chicago, rather than in the direction of St. Louis, although we have considerable business in that direction also. I found that our Chicago balance turned over every 2 days in the matter of exchange. In other words, we were writing a sufficient number of drafts on Chicago banks every two days to wipe out our balance there, and that balance was larger than the reserve which we were required by law to carry.

Senator HITCHCOCK. What methods do you adopt to restore that balance? What proportion is in currency?

Mr. DAWSON. There is no currency; they are items of credit.

Senator HITCHCOCK. No currency?

Mr. DAWSON. No currency at all; we never ship currency to Chicago.

Our New York account shows the activity of the relations between the mid-West and the financial metropolis. Our New York account turns over once in every three days. We sell enough New

York exchange every three days to wipe out the balances we carry in New York.

Senator REED. You would have to have that much money there, whether you had a reserve or not?

Mr. DAWSON. Very nearly so, unless there would be some change in the existing practices in the world of banking.

So, when you reduce the reserve requirements of the country banks from 15 to 12 per cent, I do not think it is fair to say that the 3 per cent reduction is immediately available, and that he can take it from where it is and put it in the regional reserve bank without embarrassment to him and without disturbing business as it is carried on to-day. I say the average country banker would not do it. He would not feel safe in taking that 3 per cent by which you reduce his reserve requirements—

Senator O'GORMAN (interposing). Do you think that is a safe reduction—from 15 to 12—for the country bank reserve?

Mr. DAWSON. With the provisions embodied in this bill, I should say yes.

Senator O'GORMAN. Do you think the country bankers would not consider it safe to avail themselves of the reduction in the reserve?

Mr. DAWSON. The country banker possesses some caution and some conservatism—a considerable amount. I do not think he would want to reduce his balances, either in New York or in Chicago, until he saw how this bill was going to operate. He must put this money up at once. He is not going to change the experience of years overnight. He is going to be cautious and await the developments in the new system.

So, in my judgment the average country banker in Iowa, if he is required to send that 3 per cent instantly away to the regional reserve bank, will have to do one of two things—he will either have to go out and borrow that money or he will have to contract credits or call some loans to get it.

Senator SHAFROTH. Why can he not borrow from the reserve bank immediately?

Mr. DAWSON. I regard that as a very important matter, Senator, and yet I can not find in this bill where the machinery for rediscount is going to be ready to be put in operation the minute you call upon the country banker for that subscription.

Senator HITCHCOCK. How soon afterwards do you think it will be ready for operation, from your study of the bill? You say you think the machinery for rediscount would not be ready at the time the country banker is required to shift his reserves, and I agree with you; but I have been unable to figure out how soon afterwards it would be ready.

Mr. DAWSON. I do not know. It seems to me that what should be done would be to have that machinery of rediscount all ready before the shifting of reserves began.

Senator REED. Why not shift it in the form of good notes? Why not let your bank take down \$100,000 of good paper and deposit that instead of cash?

Mr. DAWSON. Make it a simultaneous transaction?

Senator REED. Instead of taking your money down and then putting up your note and collateral notes from your bank, and then borrowing back the money you had taken down with you, why not

deposit in the first instance part of your securities with the guaranty of your bank, and let that stand at once as your contribution and your rediscount?

Mr. DAWSON. That would be going straight to your destination without any of the circumlocution that seems to be in this machinery as it stands.

Senator REED. Would that help that difficulty?

Mr. DAWSON. It seems to me it would, in part, but it would not provide the gold reserve required by the regional banks.

Senator BRISTOW. Nevertheless, unless you utilized the money you now have with your reserve agents, you would have to curtail your business just to that amount. You would not have to force contraction, but you turn over these securities and the regional bank collects them, so that you take out of your community that much credit, do you not?

Mr. DAWSON. Well, I would not say you take out that much credit. You can yet bring the level back through a rediscount.

Senator HITCHCOCK. A reserve bank is required to keep a reserve of $33\frac{1}{3}$ per cent. If the reserves were paid in commercial paper how would it affect the gold reserve?

Senator SHAFROTH. You do not hold any reserve against capital. You can loan that to the full extent. I am talking about a proposition of turning the reserves into commercial paper. The reserves count as deposits. Where would the gold reserves come from?

Mr. DAWSON. Of course that is essential. That is vital. These regional reserve banks should have this gold reserve against its note issues.

Senator NELSON. It would not give them any money; it would simply give them commercial paper.

Senator SHAFROTH. Yes; it would. They would issue this paper, and if they would issue the paper immediately, it would give them paper currency.

Senator BRISTOW. Where would they get the gold?

Senator REED. That is easily provided because any bank—I was not trying to suggest a perfected system, but the idea I was trying to meet was the one that there would be an interval when the bank would be obliged to carry that money down, and let it remain idle, and they get it back at some future time in the way of rediscount.

Now, leaving out for the moment the gold-reserve proposition. We would, by the suggestion which I made, accomplish by one act that which is contemplated shall be accomplished under the bill by two acts.

Senator POMERENE. And a delay.

Senator REED. Involving a necessary delay, because under the present proposition a bank would send down a million dollars of money and deposit it with the Federal reserve board, and if it were short of money it would bring down the necessary million dollars of notes, and, guaranteeing those notes, deposit them and borrow back the \$1,000,000 it had put in.

Now, if that is to be the ultimate result it might as well, in the first instance, bring down the notes, and, guaranteeing them, turn them in and use that as its contribution. Now, of course the $33\frac{1}{3}$ per cent of gold required on deposits would necessitate that the banks bring

down enough gold, if the plan should be worked out by which the bank making this transaction should contribute a certain amount of gold, and that would have to remain in the vaults. Further than that, after all is said and done, what has been claimed for this system is that it does enable the banks to use this capital, and if they use it they might as well do it in one transaction as in two. I only made the suggestion to see whether it would agree with the facts.

Senator NELSON. I think this hardship, so-called, is unduly accentuated, for the reason that this bill relieves them of 3 per cent of their reserves.

Senator SHAFROTH. According to this system, only 1 per cent would have to be put up immediately.

Senator REED. I want to say in this connection that the suggestion which I made first came to me in conversation with Senator Pomereene. If there is any virtue in it the credit should go to him and not to me.

Senator NELSON. Of course, the reduction which the bill makes of reserves of country banks from 15 to 12 per cent after the bill gets in operation would take care of that 3 per cent which they must put over at once; but, Senator, in my judgment the average country banker would not feel that he could take 3 per cent out of his balance that he has now in the channels of trade and business and put it into a regional reserve bank without some disturbance to the machinery.

Now, let us see what it would mean to a State. Iowa is a purely agricultural State, with no city of more than 100,000 people. We have 340 national banks in Iowa.

Senator HITCHCOCK. Will you permit me to interrupt you there? Mr. Cannon was scheduled for this morning, and he tells me that he would like to get back to New York to-night. There will be some time required for your cross-examination, and I wanted to ask whether it is important for you to get away to-night?

Mr. DAWSON. It is not absolutely essential, although I had hoped to start West this evening at about 6 o'clock. I am almost through, so far as my general statement is concerned.

Senator HITCHCOCK. Well, we will sit until 1 o'clock, anyway, and I think you can probably finish your general statement by that time, and then we can let Mr. Cannon go on immediately following recess.

Mr. DAWSON. It would be entirely agreeable to me, however, to give way for Mr. Cannon at this time, if that is the committee's pleasure.

Senator HITCHCOCK. Very well, then; we will hear you until you complete your general statement.

Mr. DAWSON. As I said, we have in the State of Iowa 340 national banks. They have a capital of \$23,000,000. The national-banking system is not as powerful out there as we would like to see it. The 10 per cent of capital-stock subscription for us would be \$2,300,000. The deposits in the country national banks of Iowa are \$121,000,000, and 3 per cent of that must go over. That would be \$3,630,000. So that the total would be almost \$6,000,000, or \$5,930,000, which would be Iowa's contribution to the Federal reserve banks the next day after it went into operation—approximately \$6,000,000.

Senator REED. From all the banks, or from the national banks?

Mr. DAWSON. The national banks only; I am speaking of the country national banks.

Then the reserve cities, of which we have four in Iowa, would have to make their additional contribution of 3 per cent in 60 days. They have 60 days more in which to gather together their 3 per cent on the \$41,000,000 which they hold, which would be \$1,230,000. But the country bankers in Iowa must produce \$6,000,000 at once and put it into this system and those national bankers in the reserve cities in Iowa, 60 days thereafter, must produce \$1,230,000 more.

Senator REED. Are you not mistaken about that? [Reading:]

Every national bank located within a given district shall be required to subscribe to the capital stock of the Federal reserve bank of that district a sum equal to 20 per cent of the capital stock of such national bank, fully paid and unimpaired, one-fourth of such subscription to be paid in cash and one-fourth within 60 days after said subscription is made. The remainder of the subscription, or any part thereof, shall become a liability of the member bank, subject to call and payment thereof whenever necessary to meet the obligations of the Federal reserve bank under such terms and in accordance with such regulations as the board of directors of said Federal reserve bank may prescribe.

Mr. DAWSON. They pay in 5 per cent of the capital at once; but the payments with regard to the reserves were stated correctly.

Senator SHAFROTH. Here is another provision in regard to that matter:

and for a period of 14 months from the date aforesaid at least three-twelfths, and thereafter at least five-twelfths, of such reserve shall consist of a credit balance with the reserve bank of its district—

that gives them 14 months in which to put in this 3 per cent.

The CHAIRMAN. What section is that?

Senator SHAFROTH. Section 20. [Reading:]

Five-twelfths of such reserve shall consist of money which national banks may under existing law count as legal reserve, held actually in the bank's own vaults; and for a period of 14 months from the date aforesaid at least three-twelfths, and thereafter five-twelfths, of such reserve shall consist of a credit balance with the Federal reserve bank of its district.

Mr. DAWSON. Certainly; he must at once put 3 per cent with the Federal reserve, and the remainder of the 12 per cent may for 36 months consist of balances due from national banks in reserve or central reserve cities.

Senator SHAFROTH. It gives them 14 months to get that in the Federal reserve bank.

Senator BRISTOW. That is the second payment.

Senator SHAFROTH. Five per cent—that is cash—and then 3 per cent, and thereafter five-twelfths of such reserve shall consist of a credit balance with the Federal reserve bank of the district.

Senator NELSON. What it means is this, that during 14 months he must maintain 3 per cent.

Mr. DAWSON. Certainly; and then raise it to 5 per cent.

Senator NELSON. And then, after that, it must be 5.

Mr. DAWSON. Now, in my judgment, the country banks in Iowa—

Senator SHAFROTH. He does not have to put it in until a year.

Mr. DAWSON. The country national banks in Iowa could not take \$6,000,000 right out of the everyday transactions of their banks and put it in this regional reserve bank without some disturbance of credits in that State.

Senator O'GORMAN. It would be a contraction of credits?

Mr. DAWSON. Yes.

Senator O'GORMAN. Would that not be a continuous contraction of credit for the year?

Mr. DAWSON. Gradual.

Senator O'GORMAN. Diverting it from commercial activities?

Mr. DAWSON. Yes; it would undoubtedly be some curtailment of credit.

Senator HITCHCOCK. What would the effect of the curtailment of credit be on business in Iowa?

Mr. DAWSON. Of course there is no telling. It would not hurt us so much out there. Iowa is practically financially independent of the rest of the country.

Senator REED. If you had to divert \$6,000,000 in the State of Iowa from actual business that would mean a contraction of credit of about \$48,000,000?

Mr. DAWSON. It would mean that—

Senator REED (interposing). Now, if that was done, the only way you could do it would be to either go closer to the danger line in your reserves or to begin to gradually make loans as generously as you had before?

Mr. DAWSON. Yes.

Senator REED. There would be a gradual pinching in the financial condition.

Senator POMERENE. The very thing that a banker would do would be to go to that bank and borrow it back again.

Senator SHAFROTH. The reserve banks?

Senator POMERENE. Yes.

Senator REED. I am thinking now of the illustration on that same occasion of the bank getting ready for a year in advance to make its contribution.

Senator POMERENE. There is not any necessity for the contraction of the currency to that extent, with the privilege of borrowing it back.

Senator REED. Provided, you mean, you could make the loan back immediately.

Mr. DAWSON. And provided, also, you had the collateral to get the loans.

Senator NELSON. I want to call your attention, Senators, to the discrimination here and ask you to turn to the bill on page 36, line 23, where it says, "and for a period of 14 months from the date aforesaid, at least three-twelfths"; that is, the country bank. Now, turn to the next page, where it says, "after 60 days from the date aforesaid, and for a period of one year." Now, in order to put them on an equal footing, you ought to have the words "after 60 days" in line 23 on page 36. In one case it reads "after 60 days from the date of aforesaid, and for a period of one year, at least three-eighteenths and permanently thereafter at least five-eighteenths." Now, in the other case, on page 36, it says, "and for a period of 14 months from the date aforesaid at least three-twelfths." In order to make that exactly fair and equal you ought to have the same wording, "after 60 days from the date aforesaid, and for a period of 14 months."

Mr. DAWSON. That emphasizes—

Senator NELSON (interposing). It is clear that there is a discrimination.

Senator HITCHCOCK. Is that not due to the fact that the reserve banks hold deposits in banks and the country banks take those deposits out, and for that reason an additional limit is given the reserve banks? Is that not the logic of the situation?

Mr. DAWSON. That is one viewpoint, and yet, take it from the viewpoint of the banks the reserve requirements of this bill bear with greater severity on the country banker than they do upon the reserve city banker, because he has 60 days. Of course he is going to lose some of his country-bank deposits.

Senator HITCHCOCK. When the country banker draws upon his reserves he calls upon the reserve city banker, and the reserve city banks will have to carry the burden of the reserve city bank as well as the country bank, and I think there is logic in giving him more time for that reason.

Mr. DAWSON. I think so, and that is one reason why you have reduced his reserve from 25 to 18 per cent, the central reserve city bank; the bill reduces the reserve from 25 to 18 per cent.

Senator HITCHCOCK. When does that reduction occur for the reserve city bank?

Mr. DAWSON. From 25 to 18 per cent?

Senator HITCHCOCK. Yes.

Mr. DAWSON. When it gets in full operation.

Senator NELSON. It has a period of 60 days.

Mr. DAWSON. From what?

Senator NELSON (reading):

If a reserve city bank as defined by existing law it shall hold and maintain for a period of 60 days from the date fixed by the Secretary of the Treasury as hereinbefore provided, a reserve equal to 20 per cent of the aggregate amount of its deposits, not including savings deposits hereinafter provided for, and permanently thereafter 18 per cent.

Senator HITCHCOCK. Does that mean 60 days after the new system is in operation?

Senator NELSON. From the date fixed by the Secretary of the Treasury; from the time the bank goes into operation, I suppose.

Senator HITCHCOCK. Then the reserve city bank gets no reduction in reserves until two months after the new system is in operation?

Mr. DAWSON. From 25 to 20 the first thing; 5 per cent of it instantly; and 2 more in 60 days.

I want to draw this down one step further. I want to draw it down to the condition of the little bank itself, and what it is going to do to it. I have taken a bank of \$50,000 capital and \$500,000 deposits. That is a bank like the First National Bank of Maquoketa, Iowa, or the First National Bank of Marengo, Iowa—county seat town—an average county seat town in the middle western country. What is the bill going to mean to such a banker? You want him to go into the system. He must at once subscribe 20 per cent of his capital and pay 10 per cent of it, one half at once and the other half in 60 days. Then he must shift to this new bank 3 per cent of his deposits, so that his initial contribution for the reserve bank would be \$20,000. And eventually, if he were called on for the other stock subscription, and carried to the regional bank the balance of his 7

per cent of reserves, or even call it 6, then he would have in the regional bank \$40,000. That \$20,000 at the start is a pretty large sum of money on \$50,000 capital. In a bank of \$50,000 the largest line of credit he can give to any individual is \$5,000. That is the biggest note he will have in his portfolio, and there will be comparatively few of them in towns of that size. So that he must produce \$20,000 out of this \$50,000 bank in order to comply with the initial requirements.

Senator NELSON. But \$15,000 comes by way of transfer from his reserves. It is a shifting of reserves.

Mr. DAWSON. Yes, sir; and I have felt, Senators—

Senator NELSON (interposing). It is not a direct contribution; it is just a shifting of reserves to that extent from other reserve places to this central bank.

Mr. DAWSON. But my opinion is, Senator—and that opinion is based on what I know of actual banking transactions in the country—that at the beginning the country banker would not shift his balances which he has now, because he feels that the balances which he maintains now are none too much to take care of his needs for exchange. At least he could not shift them until he begins to see how this new plan works. You are going to change somewhat the currents of business. He is going to be very slow to take any step which will endanger his business until he finds out how it works.

Senator NELSON. He can sell his exchange on the regional reserve bank instead of these other banks?

Mr. DAWSON. I want to discuss that when I reach the point. So a country bank of \$50,000 capital, with half a million dollars of deposits, will have to put up \$20,000. That would not be so serious for him if you had the machinery for rediscounting ready to put in operation as soon as he sent that up there, and it would not be so serious if he had the class of paper that would be eligible for rediscount under this bill. Those are the two things that confront the country banker. In that connection I desire to say that I have met many smaller bankers of Iowa, and among them there is a considerable unanimity of opinion that the banks of \$50,000 and \$100,000 capital in Iowa, or any other State for that matter, will not have the kind of paper that will be eligible to rediscount under the terms of this bill. Of course, the standard of the paper is not fixed in the bill; that is, the exact standard. That is to be left to the discretion of the Federal reserve board. The average country banker does not know just what the standard is going to be, what requirements are going to be exacted by the reserve board; and, as a matter of fact, in reading the testimony before this committee I have seen no witness who seemed to be entirely clear in his mind as to just what the standard that would be eligible for rediscount by the regional reserve banks would be.

Senator HITCHCOCK. Do you think that is to be fixed by the Federal board?

Mr. DAWSON. In part, and in part fixed by statute.

Senator HITCHCOCK. Would not the Federal regional reserve banks pass upon that question?

Mr. DAWSON. They may also. That only emphasizes what I was trying to say, that there is a great deal of doubt in men's minds as to how the lines are going to be drawn.

Senator HITCHCOCK. You think it should be expressed more clearly in the bill?

Mr. DAWSON. I think it should be.

Senator REED. You say they are not likely to have this class of paper?

Mr. DAWSON. Yes, sir.

Senator REED. Assuming that, that might be commercial paper, as a 60 or 90 day note signed by two people, and I think that is just where we are. I do not think anybody can place that.

Mr. DAWSON. That is on an actual business transaction?

Senator REED. I am leaving that out, because I do not think any board can go back of a piece of paper that is presented. You have that class of paper, do you not?

Senator NELSON. The difficulty which comes, Mr. Dawson, with the paper of these country banks is not so much the question of time as it is the quality of the paper; that is, commercial paper in the strict sense, as understood by some. The bulk of their paper is not commercial paper?

Mr. DAWSON. No.

Senator NELSON. It is not paper that they say will liquidate itself?

That is one of the radical troubles.

Mr. DAWSON. But I think the committee understands pretty thoroughly that a great majority of the paper held by the average country bank is paper that matures when the farmer produces his crop. It matures at a certain time of the year. It may be based on cattle or other things, but it is only liquidated when the community has produced agricultural wealth. In other seasons there would be very little eligible.

Senator REED. If that kind of paper was excluded from the benefits of this bill and certain other paper had all the benefits of the bill, would that not necessarily result in an additional interest charge and a discrimination against that class of paper which is longer in time and which is to be liquidated by the farmer marketing his cattle, and things of that sort?

Mr. DAWSON. That would be my view.

Senator HITCHCOCK. Have you any figures showing what percentage of the farmers' paper is actually liquidated and what per cent is renewed?

Mr. DAWSON. No; I have no figures on that point.

Senator HITCHCOCK. Why is it that there is not a wider variation in the amount of loans as reported in the bank reports?

Mr. DAWSON. During the other portions of the year the way the country banker loans out his money is in small notes, which under no circumstances could he use as collateral with a regional reserve bank. Then there is an additional embarrassment to the country banker. There is a question whether or not—

Senator POMERENE (interposing). You say under no circumstances could he use that. Why?

Mr. DAWSON. I could conceive of no practical way whereby a country banker could; we will say he wanted a rediscount of \$10,000 or \$5,000; say he wanted a rediscount of \$5,000. He takes his portfolio and he gathers up notes of \$25, \$50, \$60, or \$75, small notes. It does not seem to me it would be practicable for him to rediscount a bunch of such small notes as these.

Senator POMERENE. There is nothing in the bill preventing it; nothing saying that that could not be received.

Senator BRISTOW. It is not a commercial transaction in any sense; it is simply a personal loan.

Mr. DAWSON. Then if the bank were to send those small notes to a bank outside of their own institution they would lose customers by it. The average man in the little towns does not want his note outside the hands of the banker from whom he obtains the loan. He does not want it sent to Chicago. He may want to come in and pay it. If the man came in and he went to the banker from whom he got the money and said he wanted to pay the note and the banker said "I have your note at the regional reserve bank as collateral," the next morning that particular customer would be over at the State bank doing business and not with the national bank.

I think this 3 per cent of reserve which you propose to shift from its present place to the regional banks, if you do that a little more gradually, take 1 per cent in the first three months and the next in quarterly periods, you would get it all over there in the same period of time, practically which you have in the bill, but it would be so gradual as to permit the banks to readjust themselves.

Senator HITCHCOCK. But you would not send it over there by the time the regional reserve bank had any use for it.

Mr. DAWSON. But these things are not of the largest concern to the country banker. They are not the things that are going to keep him out or put him in. The present every-day question with the country national banker is the question of the equality of opportunity, or the equality of privileges with the man with whom he is in direct competition. That is the vital question with him every day. If he is to be invited into a system or to remain in a national system he went in with certain privileges, and the only real privilege he had under that system is to be taken away from him, and he is to stand in this new system deprived of any advantage he ever did have, and denied those additional privileges that he has all these years had reason to expect from the Congress of the United States, then I can not see, and no one could see, any excuse for his going into that system. He will go into the State bank system. The question of the equality of privilege and equality of opportunity or the equalization of the privileges of the national banks is a most important proposition, and goes to the section of the bill in relation to the farm loans and savings department.

Senator BRISTOW. I am more interested in Mr. Dawson's analysis of this bill, probably, than anybody else, or at least as much as anybody else, because he is dealing with the very things which touch my constituents, and I would like him to be here just as long as he can stay. If we are to hear Mr. Cannon, I think we may have to ask Mr. Dawson, if he can, to stay over.

Mr. DAWSON. I should be very glad to give way at any moment to Mr. Cannon.

Senator HITCHCOCK. I think you had better proceed.

Mr. DAWSON. This question of farm loans and the savings-bank provision is a vital question.

Senator BRISTOW. That is going to take a good deal of time.

Senator NELSON. Tell us about the farm loans.

Mr. DAWSON. The provision of this bill is of no practical benefit to the national banks in the Middle West, where there are the highest class of farm-mortgage loans, and where agriculture is in the highest state of development, and where the loans there are regarded as the choicest security which a bank can obtain for a loan—a farm mortgage not to exceed 50 per cent of the value of highly improved farms of that section of the country. It is the best security any bank can lay its hands on. It is not the custom to make loans of that character for 1 year. The country bank will make them for 5 or 10 years. With the provision in here that they may only be made for 1 year, no one would ever approach a national bank on the subject of trying to negotiate a farm mortgage with that 1-year provision. He would do business with the State bank.

There were certain reasons when the national banking law was enacted why farm mortgages should not be taken by national banks. At that time there was a question as to its security, and there was a question as to its liquidity—its power to be converted, the power to liquidate it. The class of those securities is very much higher now than it was then. The security upon the loan is improved.

Senator NELSON. And they can be easily liquidated?

Mr. DAWSON. There is a fairly well organized market for the farm mortgage. The great insurance companies are now seeking first-class mortgages on highly improved real estate. There is a broader market now.

Senator REED. As a practical question, if your bank had a \$10,000 mortgage on a good farm in the State of Iowa, running for five years, and drawing a reasonable rate of interest, would you have any difficulty in getting that money in one or two days' time; I mean the money on that mortgage?

Mr. DAWSON. Not under ordinary times. I can see, of course, that in the face of a panic you might not be able to do that.

Senator REED. In the face of a panic we could not get our money out of the banks.

Mr. DAWSON. If the machinery of this bill works as its authors think it will work, we are going to be panic proof by the rediscount feature of it. Certainly there is no choicer security than this particular kind of mortgage that you described.

Senator NELSON. I have known runs on banks to be stopped by the tender of mortgages over the counter instead of cash.

Mr. DAWSON. There is some difference of opinion among men as to just what the provisions of this bill mean with regard to farm loans. I have had men who have analyzed it say that the provision on page 44, speaking of loans on farm lands, and putting limitations on them, of which the country banker complains, that that is simply applied to the commercial departments of any national bank anywhere, whereas, in the very next section of the bill, section 27, relating to the savings department, you gave to that department the power to loan on real estate, without the limitations. Whether or not the limitations in the preceding section would apply to that, I am not sure.

Senator NELSON. Would it not be a better limitation, instead of limiting it upon the capital, to gauge it by the time deposits?

Mr. DAWSON. That would be my solution of it, and I want to make my suggestion jointly with relation to farm loans and the savings department. The savings department provision in this bill is very objectionable to national banks who now have a savings department and small country banks.

Senator NELSON. They are all practically doing a savings-bank business now?

Mr. DAWSON. Very nearly, and under the demands of this bill it would actually compel them to go out of the savings-department business in a large measure.

Senator REED. Why? That is what we want to know. Tell us why, so that we may know how to remedy it, if we agree with you.

Mr. DAWSON. In the first place—I only refer to that now because I want to try to get through by 1 o'clock so than Mr. Cannon can go on. Would it be just as agreeable for me to answer that later on?

Senator REED. Yes; but do not forget it.

Mr. DAWSON. Country banks do not like this segregation of capital, segregation of assets, segregation of cash. It is absurd, and we come to a \$25,000 bank where everything goes into one window, and everything is done by one man. He would be the subject of derision in that community if he were compelled to run two banks—segregate his capital into savings business and commercial business. That would be the case in a \$25,000 bank out in Nebraska and Kansas, and in Iowa also.

Senator NELSON. It would be.

Mr. DAWSON. My general suggestion with regard to the savings department and the farm-loan department is this: The national banks have been encouraged to open savings departments. A savings department in our bank was started about a year before I went there; that is, in 1910. I have inquired into the circumstances under which they started that department in that bank. They wrote the comptroller and asked him for the regulations respecting the establishment of a savings department in a national bank. They received a letter from him, and it was on the basis of that correspondence that they proceeded to establish their savings department.

Senator REED. The comptroller gave permission?

Mr. DAWSON. He did not deny us. I will put the letter into the record if desired. It is practically the same reason he gave in his last annual report.

It seems to me that it could be done with perfect safety, to permit a national bank to accept savings deposits and then loan a percentage of its savings deposits on first-class farm mortgages.

I know the complaint is made you do not want to confuse investment banking and commercial banking, but there is not a State bank in the State of Iowa, with 1,300 State banks and 300 national banks—there is not a bank in that entire State but what is doing investment banking and commercial banking all through one window, and it is done safely. It is serving the interests of those little communities, and their security—the security of the State bank out in our country—is as good as the national bank. They are just as well conducted, and they are serving the people in a wider capacity.

Senator REED. And thoroughly inspected?

Mr. DAWSON. I think their inspection is not quite as rigid as the national-bank inspection.

Senator BRISTOW. In our State I think it is better.

Mr. DAWSON. That may be so.

Senator REED. The State government of Kansas has always been understood to be superior to any other government.

Senator NELSON. Except the government of Minnesota. [Laughter.]

Mr. DAWSON. I know the question has been asked this committee by some of the large bankers, What situation the national banks would be in if at one window you are paying out demand deposits and at another window you are enforcing the 60-day rule? It seemed like a question that had no answer. But yet it has an answer. There is a difference between a demand deposit and a time deposit. There is a difference in the contract between the depositor with the bank. The man who comes in with a savings deposit—a time deposit, if you please—says to Mr. Banker, "I want to leave this here a certain length of time, a considerable length of time. I will leave it here, say, three months or seven months," or he need not specify. Mr. Banker says, "Very well. If this is a time deposit, we can afford to pay you interest on that in consideration of your allowing it to remain here. We will pay you 3 per cent interest on it."

Senator NELSON. And give you a certificate.

Mr. DAWSON. One or the other. He may be either given a certificate or it may be entered in his pass book. There is a contract between the depositor and a banker on a time deposit. That is not true between the banker and the man who comes in to make a demand deposit. The business man who comes in and lays down his deposit, he says to the banker, "I want you to take care of this for me, but I expect you to pay it to me the minute I want it. I am not going to leave it here any specified length of time; you can not count on that." Our banker says, "I can not afford to pay you any interest on that." There is not the same contract. Now, if there is a different contract between the depositor and the banker on those different classes of accounts, then there should be a way by which they could be handled differently and with entire justice to all concerned.

Senator NELSON. And safety.

Mr. DAWSON. And with safety as well. So I can not see why a country national bank should not be given the privilege under proper restrictions, of course, to do a commercial business and this investment banking.

Senator NELSON. And, as a matter of fact, are not the bulk of those deposits in the small country banks time deposits?

Mr. DAWSON. They are. I have a letter here from one of the country banks on that very subject which I hope will be of service to the committee.

Senator HITCHCOCK. What size bank would you limit that to?

Mr. DAWSON. I do not believe I would limit any national bank. Let it be a national bank up in New York or Chicago, I do not care. If it is necessary in serving the interests of their community to have a savings department if they wanted one, I would give them the same privilege as a bank in the smaller town.

Senator NELSON. I will tell you, Mr. Dawson, what they do. They organize a loan and trust company as an appendix and work together.

Mr. DAWSON. Yes. Within a radius of 50 miles from where I live and I think I can count 10 or a dozen national banks, in their endeavor to meet the needs of the community where they are situated, have been obliged to take out a State charter and run the two banks together. There are many national banks operating as a savings bank under the laws of the State of Iowa, with the same stockholders and the same directors as the national bank.

Senator NELSON. You will find, if you want to prove it, a trust company in the country with small branches in the national banks.

Mr. DAWSON. The country banks have been obliged to resort to that expedient in order to serve the needs of their communities.

Senator REED. Yes; and do not some trust companies organize to get hold of the stock and control of the national banks?

Mr. DAWSON. I am not familiar with that. Now, that is about all the notations I have here with respect to my statement, except one thing, the refunding of the 2 per cent bonds. The country bank is very vitally interested in that question, of what you are going to do with the 2 per cent bonds.

Senator NELSON. And for this reason, he has taken out circulation more up to his capital than the city bank.

Mr. DAWSON. Indeed he has.

Senator REED. Suppose he may keep that circulation.

Mr. DAWSON. I think he would be satisfied with that provision.

Senator REED. We only propose to retire one-twentieth of it each year, and suppose that proposition of retirement was put in the alternative, that the Government could retire it and substitute for it a certain other kinds of money, in which event they could take up his bonds; would they then have any objection?

Mr. DAWSON. No; I think not.

Senator REED. All he wants is to be certain he is going to get 100 cents on the dollar for every 2 per cent bond which he paid 100 cents on the dollar for?

Mr. DAWSON. Yes; and some paid more; but par is all they could expect.

Senator REED. And as long as he held the 2 per cent bonds, that he be allowed to have the circulation privilege?

Mr. DAWSON. That is the contract under which he took the 2 per cent bonds at par.

Senator REED. And therefore the Government of the United States ought to make its obligation good, and if it cancels the arrangement, it ought to put the man back in status quo?

Mr. DAWSON. That is all; and that is all the average country banker asks.

Senator REED. I think so, too.

Mr. DAWSON. The way the bill stands now, the country banker is in fear if he does not come into the system, then the 2 per cent bonds will go down to the level they would have without the circulation privilege. He bought those bonds under a contract, whether implied or otherwise, with the Government that he should have the circulation privilege, and if the circulation privilege is taken away and no provision made for maintaining them at par he is going to suffer a loss.

Senator REED. Suppose we provide that the circulation privilege should continue as to those banks coming into the system, and not as to the others. Would that have some tendency to get them in?

Mr. DAWSON. I am not quite sure that I caught the question, Senator.

Senator REED. Well, I will think that over myself. It sounds a little like coercion.

Mr. DAWSON. What they are concerned about is what is going to happen; that is, they are a little bit fearful this system is not going to be constructed so that it will be to their advantage to come in. If that should prove to be the case, and they do not care to come into this new system, then they want to know what is going to become of the 2 per cent bonds if they do not come in.

Senator HITCHCOCK. Suppose the profits of the reserve bank should be invested in the 2 per cent bonds from time to time?

Mr. DAWSON. That would take care of it in the course of time. I do not think it is entirely satisfactory with this provision in the bill, which says they shall be redeemed at the end of the 20 years, because they understand the present Congress can not bind a Congress 20 years from now.

Senator HITCHCOCK. I mean profits over the dividend which is provided for on the stock.

Mr. DAWSON. In the form of a sinking fund. Now, Mr. Chairman, that completes, in a general way, the statement I wish to make in regard to this bill.

Senator BRISTOW. I wanted to ask you, Mr. Dawson, about savings banks.

Mr. DAWSON. I should be very glad to conclude this afternoon if I could.

Senator BRISTOW. You have a savings bank department in your bank?

Mr. DAWSON. Yes, sir; established three years ago.

Senator BRISTOW. What do you do with the money you take in in your savings-bank department?

Mr. DAWSON. You mean in the way of investing it?

Senator BRISTOW. Yes.

Mr. DAWSON. It is invested the same as the other demand funds of the bank.

Senator BRISTOW. That is, it is handled in commercial business the same as any other deposits?

Mr. DAWSON. To be sure. We have increased somewhat what we call the secondary reserve of the bank by reason of these deposits. The secondary reserve of a national bank in actual operation being the purchase of bonds—State bonds, municipal bonds, and some other investment bonds—which are held in the vaults of the bank and which we can convert into cash practically at any time to meet the demands of depositors. The First National Bank of Davenport carried \$252,000 worth of such bonds, and carries them to-day in its vaults, while our total deposit liabilities are \$2,500,000—about 10 per cent of our total deposit liability.

Senator BRISTOW. What per cent of your deposits are through your savings-bank department?

Mr. DAWSON. Of this \$2,500,000 of total deposits, a little over \$700,000 is savings deposits that have accumulated there in three years.

Senator BRISTOW. A savings bank would loan that on investments, would it not?

Mr. DAWSON. Yes, sir.

Senator BRISTOW. This being a commercial bank, you are presumed to loan that on commercial paper? You are carrying these bonds. You are permitted to carry bonds, are you—

Mr. DAWSON. Under the national banking act? I understand so. We have never been criticized by the comptroller for that.

Senator BRISTOW. Why should you not carry real estate mortgages as well as municipal bonds?

Mr. DAWSON. Of course we are prevented by law from doing it now.

Senator BRISTOW. Is there any reason why you should not?

Mr. DAWSON. I can see no reason why a first-mortgage farm loan on an improved Iowa farm would not be just as good, if not superior, as a security, to a municipal bond or a timber bond or a railroad bond or any other class of bonds that the bank invests in.

Senator BRISTOW. Isn't it just as liquid?

Mr. DAWSON. I would not say that it was quite as liquid. I have found, on making inquiry in the East with a view of locating a market for first-mortgage real estate loans, that a good many investors in the East have not forgotten an unpleasant experience they had in the western country a good many years ago. They do not seem to appreciate the transition that has occurred out there in the Middle West with regard to values of real estate. It is true that there is a large market for first-mortgage real estate loans on the part of the insurance companies, who purchase them in very large quantities and on the part of the investor. Any Iowa savings bank or a State bank which loans on real estate, may not only sell the mortgages to investors, but they also issue a debenture bond on them, and those are very much prized by investors. They pay a rate of 5 per cent as against the savings-bank rate of 4 per cent. Of course a national bank is prohibited from entering the field at all.

Senator BRISTOW. Have you many savings banks in Iowa?

Mr. DAWSON. A great many. The commercial banks in Iowa are called savings banks, outside of the national banks. Take the city of Davenport, a city of 45,000 people; it has upward of \$30,000,000 of deposits, a very creditable line of deposits considering the population of the city. There are two national banks there. There are four savings banks, which are as large or larger than the national banks. These savings banks are doing a commercial business, doing a savings business, and doing a bank business; that is, receiving deposits of country banks, State and others. Only one of these four has gone into the country bank field very extensively. That is the German Savings Bank, which holds the largest deposits of any bank in Iowa.

Senator HITCHCOCK. Has Davenport any deposits from country banks?

Mr. DAWSON. Oh, yes.

Senator HITCHCOCK. What do they amount to?

Mr. DAWSON. I should say about \$3,000,000, all told. The eastern idea of a savings bank, of course, is entirely different from our idea

of a savings bank. This is a stock savings bank, organized under State laws, permitted to do a commercial business, a savings-bank business, or any other class of banking; permitted also to exercise the functions of a trust company, to act in a fiduciary capacity, to act as administrator, and all that sort of thing.

So that under this liberal State law this German Savings Bank has grown up in the town of Davenport with the largest deposits of any town in the State of Iowa. They have upward of \$6,000,000 of bank deposits of banks round about, most of them State banks.

Senator WEEKS. Do you not think, then, it is a misnomer to call such a bank a savings bank?

Mr. DAWSON. It is, from the New England point of view, and I think it is a misnomer.

Senator WEEKS. Of course, we do not expect other States to be as progressive as Massachusetts in such matters.

Mr. DAWSON. We have none of the mutual savings banks in the West.

Senator BRISTOW. Now, the testimony that has been given here is to the effect that a savings bank could not possibly desire to become a member of this system, because the nature of its business is such that it would be of no use to it. Do you think the savings banks in Iowa would want to come into this?

Mr. DAWSON. These four savings banks that I speak of that we are in direct competition with are all engaged in commercial business. They handle a very considerable line of commercial accounts for manufacturers, merchants, etc. Their necessity for rediscounting at certain times of the year is identical with ours. When we are compelled to borrow money to take care of our commercial customers I have observed from their statements that they are practically in the same condition. They are usually borrowing when we are, so the necessity for their rediscounting is practically the same as ours. That is the way matters run in Iowa as between a national bank and the so-called savings banks.

Senator POMERENE. What is the legal reserve under the Iowa law?

Mr. DAWSON. It varies. It is 5 per cent on savings deposits, and from that up to 20.

Senator POMERENE. On commercial deposits, you mean?

Mr. DAWSON. Yes, sir.

Senator BRISTOW. How do these savings banks that are doing that kind of business—do they segregate their deposits?

Mr. DAWSON. Not at all.

Senator BRISTOW. How do they fix the reserves then?

Mr. DAWSON. The State law specifies—of course, in the actual transaction of the business of the bank there is a set of books kept for savings deposits and a set for checking accounts. The law prescribes that on the savings accounts they shall carry a reserve of a certain per cent, 5 per cent. On these other classes of accounts the law provides a different reserve, so it is a mere matter of mathematics what the reserve is that they shall have at any time.

Senator BRISTOW. Mr. Dawson, out there in Iowa, as I understand, the change in our present system which you want is something which will make the currency more elastic and mobilize the reserves; those two matters?

Mr. DAWSON. Yes; those are the fundamentals, it seems to me.

Senator BRISTOW. Now, if that could be done by the establishment of a Federal reserve bank, a local bank owned by private subscription; let it be managed by this Federal board directly; let it have branches out through the country; make it a bank of issue, a bank of rediscount, and a bank of reserve, so that these reserves that are required in the bill will be deposited in this Federal bank. Then when you wanted to rediscount any paper you could rediscount it; when you wanted currency you could get it in a manner similar to that by which you would obtain it through the regional bank. Would that perform all the functions which you need out there?

Mr. DAWSON. I think it would. I think that would perform the functions mainly.

Senator BRISTOW. Would that be more satisfactory to the community—they would not have to put up any stock unless they wanted to—

Mr. DAWSON (interposing). Yes; but I do not think that disturbs them much. That is not the main objection to this bill.

Senator BRISTOW. The main objection as I understood you just before you finished this morning—what was the main objection?

Mr. DAWSON. I started with the foundation that if this system is to be a success the country banks must go into it. If the country banks do go into it they should not be penalized; they should not have taken from them any considerable portion of the earnings which are now reserved under the national banking act. Then, in addition to that, that now is the opportune time for the Congress of the United States to equalize the privileges of the national banks. Those of you who have been in Congress for many years know that it has been under discussion; it has been recommended repeatedly by controllers of the currency; it has been recommended repeatedly by Presidents; that the national law needed some amendment. It is 50 years old, and 50 years have wrought a tremendous change in the handling of this business, and yet there that old law stands. The men who are running the national banks feel that their hands have been tied, and they feel that now is the time for the Congress of the United States to unshackle them.

Senator HITCHCOCK. The law of England and the law of France are much older.

Mr. DAWSON. Yes; but they are hardly comparable to this.

Just before I left I took occasion to write out to a few intelligent national bankers that I knew well and personally, the banks of \$50,000 and \$100,000 capital, men that had given some thought to this, as I supposed. I asked them how they thought this bill would affect their banks and their communities. I received one answer that seemed to cover the ground most thoroughly, and I am going to take the liberty of reading it to the committee if you care to hear it. This is from the cashier of the Washington National Bank of Washington, Iowa, a town of perhaps 4,000 or 5,000 people.

This from the Washington National Bank, Washington, Iowa, October 2, 1913. Capital, \$100,000; deposits, \$1,000,000.

Mr. A. F. DAWSON,

President First National Bank, Davenport, Iowa.

DEAR SIR: I have your favor of September 30 requesting by early mail our views on the pending currency bill as it would affect our bank and our community. While we believe that some currency legislation is needed and that in

the main this bill will create more healthy conditions and prevent money stringencies such as we have experienced in the past, we feel that if the bill is passed in its present condition it will do our bank and our community more harm than good.

We believe in the idea of Government supervision and regional banks, but do not like the idea of being forced to subscribe from 10 to 20 per cent of the amount of our capital or else forfeit our charter. In fact, I am free to confess that if the bill goes through in its present form it is very likely that we would be forced, in justice to our stockholders, to forfeit our national charter and become a State bank, much as we would regret to do so.

Inasmuch as the bill promises that our income from the stock subscribed will in no case exceed 5 per cent, and also that we would not be allowed any interest for reserve carried with them, this would in itself cost us from \$1,500 to \$2,000 a year. The loss of exchange charges on checks would also be an item of some consequence to us.

The savings feature of the bill would work a great hardship on us and give the local State banks a big advantage. At present 70 per cent of our deposits are in time certificates and savings accounts, and in order to hold these we would be forced to become a State bank.

The farm-loan feature of the bill would have no advantage to us, inasmuch as none of our farmer customers would consider mortgage loans maturing in one year.

While the rediscounting feature of the bill may work to the advantage of the larger banks, it will amount to nothing to us, as we carry practically no paper which we could rediscount. The majority of our notes are made for a period of six months and are made by our farmer customers and our merchants, and they expect to take care of their obligations as they sell their farm produce or turn their stock of goods, and we could not with safety rediscount such notes as this without serious trouble to ourselves and loss of customers to the bank.

We are greatly in hopes that the objectionable features of the bill, which can not help but result in great hardship for small banks like ours, will be eliminated, and that a bill will be passed which will be generally acceptable to the national banks.

I personally am very glad to know that you have been asked to go to Washington and appear before the Banking and Currency Committee of the Senate. I believe you are in every way the right person to handle this matter for us, and I feel that you will accomplish great good.

Very truly, yours,

W. F. WILSON, *Cashier.*

This from the First National Bank, Brooklyn, Iowa; capital stock, \$50,000:

With our deposits of \$450,000 and the capital we would have to invest in the Federal bank, I figure that we would have a loss of \$1,000 a year, as follows:

Our reserve, counting on the reduction to 7 per cent of deposits, would average \$32,000. This now brings us 2½ per cent interest, which we would lose, or \$800. As we are getting an average of 7 per cent on loans, there would be a loss of 2 per cent on the \$10,000 capital we put in, or \$200. This would make the \$1,000 loss right in sight, and there is another loss which many do not take into consideration. In drawing out the \$32,000 from our reserve banks it would make our deposits so low that we would have to borrow money to replace it, or lessen our loans, in order to have sufficient funds to draw drafts on and handle our foreign checks.

To sum up my views, as the bill now looks to us, I think that there will be an application for another State bank.

I would say that we might have about \$20,000 of rediscount paper in our bills receivable.

This from the First National Bank, Maquoketa, Iowa; capital, \$50,000; deposits, \$650,000:

I think it would be much better for the ordinary country bank if the time limit of acceptable paper was 6 months instead of 90 days.

It seems to me that the Federal bank should pay 2 per cent interest on the reserve required to be kept with them—the same rate as banks get now from reserve agents. If they pay no interest on this fund, it places national banks at

a disadvantage with State banks, and would certainly deter State banks from becoming members.

I am strongly in favor of allowing country banks to loan a part of their time deposits on real estate security, but to limit the time to one year would practically prohibit any such loans being made here.

With these exceptions, I am rather favorable to the bill.

Senator REED. I should like to ask a question right there: If he does not have 90-day paper and does have 6-months' paper that he could use, I understand then how he might want a bill which permits him to cash 6-months' paper. But he adds a clause there that they could not discount this paper. I take it that their customers would leave them. That is what that clause means. Then he is in a position where he has nothing and can not get anything. He says: "First, I have not any 90-day paper; and, secondly, I have 6-months' paper, but I would not dare use it; and, third, the clause that permits the use of real-estate loans is of no value."

How are you going to help a man situated that way?

Mr. DAWSON. It seems to me very easily.

Senator REED. Now, how? I mean, with reference to this one feature of getting notes?

Mr. DAWSON. How are you going to make it attractive to him?

Senator REED. Yes; on that one feature. How are you going to permit him to discount when he has not anything he dare discount?

Mr. DAWSON. One reason why he dare not discount it, in my opinion, is the present prejudice among his customers against having notes sent out of town, or out of his bank. With a proper system in the United States, based on rediscounts, it would only be a question of time before the views of the people in that regard would change. That would be a matter of educating his customers. He could not do it the first day or the first month, but in time the prejudice his customers have in that particular would be eliminated, in my judgment.

Senator REED. I can grasp your idea from that answer.

Mr. DAWSON. There is this that the committee might take home with them. I offer this as a possible solution. If there was put into a regional reserve bank every month a certain volume of paper of the country banks for rediscount, and if that paper was 6-months' paper, then some part of it would be maturing every month, would it not, and would that not be just as liquid as your 30-day paper?

Senator REED. But it would not be, according to the idea of some bankers here, of this character, namely, that it would all pay itself off quickly, if they had to have the money.

Mr. DAWSON. Now, I agree that it would not be wise to issue currency on that class of paper entirely; but would it endanger the liquidity of the entire mass, or a certain small percentage of it which was liquidating itself each month, as the months rolled by, say 60 instead of 90 day paper?

Senator REED. You would advocate or suggest, then, that a certain percentage of this paper be allowed?

Mr. DAWSON. That is the thought I would like to leave with the committee. I do not recommend it, but it seems to me it is worth considering.

Senator POMERENE. In that connection I would like to ask you this question: You are familiar with the country banks in Iowa, generally; do they loan substantially the same amount each month?

Mr. DAWSON. No; they do not. If they did, then they would have in their own vaults a certain amount which would mature every 90 days; but that is not the way the business of the country is handled?

Senator POMERENE. That is what I am trying to get. When do they borrow the most money?

Mr. DAWSON. If it is in a country where they are feeding cattle, and that is a considerable industry in Minnesota and Nebraska.

Senator POMERENE. I am speaking of Iowa.

Mr. DAWSON. I am speaking of Iowa also. Most of the cattle loans are made in the spring or summer, and they are liquidated when the cattle are sent to market.

Senator BRISTOW. If they are corn fed, it would be in January or February.

Mr. DAWSON. The cattle would be marketed in the winter.

Senator POMERENE. The farmers borrow for other purposes than for the buying of cattle, do they not?

Mr. DAWSON. Not unless it is a permanent loan. Then they put that in the form of a real estate mortgage.

Senator POMERENE. Do they not deal in hogs and horses?

Mr. DAWSON. Oh, to be sure.

Senator POMERENE. They do not do that at any particular season of the year?

Mr. DAWSON. It is largely a seasonal business.

Senator POMERENE. I know, but the seasons for hogs and cattle is not the same. Hogs are usually marketed within six or eight months from the time they are pigs.

Mr. DAWSON. In Iowa we do not borrow any money to go and buy pigs. We raise them ourselves out there. We do not have loans based on the basis of pork on the hoof. We do not buy pigs and then fatten them and sell them. We raise them.

Senator REED. Mr. Dawson, have you any other suggestions that you think would make it easier for the country bank to come in—that is, the country bank of the character you have been describing?

Mr. DAWSON. If I were to sum it all up as to my opinion of what would make this sufficiently attractive for the country banker to make him wish to remain in the national system, and I believe it would also be attractive enough to create a desire on the part of the city banks to come into the system, I would adopt some suggestion that has been made as to the subscription to the capital stock, perhaps reduce that one-half, and make it 6 per cent. The shifting of reserves I would make a little more gradual, and instead of shifting 3 per cent at the very start I would move that gradually. As I understand, this regional bank is not to be run for profit primarily. The country banker can not understand why this bank should pay the Government 2 per cent or more on its deposits and not pay him anything on his deposits when he is supplying the capital as well. There may be some good reason why the country banker—who impounds his reserve over in this bank, and those reserves are used by the regional banks as a basis for credit—why he should not receive 3 per cent from the regional bank the same as he is receiving now.

Senator REED. On that point, because I am so favorably impressed with your remarks—and I do not say that as flattery—I want to give you an idea to take home on this question of the capital of this bank. Every banker who has come here has talked about the banks

furnishing all the capital for these regional banks. Let us see if they do. One requirement of this bill, in section 16, is that the Government of the United States must put every single penny it has, except the 5 per cent reserve, in this bank and except also the moneys held as special deposits, all of which, as we know, can be speedily drained into a bank.

Mr. DAWSON. But that is deposits rather than the capital, Senator. I have endeavored to state that accurately.

Senator REED. It deposits it, and immediately after it has deposited it it begins earning money and the banks get the benefit of it.

Now, the provision of the bill is that before the Government takes down a single penny from its contribution the banks shall get 5 per cent, and it may ultimately be 6 per cent, on their capital. The next proposition is that the Government furnishes the credit and backs up all of this paper that is to be issued by the banks, and if it does not furnish its credit it creates and loans the power at least. Now, it looks to me like a copartnership in which the Government was contributing most of the capital and the banks the experience. I hope it will not result as those copartnerships generally do.

Mr. DAWSON. I was only seeking to state the proposition accurately. There is no desire in my mind to minimize the benefits that are to come to the banks from the Government. But it is still an accurate statement when I say that the banks supply all the capital stock of this new bank. The Government supplies deposits; it is not capital stock. While it is used for the benefit of the system, still it seems to me I am accurate in my statement.

Senator REED. You are accurate technically, but I am talking about this matter, treating this matter as a matter of equity. Now, I want to call your attention to another thing. When these banks are put in operation they are supposed to perform certain very important functions for the various banks coming in. Then I call your attention to the fact that they constitute and are a method of insurance of banks against failure.

Mr. DAWSON. That is a great feature.

Senator REED. And taking all those things into consideration is there anything wrong in asking the banks to contribute some part of the insurance?

Mr. DAWSON. Not at all.

Senator REED. So I do not think the banks ought to treat this as though they were going into their pockets, creating an institution and running it at their own expense, the Government contributing nothing, and the Government demanding a share of the profits. I think you ought to get that out of your head. I do not think you yourself have that idea very strong.

Mr. DAWSON. No; I have not. But you take a little banker in the country who is now deriving from these reserves, we will say, \$1,500 income; that is one and a half per cent on his capital stock. You take that away from him by force, as it were, as he thinks, and he don't like it.

Senator REED. I understand that. At the same time when we talk about force I want to give you another idea. The national-bank system has utterly broken down two or three times within a few years, comparatively speaking. When that happened every national

bank was subjected to the forfeiture of its charter because it could not perform the functions it was required to perform under the law. But when the Government comes in to aid them in avoiding that thing the Government ought not to be treated as coercing them because it says you must do this thing now which is necessary now to avoid danger, but it ought to be treated as a friend, coming in to aid a system, and I want to say, while I am talking, that the whole attitude of every man I have heard express himself on this committee or in the Senate has been one of trying to avoid these dangers and assist the banks and at the same time be just to the country, and I make that remark because there has been so much adverse criticism of Congress and everybody connected with it.

Mr. DAWSON. The public generally throughout the country does not share that spirit of criticizing. The impression prevails out in our country that Congress is making an effort, in the best of good faith, to solve this problem, not in the interest of the bankers, but in the interest of the transaction—the orderly transaction of the business of the whole country, because when it does break down, the burden falls on the people and not on the banks.

Senator REED. They come in for part of it. Let me ask you this—and by asking this I am by no means committing myself to the theory, but every man who has appeared here, and indeed it must be a patent fact to all the people, has asserted that if the bill is passed, permitting State banks and trust companies to come in and retain their powers, that the national banks would naturally go into one of those organizations.

Mr. DAWSON. Go around a corner to come in.

Senator REED. Now, the national banks will have a right of circulation based upon these 2 per cent bonds, and the bonds are now in trouble in the market because of conditions we need not go into. If the Government of the United States was to permit this bank circulation to stand unimpaired, at least for the present, and if the Government of the United States was to not tax that circulation, would that not be a strong inducement to national banks to stay in the system?

Mr. DAWSON. Yes; they would have all that they have now. I can see no reason why a national bank—

Senator REED (interposing). They would have more than they have now.

Mr. DAWSON. As I was going to say, they would have in addition to that this broad discount market which you provide for.

Senator REED. Do you see any real reason for the retirement of the national-bank notes?

Mr. DAWSON. There is an academic reason.

Senator REED. Let us consider it from a practical standpoint; I am not much of an academician.

Mr. DAWSON. No; I am not either. I can see no practical reason for their immediate retirement except that I have a feeling that the national debt ought to be paid off some time. I would like to see the national debt paid off, and I would like to see us begin on it tomorrow.

Senator REED. How does the retirement of this \$700,000,000 necessarily involve the question of the payment of the debt?

Mr. DAWSON. It depends on how long we are going to remain out.

Senator REED. If you have to have any money to pay the debt with, would it not be better to retire some of the other bonds?

Mr. DAWSON. The others all draw a higher rate of interest; it would be good business for the Government to retire these.

Senator REED. Is there any economic reason? I mean is there any weakness in the banking system of such a character to the substantial arising out of these bank notes?

Mr. DAWSON. If you can create a system here that will introduce this element of elasticity; that is, provide that at certain seasons of the year you can get currency to meet the needs, and when the needs are over they would be retired—if you could do that, and if you make the system panic proof by providing a broad rediscount market, so that in the face of a panic the bank can use the reserves for the purposes for which they were created and can replenish those reserves by the rediscounting of paper in their own portfolios, I can see no possibility of breakdown for purely financial reasons.

Senator REED. What would you say to a provision to this effect, that after the banks had received their 5 per cent interest upon their stock contributions that a portion of the profits, if there were profits, should be set aside in a fund held by the Government for the purpose of liquidating the deposits of any national bank the doors of which were closed?

Mr. DAWSON. That had failed? That works very well in other countries. It works very well in Canada—too well up there, in fact. In Canada as soon as a bank fails the notes of the failed bank go to a premium.

Senator REED. We do not want to do that. If every man who puts his money in a bank knew if the bank closed its doors there would be a Government officer there to pay his deposits within two or three days, would that not have a tendency to stop runs upon banks?

Mr. DAWSON. Yes; I think that would have a tendency to increase confidence, and it is all based on confidence, after all, gentlemen.

Senator REED. Is it not, in your opinion, an entirely practical thing to put some provision of the kind I have indicated in this bill?

Mr. DAWSON. I can see no objection to it, and I can see many virtues in it.

Senator REED. There is one other matter to which I wanted to call your attention.

Mr. DAWSON. You asked a question a moment ago which I did not quite finish answering. You asked how we could liberalize this, whether it would be agreeable to the country banks. I started to give you my opinion as to how it could be made entirely agreeable to the country banks. My first suggestion was the stock subscriptions, and then the reserve requirements. The third, which is of still more importance, is to equalize their privileges with those with whom they are competing.

Senator POMERENE. These banks, you mean?

Mr. DAWSON. Yes, sir.

Senator REED. You refer to the profits of the national banks?

Mr. DAWSON. I refer to their privileges and opportunities to serve their communities.

Senator POMERENE. I wish you would submit to us in concrete form what your views are along that line as to how that should be done; what profits should be given the national banks which they do not now have; what restrictions, if any, should be placed upon the State banks which may come in?

Mr. DAWSON. I would be very glad to do that.

Senator BRISTOW. I would like, Mr. Dawson, if you will—we have asked a number of witnesses here to prepare amendments to the bill—and I would like you, if you will, to prepare amendments covering what you think are necessarily important and let us have a sample of a bill.

Mr. DAWSON. I shall be very glad to do that. I assume these amendments are to be used by the committee in executive session. I hardly feel myself competent to draft a bill.

Senator REED. I think you are competent, at least, to make suggestions.

Mr. DAWSON. I would be very glad to put in writing any suggestions that the committee might wish.

Senator REED. There is another matter I want to draw your attention to. This morning when you were testifying you stated, as nearly as I can recollect, that it was desirable for the banks in ordinary times to use the reserves which they would place in the reserve banks; that one of the benefits of this bill was that it would be possible in ordinary times to use these reserves and make them work. Of course, at the end of 36 months all the reserves required to be kept will be in these banks.

Mr. DAWSON. In one place or the other.

Senator REED. Now, if the banks use those reserves, which, of course, can only be used by way of discount in ordinary times, then they have nothing left to draw upon in extraordinary times except the currency issue, have they?

Mr. DAWSON. No, sir.

Senator REED. Do you not think it would be very wise if those reserves were not all used in ordinary times?

Mr. DAWSON. I do not quite follow your suggestion. As I understand it, under the operations of this bill—and we will say it is in full operation—5 per cent of the reserves can be carried in the vaults in cash, 5 per cent of the reserves must be carried in the Federal reserve bank, and the other 2 per cent can be carried in either one place or the other. I do not understand that a member bank can encroach upon that 5 per cent that they have deposited in the Federal reserve bank at any time any more than we can under present conditions.

A national bank is not permitted to go below its legal reserve. That 5 per cent you have put into the Federal reserve bank, it seems to me, is impounded there. It is taken out of the channels of business. The member bank will not be permitted to use that. If he rediscounts with the regional reserve bank, it will be on funds above that amount; it will be on his balance above 5 per cent.

Senator POMERENE. Is it your understanding that under this bill, if a bank should have a run upon it, or something of that character, and the depositors are demanding their money, they could not get this 5 per cent out of the regional reserve bank?

Mr. DAWSON. No; I think they could. That would be an emergency.

Senator POMERENE. They could not loan it or anything of that kind, but they could use it for the purpose of paying the depositors just the same as national banks do now?

Mr. DAWSON. Sure; there is no need of mobilization, if you can not use them in an emergency.

Senator NELSON. Do you not recall Vanderlip said yesterday that it was well for the regional reserve banks to conserve their reserve as much as possible and hold them in ordinary times when there was no demand, even letting them run up to 70 or 80 per cent in order to have a big fund in case of emergency? Do you not recall that?

Mr. DAWSON. I did not hear that.

Senator NELSON. You do not agree with that?

Mr. DAWSON. I think that what you need to get into these regional reserve banks—all the capital that you need in those banks is sufficient to take care of the ordinary emergency that would arise. The history of the past I think indicates to us how much of an expansion would be necessary to take care of the ordinary financial disturbance that comes along. It seems to me that if the regional banks were in a position whereby they could extend credit to the amount of \$200,000,000 at any time, that would allay any panic that might be in its incipient stages. When the country understands that a law is on the statute books that can cope with any panic which may come along the panic is not coming along.

Senator NELSON. Do you not think it is idle to talk about the point that this 5 per cent is left in the banks? Your idea is that this 5 per cent should be constantly in use, and your grievance is that this amount is not in use, and that it is tied up there and does not draw interest.

Mr. DAWSON. No; that 5 per cent constitutes the insurance which the bank has against panics. The 5 per cent is reserve.

Senator NELSON. Is not that fund—what other fund outside of the bills it issues upon commercial paper, what other funds has the regional bank except its capital and its 5 per cent on the deposits. Is not that the fund that would really help to maintain this gold reserve?

Mr. DAWSON. Yes, sir.

Senator NELSON. Then is it not idle to complain because this 5 per cent is idle in the bank? Your idea is that it should be constantly out in the shape of discount paper?

Mr. DAWSON. No; it is idle in comparison with the function it is performing. My conception of an act is one that will—if you must make a change from present conditions to other conditions that are better, it is better to do that gradually rather than to do it violently.

Senator NELSON. Do you now know, Mr. Dawson, that one of the most faulty things of the present reserve system is first of the reserve and the necessary payment of interest, the payment of 2 per cent interest, which has piled up money in the big banks of New York? They have all that money sent in from the country banks, and the temptation has been the 2 per cent interest, and the New York banks could not let that money lie idle, and so they invested it in call loans, and when a panic comes, as the panic of 1907 did, this kind of loans were not liquidated.

Mr. DAWSON. I agree with you absolutely on that.

Senator NELSON. The best part of this whole bill is the reserve system, first in limiting the amount as it does, wiping out the objectionable features of the reserve and stopping the payment of interest.

Mr. DAWSON. There has been some change in actual practice since the panic of 1907. I agree with you about the panic of 1907. It taught a lesson to the bankers out West. It was a sad and costly lesson, but they learned it. Since that panic they are not keeping those large balances in New York which they used to keep there. They are keeping those surplus balances in the little banks around about. Instead of sending them to New York they are keeping them in Omaha, Kansas City, or St. Louis, or Minneapolis, or St. Paul, or Denver, or even in the banks in cities of 15,000 or 20,000 population, and the smallest country banker will carry his balances there. He gets 2 per cent interest up there.

Senator NELSON. Do you not recognize that the reserve system provided for in this bill is much superior to the present system?

Mr. DAWSON. I think it is.

Senator NELSON. And would prove a great blessing to the country?

Mr. DAWSON. I think in shifting it to where it is now and where it is expected to be, that shifting process should be gradual.

Senator NELSON. It is gradual.

Mr. DAWSON. And in writing a law that is going to reduce the income of a bank, as it is now, that should be made as gradual as possible, if you are going to take away his income.

Mr. Chairman, Mr. William W. Baldwin, one of my colleagues on the committee representing the Iowa bankers was compelled to leave the city early this afternoon, and asked me to read his statement.

The CHAIRMAN. You may do so.

Mr. DAWSON. The statement is as follows:

STATEMENT OF W. W. BALDWIN, OF BURLINGTON, IOWA.

My name is William W. Baldwin; residence, Burlington, Iowa; occupation, attorney at law and vice president of the Chicago, Burlington & Quincy Railroad Co.

I am not a banker nor bank director, nor stockholder in any bank, and never have been. My interest in this subject is solely as a citizen in business, who has had some very keen experiences under the existing inefficient and menacing banking system, as demonstrated whenever its efficiency has been put to real tests.

The people of the country have been led to expect, and they do expect, the present Congress to provide at least the beginnings of a better financial system.

There could not be a more opportune time for undertaking this reform. General business is good, and no such threatening conditions confront us as led to the makeshift Vreeland law.

Both Houses of Congress and the President are of the same party, my party—the Congress by good majorities—and the administration is pledged and the party is pledged, as strong as words can pledge men, to provide an adequate currency system.

Best of all, there is a strong healthy sentiment among the people upon the subject; a process of education has been going on for three

years and the minds of the best students and the best bankers have been interested in the question.

This demand for a reform of the currency is not, according to my view, a banker's demand. The bankers can get along without it. The widespread losses that were part of the experience of 1907 were not the losses of bankers so much as the losses of their customers. The banks are prosperous enough now; they are making money enough; there are no strong financial reasons for them to demand this legislation that I can see. What is the fundamental difficulty, and what are the remedies which the reform should seek to provide?

The fundamental trouble is that while we have a splendid collection of strong money-making banks, managed by shrewd and resourceful bankers, their strength, their resources, their reserves, and their ability to meet conditions of stress and bad weather are scattered units, and our power to provide currency to the people in an emergency is pitifully weak.

In 1907 factories and merchants and railroad companies in Iowa in numberless cases could not get their own money, which they had deposited in their own banks, with which to meet their own pay rolls.

We understand the general purpose of this bill, by a safe and sane process, to be to combine, to unify, to mobilize the credit strength of all the banks, and to provide machinery through which may be issued in any time of stress an adequate supply of bank-note currency based upon their credit strength as represented in their assets, and absolutely secured by ample reserves and redeemable in gold.

Nobody wants a loose law; nobody wants it in the interest of bankers primarily. But the misfortune of no law at all would be less than a law which the banks can not and will not accept. Where shall we be, in that contingency, with the Vreeland act expiring in June?

What features proposed may tend to prevent the banks from cooperating to make the system a success?

One is the fear of a political control in the central board.

It seems to me impossible that you will enact a law for combining thus the entire banking resources of the country, under the control of a central board or governing power, and not give to the banks which provide the capital some adequate representation of this governing board. This is necessary for real efficiency. You will urgently need the talent and the experience and the self-interest of practical bankers to make this thing a success, and a frank avowal of this need would help to incline the banks to cooperate, it seems to my mind, and would please the business public which does not look with favor upon either political or bureaucratic control in business affairs.

In the prosperous city where I live the national banks are not the principal banks, but are the savings banks, which under State law exercise banking privileges, except the issuing of currency.

Besides, they act as trustees and loan upon real estate. Taking the West throughout, especially outside of cities, I have no doubt that the banks not chartered as national banks are the more important and more profitable to their owners.

It is going to be a comparatively easy matter for national banks to refuse to accept your law and slide over into State banks, and then what will become of your law?

Another cause for distrust has been the fear that this bill will do injustice to the banks in the matter of their 2 per cent bonds.

Then there is the requirement that the smaller banks tie up too large a percentage of their capital and are allowed too small a profit compared to what they can earn as State banks.

As one wishing to see this law, modified and improved, put into successful operation before next June, I sincerely hope you can consent to such changes as will make it to the interest not only of the small national banks but of State banks as well, to enter the system.

What to yield and how to yield on important measures such as this are the trials and tests of statesmanship.

Better far make this measure so attractive and workable that all banks will desire to cooperate than any feature of coercion.

Regarding a proper basis for a paper currency to meet the demands of business, I heartily indorse the view that a currency issued by the banks, with proper safeguards and based upon the assets and resources and credit of the associated banks, can be made equally safe and be a sounder and better currency than bond-secured issues.

(The witness filed the following paper, which he read before the Contemporary Club February 29, 1912:)

CURRENCY REFORM.

When Congress, by the act of May 30, 1908, created the National Monetary Commission and directed it to "inquire into and report at the earliest date practicable what changes are necessary or desirable in the monetary system of the United States or in the laws relating to banking and currency," it gave recognition to the fact that one of the greatest needs of the times is an intelligent and comprehensive reform of the banking and currency laws of the Nation. My own opinion is that, of greater importance to the continued prosperity and development of the country than either tariff or trust legislation, is the creation of a monetary system that will measure up to the demands of modern business and which will automatically adjust itself to the needs of trade and commerce in its seasons of variation.

There is much that deserves to be said in commendation of the present system of banking and currency. The banks of the country, both national and State, are sound, honestly conducted and capably managed, and the almost universal public confidence in them is well merited. What is true of the integrity and stability of the banks applies with equal force to the currency. Our consideration of the subject, however, does not go to the banks or the currency per se, but rather to the system.

The national banking system, created in the midst of the Civil War, gave the country a uniform and stable national currency to take the place of non-descript and worthless State-bank notes, which had resulted in such heavy losses and infinite vexation to business. It was a source of strength to the Union in providing a market for large quantities of Government bonds, which were bought by the banks to secure their note issues. It has been a permanent prop to the national credit, enabling the Government in 1900 to float its obligations at a rate at least 1 per cent less than any country in the world. In that year the 3 and 4 per cent bonds were funded into bonds bearing only 2 per cent interest, and this was possible largely because the national banks were virtually compelled to take the new twos as a basis for circulation.

But since that system was established almost 50 years ago there has been such a tremendous advance in business that we have outgrown it, and it is inadequate to meet the needs of to-day. It is hardly to be expected that the vast and complex business of the twentieth century can be handled properly with a credit organization created about the middle of the nineteenth century. The present system performs its functions well under normal conditions of trade and commerce, but it fails completely when any unusual demand is made upon it. We can not be satisfied with a fair-weather system. Would anyone patronize a trans-Atlantic liner that could make the trip only in good weather, but which would be certain to go to the bottom if a storm arose? Is not the United

States, which boasts of its commercial enterprise and supremacy, entitled to the same immunity from financial disturbances and panics that is enjoyed by all the other great commercial nations of the earth?

What is the matter with the present system? It is not in the soundness of the currency, because every dollar of it is as good as gold, and this virtue must be maintained in any change which is contemplated. No man stops to examine the paper money he receives to see whether he is getting a gold certificate, a silver certificate, a greenback, or a national-bank note. He knows that one is as good as the other, and all of them as good as gold. Neither does the fault lie in the quantity. We have a circulation in the United States of more than three and one-half billion dollars—more money than that of England and Germany combined. It is well for a thorough understanding of this question to recall that this immense stock of money consists, in round numbers, of \$350,000,000 of greenbacks, \$740,000,000 of national-bank notes, \$1,800,000,000 of gold in the form of coin and gold certificates, and \$740,000,000 of silver, also in the form of coin and silver certificates. Let us keep in mind also that national-bank notes comprise less than one-fifth of the circulating medium, and that they are the only part of our currency that can be expanded or contracted to meet the varying needs of business at different seasons of the year. We should remember also that the business of this great Nation, which amounts annually to the staggering total of \$450,000,000,000, is largely transacted with credit instead of money. Only about 5 per cent of it is done with money; the other 95 per cent with credits in one form or another.

The trouble with the system is in its organization. Nowhere in it is there any reserve power with which to meet an emergency, and as a result it fails completely when any unusual demand is made upon it. No less than four times during the past three decades has the system failed under severe financial strain. The panic of May, 1884, though of brief duration, was attended by a suspension of cash payments and the issue of clearing-house loan certificates, as was also the case in 1890. The panic of 1893 was still more severe, not only resulting in suspension of cash payments, but currency actually went to a premium. But in each of these instances the situation was complicated by abnormal commercial and political conditions which obscured in large measure the elements of weakness in our credit organization. But the crisis of 1907, which was wholly financial, rather than industrial or commercial, has enabled us to measure the shortcomings of the present system, and has directed public attention to the pressing need for a remedy that will protect the country from these recurring disturbances, with their enormous losses to every line of industry.

The country has suffered incalculable losses from these failures of our banking and currency system to perform its natural functions, and these losses fall with the greatest severity upon the wage earner and the producer. It is axiomatic that people of limited means suffer more in hard times than those of large resources. In every one of these instances where there has been a paralysis of credit operations, with the resulting lack of confidence, business is halted, commerce retarded, and production curtailed, with the consequent reduction in employment and wages, and a tremendous shrinkage in values.

The panic of 1907 came upon the country almost without warning. The underlying conditions of trade and industry were never more sound, and the country was enjoying a high degree of prosperity. We had harvested an enormous agricultural crop, factories were busy, labor fully employed at good wages, and business generally was at high tide. It seems almost incredible that with such conditions prevailing throughout the Nation one or two incidents in a single city could precipitate such widespread disaster and losses. And yet a gamble in copper stocks and the exposure of the crookedness of one New York banker created such alarm in that city as to precipitate a run on the banks which could not be stopped until the banks of the metropolis were forced to suspend cash payments and resort to the use of clearing-house certificates. It does not speak well for our present system when nation-wide prosperity can be halted by unrest or alarm in a single locality, and yet it is wholly within the truth to say that the panic of 1907 would not have occurred at all if our monetary system had been what it should be.

A careful study of that disastrous experience has resulted in a general agreement as to the defects of the present system, which may be summarized thus:

(1) *Lack of elasticity in the currency supply.*—It is well understood that at certain seasons of the year, particularly at crop-moving time, a considerable increase in the volume of currency and credit is required. The annual production

on the farms exceeds \$9,000,000,000, and a large percentage of this is marketed within a few months. It has been found by experience that an expansion of the currency approximating \$200,000,000 is necessary to meet this annual need under normal production. A satisfactory system would provide for such expansion when needed and a reduction when the necessity had passed. What is the present machinery for meeting this requirement?

With a fixed supply of gold, silver, and greenbacks, the only part of our currency that can be expanded or contracted is the issue of national-bank notes. These notes being based on United States bonds, it is impossible to increase their issue by \$200,000,000, because the total amount of such bonds with the circulation privilege not now owned and used by the banks does not exceed that sum. Then, again, any increase in the volume of these notes must result from the individual action of 7,000 national banks, scattered from one end of the country to the other, with no machinery for concerted action to meet more than a local situation. Besides, the market price of these bonds is an important factor in determining the action of banks in increasing or reducing circulation. It is too much to expect that a bank will purchase bonds to secure circulation if the price of bonds is such that their money could be more profitably employed in other channels. Experience has proved that under this plan the measure of the public need is not always met by the personal profit to each bank in this regard.

It ought to be stated, in passing, that the so-called emergency currency act of 1908 made temporary provision for elasticity of the currency. It permits the formation of national currency associations which may deposit in the Treasury securities other than Government bonds and receive currency up to 75 per cent of their cash value under certain restrictions and conditions. Several such associations are now in existence, and one of the large vaults in the Treasury is filled with currency printed under the terms of this act, which can be supplied on short notice to such associations should an emergency arise. But this is only a temporary measure, which expires by limitation June 30, 1914.

(2) *Lack of effective cooperation among the banks.*—We have already seen how the absence of coordination among the national banks makes it difficult to secure that unity so necessary to expand or contract the volume of bank notes so as to maintain efficient credit conditions nationally. And of course the banks under State laws, which equal the national banks in total capital and greatly exceed them in number, are practically helpless to render effective aid in this direction. The banking power of the United States is estimated at over \$21,000,000,000; it is equal to the combined banking power of Great Britain, France, and Germany. What a powerful factor it would be in any situation which might arise if all the banks of the United States, both National and State, were organized in an association which would secure unity and cooperation, especially in times of stress. United they would be able to cope with any emergency; divided into scattered units, as they now are, they are helpless and ineffective. There is a total lack of cooperation among banks outside the clearing-house cities, and even these clearing-house associations have never been able to prevent the suspension of cash payments in times of panic.

As it is now, in time of stress the law of self-preservation puts each individual bank into a scramble with every other bank in the matter of reserves. Under the present rigid laws, as soon as alarm is felt each bank immediately begins to strengthen its reserves. Cash is drawn from every available source and locked up in the vaults, many times in excess of their needs or requirements, in order that each may prepare itself to weather the storm. So we will find that the defects of inelasticity and lack of unity are insignificant in comparison with the fundamental defect of the present laws relating to bank reserves. With the business of the country resting so largely on credit transactions and bank loans, with bank loans dependent on reserve requirements, the present laws relating to bank reserves operate to aggravate and intensify conditions in times of financial stress. The most vital defect in our present system is:

(3) *The rigid and obsolete laws regarding bank reserves.*—Banks are required to hold a cash reserve in proportion to their deposit liabilities. There is no difference of opinion as to the wisdom of a bank keeping a portion of its assets in liquid form so that its demand obligations may be met promptly. Every competent banker will do this, law or no law. Under the present law national banks in reserve and central reserve cities are required to hold a reserve equal to 25 per cent of their deposits. National banks in all other places must carry a reserve of 15 per cent, two-thirds of which may be kept on deposit

in banks of reserve cities. State and savings banks in our State must keep 8 to 20 per cent of reserve.

The reserve must be held in "lawful money," which consists of all forms of legal-tender money. It is important to keep in mind that the law makes each individual bank responsible for obtaining and holding fast to its proportion of lawful money.

The present reserve requirements are defective in at least five important particulars.

(a) The cash reserves are scattered among 25,000 widely separated banks, with no provision whereby they can be mobilized to allay or cope with danger. When signs of trouble appear each bank strives to amass the cash reserve necessary for its individual protection. To do this it draws funds standing to its credit in other banks, thus weakening the reserves of those banks. If confidence is being shaken, every banker has visions of a run on his institution by alarmed depositors, and he becomes a competitor of every other bank in an eager struggle to secure cash enough to withstand it. A more effective panic breeder than this could hardly be devised, when if these reserves were properly controlled and mobilized, as they are in other countries, they could be made effective to prevent trouble. Concentrated, they would afford protection to all; scattered as they are, they prove useless.

(b) It is impossible to determine by law how large a reserve any bank should carry. This can only be determined by experience. It varies in different banks and depends largely upon the character of its deposits. A reserve that might be ample for a bank at Walcott might be altogether too small for a bank in Davenport, while a proper reserve for a Davenport bank would be wholly inadequate for a bank in New York which is subject to heavy withdrawals from correspondent banks. In other countries the reserve requirements are not arbitrarily fixed by law, but are determined by the judgment of managers of banks.

(c) The present law prohibits a bank from using its reserve in time of stress. The very purpose of a reserve is to provide a resource in times of stringency and yet the national-bank law—and most of the State laws are patterned after it—prevents their use for the purposes for which they were created. The inexorable legal reserve must be maintained, and when the ratio of reserves to deposits is reached, no more loans can be made. Our reserve law has taught the public to believe that a bank is in peril if its cash reserve falls below the legal limit; hence it dare not intrench upon its reserve at any time. In times of panic inestimable losses would be prevented if the banks had power to make loans and grant extensions of credit. Under the operation of present reserve requirements the lending power of the bank is paralyzed, and instead the bank must curtail credits and compel payment of loans falling due. In the great commercial countries of Europe when an emergency arises the banks increase their loans and at the same time pay out their reserves, thus avoiding panics. Here, as some one has said, "We slam the door in the face of the borrower just when he is in the greatest need."

(d) There is no provision in the law for replenishing the reserves. When reserves become depleted in the United States, our banks have been able to find relief only through the slow, clumsy, and expensive practice of drawing gold from Europe. This is accomplished by throwing securities into the European bourses and selling them for the best cash prices obtainable. In 1907 we drew \$100,000,000 in gold from Europe in this way, most of which came from England. It is a sad commentary on our system that England could relieve us from her limited gold reserve, when there was locked up in the Treasury at Washington seven times as much gold as she possessed.

(e) They have caused a dangerous concentration of risks in the central reserve cities, particularly in New York. The operation of the law has resulted in making New York City banks the depositories of a large part of the reserves of banks throughout the country. These banks pay 2 per cent interest on such deposits, and in the spring and summer large sums of idle money from the interior piles up in New York. In order to pay this interest the New York banks must loan this money, and this is done largely to stock speculators. There is nothing else they can do with it. As a result speculation is stimulated and prices inflated. When the time comes that the country banks need their funds to move the crops, the New York banks have difficulty in calling their loans without bringing on a stock-market panic. We have already seen that the stability of the whole country is so dependent upon the stability of New York banks that a flurry there precipitated the panic of 1907.

To summarize: What the country stands in need of is a banking and currency system embracing these salient features:

That will give that element of elasticity to the currency which will respond to the varying needs of business at different seasons of the year, and as carefully safeguarded against inflation as against stringency.

The association of all banks into a national system, rather than one of scattered units, to obtain unity and cooperation in sustaining the commercial and public credit, but which should be absolutely secure against political domination or the control of concentrated wealth, and which must preserve the individual independence of each bank.

The unification and mobilization of bank reserves, so that they can be concentrated and made available wherever most needed in times of trouble, and the machinery to strengthen bank reserves or increase their loaning power when necessary to avert danger.

To these three principal features there should be other additions to provide an acceptable standard for commercial paper and a well-organized market for the same, to secure more uniformity in discount rates in all parts of the country, permission to American banks to do business in foreign countries, and an agency which can deal effectively with the course of foreign exchange and the international movements of gold.

Senator WEEKS. Mr. Chairman, I have here a letter from the First National Bank of Gardner, Mass., which I would like to have inserted in the record.

The CHAIRMAN. Without objection, that will be done.
(The letter referred to is as follows:)

[Amasa B. Bryant, president; C. Leslie Bent, vice president; Frederic S. Pope, cashier; Marcus N. Wright, assistant cashier.]

FIRST NATIONAL BANK,
Gardner, Mass., September 30, 1913.

HON. JOHN W. WEEKS,
Washington, D. C.

DEAR SIR: In common, I imagine, with most of the bankers in the country, I am watching with great concern the progress of the currency bill now before the Senate.

I notice that great stress is being placed upon the opinions of country bankers and it is being urged that this measure will surely redound to their advantage.

I can not expect to add anything to what has already been said regarding the theoretical possibilities of the bill. I would like merely to set forth just about how it will affect us in this institution. Assuming that the measure goes through in practically its present form there would be required of us in the form of subscription to the stock of the new bank and for credit balance therein approximately \$70,000. I can not see why we would not be obliged to maintain our present reserve accounts with approximately the same balances as now. The only manner in which this sum—considerable for us—could be raised would be by a contraction of our loans. For several years we have found it difficult to supply our local demand and if we are forced to consider an addition of \$70,000 I see but one thing to do, namely, to withdraw from the national banking system even though such action entails a serious loss on our Government bonds.

The rediscount feature of the new bill would hardly work in our case because it is too cumbersome and because the vast majority of our paper is not bills receivable, but loans made for the accommodation of our customers. If we are to retain our business we must keep all such paper in our own hands until maturity and not sell it to other institutions to provide for our temporary needs.

This view of the currency bill can not be considered a partisan one inasmuch as three of the four officers of this bank voted for Mr. Wilson at the fall election and the one who did not is not now in the service of the institution.

I believe that it should be the duty of all banks to enter into any feasible scheme looking toward the improvement in our currency and banking system and I trust that the efforts of yourself and others similarly minded will avail to secure such amendments to the pending measure as will make it advantageous to all the national banks of the country.

Yours, very truly,

A. B. BRYANT, *President*.

AFTER RECESS.

The CHAIRMAN. Mr. Cannon, we will be glad to hear you now, and I will be glad to have you state your banking connections so that our reporter will have them.

STATEMENT OF JAMES G. CANNON, PRESIDENT OF THE FIFTH NATIONAL BANK, OF NEW YORK, N. Y.

Mr. CANNON. I am president of the Fifth National Bank, of New York.

The CHAIRMAN. What is its capital?

Mr. CANNON. Its capital is \$5,000,000; surplus, \$5,000,000, and undivided profits about \$1,000,000.

The CHAIRMAN. And its deposits?

Mr. CANNON. Its deposits are about \$30,000,000. It is not one of the largest institutions in New York, but it is a fairly good-sized one.

The CHAIRMAN. How many years have you been in the banking business?

Mr. CANNON. Since I was 17 years old.

The CHAIRMAN. You were Comptroller of the Currency at one time?

Mr. CANNON. No; that was my brother.

The CHAIRMAN. That was your brother?

Mr. CANNON. Yes; I have always been in the banking business in New York.

The CHAIRMAN. You have made a special study of this question of banking reform, have you not?

Mr. CANNON. I have tried to for many years, and also tried to make a study of this bill during the past summer.

The CHAIRMAN. You have been a lecturer on this subject?

Mr. CANNON. Oh, yes; I have been at it a good many years.

The CHAIRMAN. We will be glad to have you proceed in your own way to comment on the bill, and the committee will not interrupt you until you have concluded.

Mr. CANNON. I have only made a few notes. They are not very numerous, and as I go along I shall be glad to endeavor to answer any questions the committee may desire to ask.

The CHAIRMAN. The committee has thought it better to wait until the witness concludes before interrupting with questions, because otherwise you will not conclude.

Mr. CANNON. I see. That is right. I want to say this, Mr. Chairman and gentlemen: I believe we are nearer solving the big question of currency reform than we have been for 20 years. I realize how easy it is to criticize and tear down, and how difficult it is to create, and I feel that those who have brought this bill forward to its present state are entitled to be warmly congratulated on what they have accomplished to date. I do not regard this as a political measure myself, but as a question entirely above politics, affecting, as it does, the welfare of the people of the entire country. If it were a political question, I might not be able to say anything in favor of the bill, as I am one of those that are not fortunate enough to be numbered among the majority party, having been for life a consistent old-line Republican. And I recognize another thing, too, in connection with

this bill. I recognize that legislation is more or less a matter of compromise, and I hope that this bill, which has received such a fine start, can be adjusted so that it will become a law.

I have gone over the bill carefully, and I want to make a few suggestions. I do not know whether they will be worth anything to you, but, such as they are, I will be glad to give them.

The CHAIRMAN. The committee will be very glad to hear your suggestions and your reasons for them.

Mr. CANNON. The storm center of the bill has been the opposition to the Federal reserve board. Now, I am not one of those who oppose giving authority in banking matters to officials named by the President and confirmed by the Senate. I believe the President of the United States and the Senate can be trusted to exercise this power for the country's welfare and the country's good, and this is the system applied to the choice of all Federal officers all over the country. But I do feel that the men who are to manage the financial affairs should be selected with a special view to their qualifications, and I believe it is most desirable, in making a choice, that there should be no opportunity for objection and suspicion that it is governed by any political equation. I have been some in politics myself, and happened to be treasurer of the Republican national committee during the first McKinley administration, and I speak in this way for that reason. Accordingly, I feel that the provision in this bill making certain Cabinet officers and the Comptroller of the Currency members of this reserve board should be omitted, and that the entire board should be nominated by the President—seven members—and the nominations to be submitted to the confirmation of the Senate.

I have no disrespect for Cabinet officers, nor does it detract from their position to say in their position political considerations enter always. Moreover, I believe they should not be members of this board, for the reason that the performance of their duties as Cabinet officers will not permit them to give to the duties of the reserve board the necessary time and attention for their proper performance.

Gentlemen, it is not going to be any small job for any body of men, no matter who they are, to change our entire banking system in this country and organize these regional-reserve banks as you have laid them out. It is going to take the very best energy and the very best brains in at least seven men, working night and day, to put such a system as you have outlined here into the hands of the people, without any jar, without any friction, or without anything of that kind.

The bill calls for three members, two members of the Cabinet and the Comptroller of the Currency, as ex officio members. I have been an ex officio member of a great many committees and gave mighty little time to those committees myself, and I believe the Secretary of the Treasury, the Comptroller of the Currency, and the Secretary of Agriculture—we may not always have as good a Secretary of Agriculture as we have now in years to come—can secure all the information they want with reference to anything that is to be done in this reserve association without being members ex officio. And I think the provision with respect to the composition of the reserve board is defective in another particular. I would like to see, where now only one of the members is to be experienced in

banking, there should be provided that three of the members shall be so experienced, but all to be appointed by the President by and with the advice and consent of the Senate and subject to your confirmation.

I merely offer this suggestion, perhaps, to meet some of the criticisms directed at this section of the bill. It seems to me that that might help and do away, perhaps, with some of the objections which have been made. I may be mistaken, and I may be taking a somewhat radical ground myself when I state I am not at all alarmed at the method to be employed in selecting these seven men, so far as I am concerned—my own personal view.

Now, for a moment, in regard to the bank-note issues. My position in the matter of the issue of notes of this character I do not think can be better stated than in the language I used in an address on this very subject immediately after the panic of 1907 at Columbia University. I then made this statement:

I venture the prediction that the people of this country will never permit its circulating medium to be monopolized by one institution, no matter how good it may be, but they will always demand a circulating medium issued by the Government or under careful Government supervision and control.

The proposed Federal notes would appear to have most of the qualities of our present national bank notes. As I understand it, no notes could be issued except under regulations of the Federal reserve bank, the ultimate security back of the notes being a 33 $\frac{1}{3}$ per cent reserve in gold and lawful money and short-time commercial paper selected by the bank and approved by a Government agent, and further that it is a first lien on all the assets of the issuing bank.

There appears to be a great controversy raging around this section of the law. In my opinion, it can be met by making these notes redeemable in gold and guaranteed by the United States Government in such a manner that the Government could never be embarrassed when called upon to redeem them. As I said to some of you gentlemen to-day at noon, everybody has a different opinion, and all of the bankers have a different idea of currency reform. These notes that come into the hands of the people, whenever you pay them at the national bank to-day, have the United States of America upon them. The silver certificate has it. They all have United States of America on them. I think it will be with very great difficulty, to my mind, in putting out a lot of these reserve bank notes and having them acceptable to the people. You pay them out to the darkies in South Carolina in the cotton fields, or you pay them out in Maine to the potato diggers up there, and they will look at them for United States of America, and they will feel the United States of America is responsible—that is, the Government is responsible for every dollar of money which they have in their hands which they receive for their pay.

And I feel this, possibly, might meet the exigency here, because I believe that they should be guaranteed by the United States Government, but in such a manner that the Government would not be embarrassed and called upon to redeem them.

SENATOR HITCHCOCK. You mean they should be notes of the reserve banks?

MR. CANNON. Guaranteed by the Government. My bank is across the street from the subtreasury in New York, and I saw the trouble

in Cleveland's administration, when they presented legal tender for gold across the street at one window and paid it out at another, and that endless chain of getting gold at the Treasury, and the troubles we had there.

But it seems to me all the objections could be met here on both sides if you make them notes of the bank guaranteed by the Government and fix it in such a way that when the Government is called upon to redeem them there can be no question of embarrassment to the United States Government. That would be my idea in regard to that.

Another thing, a possible thing to do—I do not know whether it could be—that is, the rate which is to be charged to the Federal reserve banks applying for these notes should be distinctly named in the act, the charge being graded according to the length of time the notes are kept outstanding. Now, I say that for this reason: This would enable the bank, if it applied to the Federal reserve bank, and enable the mercantile community, whose notes these notes discount, which they put up as an obligation for these, to gauge somewhat what it is going to cost them for the circulation they have taken out. Under the present act it can not be less than one-half of 1 per cent, but they never would know exactly where they stood as to the cost of this bank-note issue. I think you would be performing a service, therefore, to the mercantile community and the customers of the banks, as well as the banks themselves, if, in some way—I do not know whether it can be done or not—you could arrange so that it can know the cost to them if they keep it out for 30 days, 60 days, 90 days, 4 months, or whatever time it was, so that they could gauge their arrangements to the cost of their money which they are going to put in goods, merchandise and things of that kind, which those notes are put up for, or to meet their pay rolls—whatever use it is. I think it would be a help to the bank and the mercantile community, who are the borrowers, to gauge the cost to them of these reserve notes.

This whole section—I have made a considerable study of it—seems somewhat ambiguous, and I believe it can be rewritten with some advantage to the act, as I read it, and I have read it very carefully a great many times. I may be wrong about it, but these are two or three suggestions I have to make in that connection.

As to the number of regional reserve banks, the act provides for 12. Some people, I understand, have advocated many more and others have advocated less. In my opinion it would be very much easier to adjust the relations between these reserve banks if you start them with six or seven and increase the number from time to time as seems desirable, just as you have provided for in the act. You are organizing here an enormous business enterprise, which will require extreme care in its handling at the outset, so as not to disturb seriously the business interests of this country. You have got to go forward with the utmost care—the utmost thought and extreme care. An experienced business man who starts out on a great enterprise would not go too rapidly, but would create new branches of his business as necessity for them developed. And I believe this act would be more sure of meeting success, from a business standpoint, if you start out with a less number of reserve banks and add to them as necessity arises, allowing them to be increased as occasion may justify. My

reason for having a smaller number is that it is desirable for confidence and getting together an adjustment between the managers of these banks, so that they can be operated along similar lines in all parts of the country. I have had an analysis made here—I have been at work on it all summer with a very careful auditor—which you gentlemen have probably seen and read, showing the capital these banks of deposit are likely to have and the transfers that are likely to be made to them, and it is going to be a very serious piece of business.

Senator NELSON. Have you that statement here?

Mr. CANNON. Yes.

Senator NELSON. I wish you would have it incorporated in the record, Mr. Chairman.

The CHAIRMAN. That may be incorporated in the record as an exhibit.

Mr. CANNON. I will be very glad to do so. It is going to be a serious business to change the entire banking system of the country and the entire methods of doing the banking business, and if we spread out too far, all over the country, the managers of the different banks can not get together and consult. They are all in the same business and ought to consult together as to the methods to be pursued in handling commercial paper. In fact, this would give an opportunity for doing a splendid piece of work along banking lines, and of course there are a great many reasons which I will advance in connection with it, but I feel, as a business reason, looking at it from a business standpoint, if you can start out with five or six you will be apt to be more successful in handling the proposition than if you get it away out of reach, where it is difficult to get men who are thoroughly familiar with a great project of this kind to handle it in accord. Of course, as I say, other people have given other reasons. That would be one of my reasons for thinking you might be able to reduce the number, the same as any prudent business man, as I said a moment ago, starting out a great business all over the country, would start it gradually and then expand as his business expanded. Then, as time went on, you would be able to increase the number.

Senator HITCHCOCK. Have you any special reason in mind for suggesting five or six rather than three or four?

Mr. CANNON. No. Just about half of the number. Three or four or five or six. My only object is that in starting this thing you want to make it a success, and you want to do everything in your power to make it a success. Three or four would answer just as well; but whatever you do, do it so it will not disturb the business interests of the country.

In the transfer of the very large amount of funds, which is bound to be transferred from the reserve cities into these new regional banks, it should be done with as little friction as possible all the way through. In New York City (I happen to have my table here, which I was looking over)—

Senator NELSON (interposing). Let that go into the record, too.

Mr. CANNON. Yes; I will let that table go in. I was just going to give the figures. My figures show that the central reserve banks, when this transfer is made from the money which the banks have with them to the Federal reserve banks, they will be required pretty

nearly to borrow \$225,000,000 from the Federal reserve banks in making this transfer.

Senator HITCHCOCK. That is, banks in central reserve cities?

Mr. CANNON. Banks in central reserve cities; yes.

Senator HITCHCOCK. How about banks in reserve cities?

Mr. CANNON. Reserve cities? Let me see.

Senator HITCHCOCK. You mean they will have to do that in order to avoid contracting loans?

Mr. CANNON. In order to avoid contracting loans; yes. I think the reserve cities will not be as much. I think the bulk of it will fall on New York. I have figured out here—my impression is—that New York alone in making this transfer, at the end of three years (I have a table here, but I will not bother you to read it, because it is full of figures), we have now in New York, due to national banks, net, on June 4, \$390,000,000.

Senator NELSON. Of bank deposits?

Mr. CANNON. Of bank deposits; yes. Now, of course, if you transfer that to your Federal reserve association, you are obliged to keep this reserve yourself, and your reserve falls in a certain proportion, and therefore you will not have to borrow all of it—I beg your pardon, I was looking at the wrong table. In New York City we had \$262,000,000 on June 4, net deposits. I figure that New York City would be obliged to borrow from the Federal reserve association at the end of the three years, if they took down their deposits and transferred them, about \$137,000,000. That is, we will be required to borrow that to take care of the existing deposits to be transferred over to the Federal reserve association.

Senator HITCHCOCK. Could not you provide to get money by calling loans?

Mr. CANNON. It could be done in various ways, but my own thought is a large amount of it would be reborrowed from the Federal reserve association. Of course, gentlemen, the whole thing is predicated on something new in American banking. That is, the banks are allowed to borrow. Heretofore, the banks throughout the country felt a little adverse to borrowing. They felt it was a kind of a sin to borrow. The time has come, however, when we are going to change over. It would depend largely on the bank's situation, whether it would call in loans or would borrow; but I assumed it would not call in anything and had the figures drawn up that way. I assumed it would borrow direct from the Federal reserve association, and I figured that New York would have to borrow \$137,000,000.

Senator O'GORMAN. I think, Mr. Cannon, that this new departure, having these regional banks as banks of rediscount, has been likened to a pawnshop, where a bank can go with its paper and get accommodation.

Mr. CANNON. Well, of course, that is just a rough way of putting it, but we might say that. That is a joke more than anything else.

Senator O'GORMAN. You do not mean the question was a joke?

Mr. CANNON. No. What we needed for a long time in our banking business in the whole country is some place where we can run, when our deposits begin to recede, and there comes along a time for active use for money. And then, on the other hand, when the

deposits recede, with no place to take paper and rediscount it, we have got immediately to call in the loans of the borrower.

Senator HITCHCOCK. What would they pay for rediscount?

Mr. CANNON. I take it for granted the rediscount—of course, you could not state what the rate would be, but I take it the rate for rediscount for paper bearing the indorsement of a New York bank, rediscounted at the Federal reserve association, would be very much less in New York than we are charging our customers.

Senator HITCHCOCK. Less than the call-loan rate?

Mr. CANNON. No; it would not be less than the call-loan rate. As far as the call-loan rate, I venture to state the call-loan market would disappear; we would not be obliged to keep out so much as we do now on the call-loan rate.

Senator NELSON. And would not that be a blessing, if you did not have to loan so much on stock collaterals?

Mr. CANNON. I would like to see the money I have on call loans on time just now, as far as that is concerned.

Senator BRISTOW. Mr. Cannon, you say you think the rediscount rate would be very much less than their paper bears?

Mr. CANNON. I think it would, because the risk of the Federal reserve bank, with the indorsement of a strong national bank, would be A1. It would not only have the obligation of the borrower, but the indorsement of the bank.

Senator BRISTOW. To illustrate, say the paper bore a rate of 5 per cent and you discount it for 3.

Mr. CANNON. I do not know what the rate would be.

Senator BRISTOW. To illustrate, say the rate was 3.

Mr. CANNON. It would be entirely according to the money market. I would not gauge the rate except according to the money market, myself. That rate, for prime commercial paper, varies in the market. That is to say, you will always have certain communities that will get a lower rate than other communities. You would consider the banks, in discounting notes. A bank in New York, with a strong capital and surplus behind it—paper with its indorsement—would be considered prime commercial paper. Of course, the rate of interest would be fixed by the board of governors.

Senator BRISTOW. If you could borrow money from the Government at, say, 3 per cent, and loan it at 5, you would want to do all the business you could, at that rate, would you not?

Mr. CANNON. You would want to do all you prudently could.

Senator BRISTOW. That would be the only limitation?

Mr. CANNON. You see, you do not get any security. The mercantile business of the country is done on single-name paper; it is not done upon security. The merchant who buys goods does not give an indorsed note, as he used to in the old-fashioned days. It is done on a single-name basis. He buys goods, and, on the 10th of October, for instance, which is the settlement day for the dry-goods people, he comes to us and says, "I would like to borrow \$200,000 or \$300,000." He has nothing to give except his own plain note, without a dollar of collateral behind it. We have to take the risk. We take the risk of loaning this merchant \$200,000 or \$300,000 on his own promise to pay. It is his own note, payable to our order, with nothing behind it.

Senator HITCHCOCK. Can you do that now, in national banks?

Mr. CANNON. Oh, yes; it is done very largely. The whole business of the country is done on single-name commercial paper.

Of course in the States—I am not speaking outside of the national bank—it may be different. The large mercantile interests insist upon borrowing on single-name commercial paper, and we are obliged to assume that risk. The small bank does not have the same risk. We have it, and we are obliged to assume that risk. We have got to look to the merchant's responsibility, business capacity, and the nature of his business; and we take, in the banking business, a very large risk in handling single-name commercial paper.

Senator BRISTOW. Now, Mr. Cannon, do you not think if the banks of the country can loan money at 5 or 6 per cent, and then discount it at a much less rate at the Government bank, and get currency, the tendency will be to hunt for all of the loans you can get, on which you think you will not lose?

Mr. CANNON. Oh, no; the prudent banker would not go to that extent at all. I do not think so, sir. No; there is prudence in banking the same as there is in any other line of business. He could not afford to do that, because the ultimate result would be the Government bank would fall back upon your bank, and you would lose in case that paper was not good.

Senator BRISTOW. As I say, it must be well secured by the responsibility of the borrower.

Mr. CANNON. I know; but I do not think you would find them around hunting up all sorts of paper.

Senator SHAFROTH. Do you think it is contemplated by this act that notes of merchants shall be taken as rediscount paper?

Mr. CANNON. I think so.

Senator SHAFROTH. Commercial paper, as we have had it explained to us, is a matter in course of expanding.

Mr. CANNON. That is what a merchant does with his money to-day.

Senator SHAFROTH. Yes; but generally in the form of drafts.

Mr. CANNON. No; not at all. Never in the form of drafts at all. All the business of the country is done on single-name paper.

Senator SHAFROTH. The business of the country is done on single-name paper?

Mr. CANNON. On single-name paper, and the 10th of October is the great pay day for the dry-goods people of the country.

Senator SHAFROTH. It means the transaction in process of execution, and that is the way it has been explained to us here—if I sell to you 1,000 bushels of wheat and I draw a draft on you, you accept it and tell me to take it to your bank and it will cash it; that is the paper which is in the course of the transaction in business. Now how do you make the note that you get from the merchant as a transaction in business?

Mr. CANNON. Absolutely. He comes in to us and says, "I have got to pay various jobbing people around New York." Your bill expressly provides for it. He comes in to me and says, "I have got to pay the jobbers I bought my goods from on the 10th of October \$500,000, and those goods are on my shelves now." That is business; he has got the goods. He says, "I have got to borrow \$500,000, and I want to borrow \$250,000 from you, and I am going over to the

Bank of Commerce and borrow \$250,000. That money is to be used in payment of goods on the 10th of October, and I have received the merchandise."

Senator SHAFROTH. How is that bank going to determine who the transaction is with? The man is going to have a promissory note.

Mr. CANNON. He is going to have a promissory note.

Senator SHAFROTH. How would you distinguish that transaction from the transaction of a man who goes on the exchange and buys stock?

Mr. CANNON. Because we do not loan to that class of men on single-name paper.

Senator SHAFROTH. Then the reserve bank will simply have to take your representation?

Mr. CANNON. The national banks who are members of the reserve association—the officers of that association, who are conversant with the business of the neighborhood where that reserve association is located, will know and can easily find out. It is a matter of common knowledge in the banking business that it can easily be ascertained whether paper they rediscount is all right, and if they find they have paper of that kind they can turn it back at any time if it was not properly received.

Senator BRISTOW. I do not think I would criticize that necessarily, because I think an enlargement is better than a curtailment. In fact, in the whole country if the banks relied on drafts drawn there would not be enough drawn to transact the business of the country.

Mr. CANNON. The business of the country is not done that way. That is the old-fashioned way, where the merchant came down to New York and went to the dry-goods district, or to the hardware district, or somewhere else and bought a bill of goods for \$10,000 and turned around and gave his note, and then the dry-goods man indorsed the note and put it in his bank. That is not the method now. All good men have credit, and use their credit, and they will borrow from the banks and pay their bills until they make their collections.

Senator SHAFROTH. You think the paper he gives will come within the definition of this bill?

Mr. CANNON. Oh, I do. I feel that is where the helpfulness in this bill is going to come in, it seems to me, in handling that matter.

Senator HITCHCOCK. Do you believe that the reserve bank in New York should be permitted to charge a lower rate on discounts to the New York banks than other reserve banks charge to their member banks?

Mr. CANNON. As I was saying at the outset, I think that is a matter that is to be adjusted. I do not believe you can establish the rate in any law you work out. I am not speaking especially of New York, Chicago, St. Louis, or anywhere else, but the flow of money will always affect the Federal reserve banks, and the rate for discounts will be according to the amount of money which they have on hand. Or, if money is very tight and they desire to have the loans paid off, they will put up the rate of discount.

Senator HITCHCOCK. You emphasize the New York banks. Do you mean by reason of their great resources they should have a lower rate of discount?

Mr. CANNON. No; I am only speaking in a general way.

Senator HITCHCOCK. You would not have any discrimination between them?

Mr. CANNON. None whatever between them or the Chicago banks and any other banks. The ebb and flow of money in and out of the reserve banks would justify the change of rate. You may have to raise your rate to bring the money in or lower it in order to put the money out. You want to use it; you do not want to keep it in. I suppose that is one of the reasons why in this bill you have provided that one Federal reserve bank can discount for another, to keep the equilibrium between the two.

The CHAIRMAN. You think that necessary?

Mr. CANNON. Oh, I think so; in fact, I do not see how you can run it without that, because one would grab all there was in sight and there would be a scramble—

Senator HITCHCOCK (interposing). Will you describe the process by which one reserve bank would be able to gather funds to that extent?

Mr. CANNON. It could simply raise the rate to such an extent that the banks would not borrow anything from them. The money would return right in.

Senator HITCHCOCK. It would simply accumulate—

Mr. CANNON (interposing). Accumulate their resources.

Senator HITCHCOCK. And reduce their profits?

Mr. CANNON. Reduce their profits and reduce the amount of bills discounted on hand.

Senator HITCHCOCK. What would they have to gain by that?

Mr. CANNON. I do not know that they would have anything to gain by that, but they would simply feel they were not restrained by anybody else.

At the time of the panic in 1907 a gentleman came in to see me. He said, "Now, if you will only lend me \$10,000 I will have all my deposits in the bank in cash." [Laughter.] He went away very much discouraged because I would not give him the \$10,000 in cash and enable him to go back up into the country and arrange to have all his deposits in cash.

Senator HITCHCOCK. In this case, however, the reserve bank has the reserves of its member banks impounded. It can not withdraw them, so there is no danger of any run so far as they are concerned. And I can not see any motive on the part of a reserve bank, with that security on the one side and ability to secure currency on the other, to accumulate reserves in any manner.

Mr. CANNON. It would only be in the question of management. I am looking at the question of human nature.

Senator HITCHCOCK. As it is now, the bank in the reserve city is forced to scramble for money, because they may be withdrawn in whole or in part, and it has no resources—

Mr. CANNON (interposing). Outside of this.

Senator HITCHCOCK. And if those are renewed, what possible motive would a reserve bank have to pile up a surplus?

Mr. CANNON. I should think only the object of scrambling for everything, as has been done in the past. That is why I say you want a balance of power to stop that practice that would arise in various sections of the country.

Senator BRISTOW. Mr. Cannon, following up Senator Hitchcock's suggestion, the country banks that have their reserves deposited in this Federal reserve bank can not withdraw them. They can be taken out of your bank now and put some place else, but this regional bank faces an entirely different proposition. They can not take them out; they can not be withdrawn.

Mr. CANNON. Well, they keep very much less, do they not, under the bill?

Senator BRISTOW. Yes; but that is a fixed quantity that can not be taken out.

Mr. CANNON. I know, but they are obliged always to keep a fixed reserve.

The CHAIRMAN. But that is available for your depositors, is it not?

Mr. CANNON. Oh, it is available for the depositors, but you have a fixed reserve. Is not that available for their depositors in the Federal reserve bank?

Senator HITCHCOCK. We think not; we think a bank is not allowed to reduce its reserve.

Senator SHAFROTH. But it can go and deposit paper—

Senator HITCHCOCK (interposing). Under the present law a country bank can take out all of its reserve and keep it in its own vaults, but under this bill it can not take out any more than would leave its reserve equal to a certain per cent. It is impounded permanently and inaccessible.

Mr. CANNON. I do not read the law so; I may be mistaken about it.

Senator HITCHCOCK. I wish you would just refer to that section and see if you put any other construction on it.

Mr. CANNON. You have to have the utilization of your reserves for the payment of depositors, either for drawing it out or issuing currency against it.

Senator BRISTOW. As I understand, there is 5 per cent left in the reserve bank, 5 per cent in its own vaults, and 2 per cent optional. But 5 per cent can not be withdrawn; it is there, and the country bank can not take it away.

Mr. CANNON. Is there not a process for getting currency out on that in some way?

Senator BRISTOW. That is to lie with the bank as to whether they will lend that money, but its reserve can not be disturbed.

The CHAIRMAN. That is not the intention of the draft.

Mr. CANNON. I do not read the bill so.

The CHAIRMAN. I do not think anybody would approve that. The reserves are required to be 12 per cent, 8 per cent to be kept either in their own vaults or with the Federal reserve bank in that district.

Mr. CANNON. That is what I thought; I thought your reserve provisions were very good. Of course, that says "a period of 36 months from and after the date fixed." I do not read that clause to mean that they are not able to draw that out.

Senator BRISTOW. That is to be kept there as a balance.

Mr. CANNON. I know, but you can fluctuate your balance up and down as much as you like.

Senator HITCHCOCK. Yes; you can under the present law.

Mr. CANNON. I should say you could here; I do not see where that specifically states that.

Senator BRISTOW. If five-twelfths of it is kept there as a balance, when that is drawn out it is not there.

Mr. CANNON. But everybody has to make his reserve good nowadays. If these country banks pay it out over the counter the law compels them to restrict their loans or call in loans.

Senator NELSON. Suppose the bank had it in its own vault; it would still be of no use. You would have to keep it there.

Senator O'GORMAN. It would be available for the use of depositors in certain contingencies.

Mr. CANNON. Yes.

Senator NELSON. The only difference is that part of the reserve is kept in the bank's own vault, and a part in this reserve bank, but neither can be utilized directly. There must always be that fixed amount, and whether you take that 5 per cent from the regional bank and require it all to be put in the particular bank does not make any difference. It is still, in a sense, idle money. But in the regional reserve bank it can not be made the basis of any issue; there is the value of it. It operates there as a part of the capital of the bank. That and the stock subscription together, those two items, constitute the capital of the bank.

The CHAIRMAN. The inquiry if the Senator from Kansas was whether or not this reserve put into the reserve bank was objectionable for any reason. He construes the bill to leave it impounded there so as to be available for any purpose. Now, it comes under the rule of section 5191 of the national banking act, which provides that these reserves may be used for deposits but not for loans, and if it goes below that for any purpose it is to be made good within a limited number of days. If that is ambiguous it ought to be corrected.

Senator SHAFROTH. Section 22 seems to me to clear that up—

The Federal reserve board may notify any Federal reserve bank whose lawful reserve may be below the amount required to be kept on hand, to make good such reserve; and if such bank shall fail for 30 days thereafter so to make good its lawful reserve, the Federal reserve board may appoint a receiver to wind up the business of said bank.

Senator NELSON. That is covered by the present national-bank law.

Senator HITCHCOCK. That verifies what I say, that it is impounded there, and if checks come in against it the reserve bank notifies the member bank and it must make it good.

Mr. CANNON. Does it not have to make it good now? Suppose they overdraw their account with us and it is down to their reserve. We are not reducing their reserve—

Senator HITCHCOCK (interposing). As the law is now, any bank can pay out its reserve to its depositors until it gets down to the last dollar, if it is still solvent. But, under this law, the minute its reserves, by reason of the payment of checks or drafts, drops below the legal reserve the reserve bank notifies the member bank to make it good.

Senator SHAFROTH. Yes; but these reserves that are put in by the member bank being, say, \$300,000, the bank has a right to lend out or to in any manner utilize in commerce two-thirds of it, according to this first paragraph of section 22.

Senator HITCHCOCK. There is no question about that. The question is whether a member bank is bound, under the law, to keep a certain proportion of its reserve impounded permanently.

Mr. CANNON. Not for use, you mean?

Senator HITCHCOCK. Yes.

Mr. CANNON. To pay its depositors?

Senator HITCHCOCK. Yes.

Mr. CANNON. I do not read it that way.

Senator HITCHCOCK. The Senator from Colorado has just read the paragraph which gives the reserve bank the right to order the member bank to make that reserve good or be dissolved.

Mr. CANNON. That is a quotation from the national banking act to-day.

Senator HITCHCOCK. That only applies when a bank is insolvent.

Mr. CANNON. Oh, no.

Senator NELSON. No; under the national banking act to-day the moment the reserves fall below the legal requirement the Comptroller of the Currency notifies the bank, and it is not allowed to make any loans—

Senator HITCHCOCK (interposing). That only stops it from making loans. It does not dissolve the bank. It only stops it from making loans until the reserve is restored.

Senator NELSON. And if it is not restored in 30 days the bank goes out.

Senator HITCHCOCK. Not if it is still solvent.

Senator SHAFROTH. That depends upon whether the Comptroller of the Currency gives the notice. He can let it run for six months.

Senator HITCHCOCK. This reserve bank is not allowed to let it run. It must notify the bank and the member bank must make it good. That verifies what I have said, that the reserve is impounded.

Senator NELSON. No more impounded than it is to-day under our national banking system.

Mr. CANNON. Now, in regard to these stock subscriptions, this seems to be a storm center of the discussion. Why could you not continue this provision just as it is, and add a clause providing that within three years the member banks would be at liberty to dispose, if they so desired, of at least 75 per cent of such stock as they held, the purchasers to be approved by the board of directors, or the executive committee of the Federal reserve bank, before any transfer could be made? It could be provided that the stock so disposed of should not have any voting power. The stock should show plainly on its face that such transfers could only be effected with the approval of the Federal reserve bank.

This would seem to meet the objections raised by many country banks, as well as the large city banks, that section 19 would cause them to lock up a large sum of money in unavailable assets. The passing on stockholders by boards of directors is not an unheard of thing. The stock of the Federal reserve bank would certainly make a splendid investment for any individual. I think that would remove many of the objections to this section, and certainly cause the bankers to be more contented with their investment.

Now, it may be out of order to make that suggestion, but it occurred to me that it might be done. We have in New York a situation that is somewhat similar. Our clearing-house building in New

York was built by a clearing-house building company. The stock of that clearing-house building company is owned by the banks who are members of the association. The building was put up. The stock carries a fixed rate of interest, and we are not allowed to sell it to anyone else at all, to any individual or outside person; we can only turn the stock back into the clearing-house association, or they can redeem it from us. There is something akin to that in that section.

I simply make that suggestion as perhaps meeting some of the objections that have been made to the stock subscription matter.

Senator WEEKS. Of course, you recognize, Mr. Cannon, the necessity of keeping this stock from being accumulated in the hands of any particular interest?

Mr. CANNON. Oh; surely.

Senator WEEKS. One way of doing that would be to require that the member banks, as a condition of membership, should own a certain percentage of this stock as required in this bill. But if any of that stock is going to the public in any form, some method of restricted transfers must be provided which would prevent its falling into the hands of a set of individuals.

Mr. CANNON. Yes; it would have no voting power—

Senator WEEKS (interposing). Do you think it is wise to deny voting power?

Mr. CANNON. Lots of preferred stocks now have no voting power.

Senator WEEKS. Not very many.

Mr. CANNON. Quite a good many. Yes; there are quite a good many preferred stocks without any voting power.

Senator WEEKS. There may be quite a good many; I do not recall any.

Mr. CANNON. A good many industrial preferred stocks. The thought I suggested was that the purchases would have to be approved by the board of directors or the executive committee of the Federal reserve bank before the transfer could be made. I simply throw that out as a suggestion that might, perhaps, be helpful. I do not know whether it would be at all useful in any way. Now, in the matter of the retirement of circulation based on the 2 per cent bonds, I have no remedy for that and I have thought over it a great deal. The way I feel about it is that the Government can afford to treat the banks with these 2 per cent bonds very liberally. They came to the assistance of the Government when this bond issue was put out, taking them over, and some remedy should be devised to provide against the great loss which would be entailed on the banks and the large amount of money which would necessarily be locked up. I confess that is a subject for solution, and I presume that your committee has, in its combined wisdom, some plans devised to protect the Government and do some justice to the banking community, which I suppose the sponsors for the bill always desired to do.

We need banks in handling Government bonds. We need them as the years go by. At times they become buyers of Government bonds, and there ought to be some way provided whereby this loss which is hanging over them on account of the 2 per cent bonds could be done away with.

Senator WEEKS. Do you see any objection to applying the surplus earnings of the regional banks to the retirement of the national debt

and making other provisions which would, in a term of years, entirely eliminate our national debt?

Mr. CANNON. Not a bit. Your earnings are going to be large.

Senator WEEKS. How large do you estimate they will be?

Mr. CANNON. I have the figures here if you will allow me a moment to look them up.

Senator NELSON. If we allow them 6 per cent on their stock would it not be wise to have all the residue of the revenue go to the Federal Government?

Mr. CANNON. Yes, sir.

Senator NELSON. And provide a sinking fund?

Mr. CANNON. I would do that. I think it would be better to do that anyway than to attempt to divide the residue in the way you have it in the bill, because then you are trying hard all the time to push your earnings.

The CHAIRMAN. You mean these banks should not be mere money-making banks; they ought to be public-utility banks?

Mr. CANNON. Yes; and at the same time safe.

The CHAIRMAN. Did you answer Senator Weeks' question?

Mr. CANNON. I am looking up the figures; I have them somewhere here. I had this estimate made of the Federal reserve bank in New York, running over a period of three years, using 4 per cent for loans and 3 per cent for investments, taking a very low figure, and providing for 2 per cent interest on the general fund. I think the Government should, perhaps, forego that 2 per cent interest if it were necessary to do so. I also took the tax on notes at one-half of 1 per cent. On that basis I would figure the gross income the first year to be \$6,123,100, the second year, \$6,815,000, and the third year, \$6,885,200 gross. I figure the expenses of interest and taxes and the expense of maintaining the Federal reserve bank in New York at about \$300,000 a year.

Senator POMEREE. What do you make the capital stock and probable holdings of depositors?

Mr. CANNON. The capital stock, with 10 per cent paid in the first year, I figure would be about \$19,500,000. The general fund that New York would be entitled to transfer from the Government deposits to that general fund in New York—you will apportion it throughout the country, according to the bill—would be about \$75,000,000. The required deposits of subscribing banks would be about \$51,000,000, and then I put an arbitrary note issue or deposit of credit at \$100,000,000. So they would have approximately the first year about \$246,000,000 to use, the second year about \$280,000,000, and the third year about \$284,000,000 to use.

Senator WEEKS. What do you mean by the general fund?

Mr. CANNON. The Government deposits. You would put all your Government deposits, Senator, according to this bill, into a pot and apportion it out.

Senator WEEKS. Are you figuring the reserve bank would pay interest on that?

Mr. CANNON. I am; yes, sir. I figured here in my expenses \$1,500,000 from New York alone.

Senator WEEKS. Why do you do that?

Mr. CANNON. I really do not know why you should.

The CHAIRMAN. It would not be necessary if all the surplus went back to the United States Government.

Mr. CANNON. No; if all the surplus went to the Government it would not be necessary. On that basis I would figure the net income for the first year—of course, this is only approximate—at about \$3,823,100, with a dividend at 5 per cent of \$995,400. The available surplus the first year would be \$2,827,700. The second year the net income would be \$4,515,000. Deducting the dividend of 5 per cent, the surplus would be \$3,519,600 net. The third year the net income would be about \$4,585,200, and with the dividend out the surplus would be about \$3,589,800 net.

Now, if you do not pay the Government interest, the New York Federal reserve bank alone ought to show a net profit to the Government, before putting on 6 per cent interest on these certificates, of pretty close to \$5,500,000.

Senator NELSON. Is not your table there based on the assumption that all these funds are out and actively at work?

Mr. CANNON. No; that is on a proportional amount.

The CHAIRMAN. I should like to have that statement go in the record.

Mr. CANNON. With great pleasure.

(The statement referred to is as follows:)

Tentative income and expense, Federal reserve bank of New York.

	First year.	Second year.	Third year.
Income:			
Loans at 4 per cent.....	\$4,000,000	\$4,000,000	\$4,000,000
Investments at 3 per cent.....	2,123,100	2,815,000	2,885,200
Total.....	6,123,100	6,815,000	6,885,200
Expense:			
Interest on general fund, 2 per cent.....	1,500,000	1,500,000	1,500,000
Tax on notes one-half of 1 per cent.....	500,000	500,000	500,000
Salary of Federal reserve agent, proportion of expenses of Federal reserve board, salaries of clerks, stationery, and sundries, but no rent.....	300,000	300,000	300,000
Total.....	2,300,000	2,300,000	2,300,000
Net income.....	3,823,100	4,515,000	4,585,200
Dividend on stock, 5 per cent.....	995,400	995,400	995,400
Available for surplus.....	2,827,700	3,519,600	3,589,800

Mr. CANNON. I think that plan would be about the right thing. If New York could earn for the Government over and above the 6 per cent interest on these certificates, say, \$4,000,000, why, you would have a very substantial fund, Senator, every year for the retirement of the twos and the retirement of the Government debt.

The CHAIRMAN. You assume the bank would carry part of these twos in its own vault and have them so they might be issued as one-year notes?

Mr. CANNON. That could be done.

The CHAIRMAN. Would not that make a quick asset that would serve for a reserve?

Mr. CANNON. Something of that kind might be done. I have thought about a great many plans, but I have not given the matter

as careful study as I might. I should expect that something should be done. I think the country banks would appreciate that being done for them. And we want the banks; the Government wants the banks. We have to put out Government issues again, and we want them to stand behind the Government always.

The CHAIRMAN. I think there is perfect unanimity of opinion about the Government protecting its obligations, as well as the banks protecting those twos.

Mr. CANNON. Now, in the matter of the savings bank departments, that has been another storm center. We have now the postal savings bank law, and it seems to me it would be hardly necessary for this section to appear in the law with reference to savings bank departments. While, no doubt, in the minds of the framers of the act this is put in looking forward to the new savings bank departments which may be established in the national banks, its effect has been disturbing to the old savings bank departments which they have had so many years. If this section should remain in the act, should it not be made to apply only to such departments as may be established under the act? Then you would have no trouble with the present savings bank departments. I believe that would help very materially in discussing that question. It seems so to me. I think the country bankers would feel very much better about it.

Now, there is one other thing in the act that I want to commend heartily, and that is with respect to domestic exchange facilities. I think this method of permitting the Federal reserve banks to handle the domestic exchange problem is going to solve one of the greatest banking problems you have in the country to-day. It certainly is one that a great many bankers have been working on for a great many years.

I have always been from the start a consistent advocate of taxing these things out of existence; I thought it was my duty, and I introduced in the Cleveland convention of the American Bankers' Association a great many years ago a resolution which made it the duty of every banker to charge on country checks. I spent six months as a member of the committee of the New York Clearing House Association last year studying this subject, and I want to say, Senator Weeks, that I think Boston has us all beaten to a frazzle.

I have changed my attitude in regard to this country-check proposition. I believe the country check is here to stay; it is a part of the business of this country. It is a part of its circulating medium to a certain extent, and the thing to do with it is to collect it as soon as possible at the least expense to the banks. In this bill, I think, you provide that, and I think that will be a great boon to the merchants and manufacturers—in fact, to the whole country—when that thing is once organized. I think our friends in the country banks do not quite clearly understand the situation. I understand they feel the exchange part of their business is very large. Well, the exchange on checks is not very large. The exchange they get in the country banks is more on drafts—grain drafts, cotton drafts, and odd things which naturally would not go into the Federal reserve bank. The Federal reserve bank would not undertake to collect those things.

Senator WEEKS. When you speak of exchange, do you mean earnings?

Mr. CANNON. I mean the amount deducted from a check drawn on a bank. That is where many of us are at sea. I do not believe the earnings of the country banks themselves, if they took them out from the aggregate amount of money they received for handling checks, would be very large.

The CHAIRMAN. Will you explain how those cotton drafts are handled?

Mr. CANNON. Yes. Cotton drafts are handled in the South in a different way. There they come in, and, as I understand it, the buyer goes around and buys a lot of cotton. He then goes to the bank, and often attaches bills of lading to that draft, and asks the bank to advance the money so that he may pay for it on the following day. The bank sends that draft on to their New York correspondent to collect for them. The bank in the South makes a very substantial charge for doing that business, and they call that exchange.

The CHAIRMAN. That will not be denied by this bill.

Mr. CANNON. That will not be denied by this bill at all. In fact, in this bill you do not deny to the country bank for one minute the privilege they had of charging the Federal reserve bank if they sent any items to it. You do not deny that to the member; he has a perfect right to charge.

Senator HITCHCOCK. Mr. Cannon, I have before me a statement of a small national bank in the South, with a capital of \$100,000, surplus of \$66,000, and deposits of \$618,000. This bank estimates its loss from exchanges at about \$4,300, which has to come out of its earnings if the terms of this bill are lived up to, and I am sure that its exchanges are upon checks.

Mr. CANNON. They are upon cotton drafts? They are not upon drafts for merchandise of any character? They are entirely upon checks?

Senator HITCHCOCK. I am not able to say, but I believe they are.

Mr. CANNON. I wish you would look into that. I have before me a report of our committee on inland exchange, which we had a lot of—

The CHAIRMAN (interposing). You may put that in the record. (The report referred to is as follows:)

REPORT OF THE COMMITTEE ON INLAND EXCHANGE TO THE CLEARING HOUSE COMMITTEE, NOVEMBER 4, 1912.

NEW YORK, November 4, 1912.

To the Clearing House Committee, New York Clearing House Association.

GENTLEMEN: Your subcommittee on inland exchange, appointed in accordance with the terms of the following resolution:

"Whereas there were adopted on the 3d day of April, 1899, rules and regulations of this association regarding collections outside of the city of New York, which, with the exception of special interpretations put upon certain clauses of the same by the clearing house committee, have never been altered or amended. In view of the fact that the volume of collections during the past 13 years has increased very largely, and also the fact that since those rules and regulations were established there have been various methods pursued in the handling of collections by the different clearing house associations throughout the country, it would seem as if the time had arrived when a careful investigation should again be made of this matter: Therefore, be it

"Resolved, That a special committee of five be appointed by the chairman for the purpose of making a thorough investigation of the subject of inland exchange and collections, and the methods pursued by other clearing house associations, and

to report to this committee such changes in the rules or regulations of the New York Clearing House Association as in its judgment may be deemed best; and be it further

"Resolved, That this committee be authorized to invite to appear before it managers of other associations and members of this association for the purpose of procuring any necessary information, and that any expenses incurred by the committee shall be borne by the clearing house association,"

which was adopted by the clearing house committee on April 1, 1912, begs to submit herewith a résumé of its activities, which began as soon as practicable after its appointment, and continued without intermission until quite recently.

Your committee approached this investigation with an entirely unprejudiced mind and has maintained an attitude of strict impartiality throughout. It has given careful consideration to the facts it has gathered and feels that it is now in a position to report its conclusions and the findings upon which these conclusions are based.

Under its direction two forms were prepared. A copy of one of these forms was sent to each bank and trust company member of the New York Clearing House Association, the purpose being to place the committee in possession of information with respect to what, if any, changes they felt should be made in our existing rules and regulations affecting the collection of country checks.

In furtherance of your committee's desire to receive as many different points of view as possible on this most important subject, it met frequently at the clearing house during the spring and summer months for the purpose of discussing it in a frank and unbiased way with the president, or such officer as he elected to represent him, of each clearing house institution.

The second form prepared under the committee's supervision was designed for use in conveying to it certain information for statistical purposes, in respect of the amount, source of receipt, disposition and cost of collection, as well as time consumed in collecting foreign items received by each individual institution during the month of May, 1912. A copy of this form was handed to each member's representative at the time he appeared before the committee, with a careful explanation of its purpose and confidential nature.

The figures compiled from the data contained in these reports indicate that the gross income of the members of the clearing house association from collection of exchange during the year 1911 was.....	\$2, 139, 551. 00
Exchange cost.....	\$1, 176, 162. 00
Proportionate share of postage, rent, stationery, and salaries for 1911.....	569, 461. 78
Estimated loss of interest on interest-bearing accounts where immediate credit is given for foreign checks, based upon figures submitted by eight of the largest institutions in the clearing house.....	296, 460. 00
	2, 042, 083. 78
Net income.....	97, 467. 22

It should be borne in mind that this net income is the result of handling a volume of business based on the figures gathered for the year 1911 of approximately \$4,859,187,900, and when distributed between the 64 active members of the clearing house association represents an annual increment of income to each of only about \$1,500.

The figures gathered by your committee for the month of May, 1912, show a daily average amount of foreign checks received of \$16,284,346.

As to the discretionary and charge points, this volume was distributed as follows:

Discretionary points.....	\$11, 404, 363
One-tenth points.....	3, 938, 198
One-fourth points.....	865, 785

It will be observed from these figures that of our daily volume of out-of-town business for May, 1912, 71 per cent was on the discretionary points, 24 per cent was on the one-tenth points, and only 5 per cent was on the one-fourth points.

The daily average amount of cash items outstanding during the same period was \$68,215,328, indicating that the average time consumed in the collection of our country checks was 4.19 days.

Your committee also procured from the members of the clearing house association the data with reference to the average daily outstandings of cash items during the year 1911 which amounted to \$67,866,658. Considerable labor was involved to the banks in providing this information, but as a medium for comparison with the same figures for May, 1912, which, as previously stated, totaled \$68,215,328, the committee was enabled to confirm its impressions that the month of May, upon which its principal figures were based, was an excellent average month.

The succeeding table shows the average daily amount, the average time consumed, and the average cost of collecting checks on the discretionary points, and also on a number of the other more important nondiscretionary cities of the United States :

City.	Average amount.	Average time.	Average cost.
		<i>Days.</i>	
Philadelphia.....	\$4,174,177	3.514	2 banks, \$0.340 per M (49 par, 13 not reporting).
Boston.....	2,874,831	3.523	4 banks, \$0.069 per M (47 par, 13 not reporting).
Baltimore.....	958,796	3.243	21 banks, \$0.36 per M (28 par, 15 not reporting).
Newark.....	943,321	4.047	1 bank, \$0.29 per M (48 par, 15 not reporting).
Albany.....	889,410	4.117	2 banks, \$0.208 per M (47 par, 15 not reporting).
Providence.....	351,282	4.188	3 banks, \$0.156 per M (46 par, 15 not reporting).
Troy.....	110,280	3.935	5 banks, \$0.363 per M (39 par, 20 not reporting).
Jersey City.....	370,781	3.657	2 banks, \$0.18 per M (46 par, 16 not reporting).
Hoboken.....	134,240	3.63	1 bank, \$0.01 per M (46 par, 17 not reporting).
New York City.....	1,068,025	3.885	No cost (42 par, 22 not reporting).
Greater New York.....	847,883	4.053	2 banks, \$0.107 per M (40 par, 22 not reporting).
Chicago.....	417,320	4.739	34 banks, \$0.54 per M (13 par, 17 not reporting).
Pittsburgh.....	132,797	3.95	24 banks, \$0.768 per M (22 par, 18 not reporting).
Cleveland.....	135,622	4.341	37 banks, \$0.618 per M (9 par, 18 not reporting).
St. Louis.....	109,470	4.787	38 banks, \$0.788 per M (8 par, 18 not reporting).
Buffalo.....	96,850	4.143	20 banks, \$0.616 per M (23 par, 21 not reporting).
Cincinnati.....	79,588	4.178	41 banks, \$0.631 per M (6 par, 17 not reporting).
Washington.....	71,374	2.95	37 banks, \$0.60 per M (9 par, 18 not reporting).
Hartford.....	57,872	4.705	15 banks, \$0.62 per M (32 par, 17 not reporting).
Kansas City.....	42,719	5.31	38 banks, \$0.91 per M (6 par, 20 not reporting).
Minneapolis.....	30,861	5.02	40 banks, \$1.14 per M (5 par, 19 not reporting).
St. Paul.....	23,615	4.923	39 banks, \$1.18 per M (5 par, 20 not reporting).
Atlanta.....	25,229	5.196	37 banks, \$1.06 per M (6 par, 21 not reporting).
New Orleans.....	20,838	6.941	32 banks, \$1.16 per M (12 par, 20 not reporting).
Omaha.....	19,309	5.787	39 banks, \$1.11 per M (6 par, 19 not reporting).
Denver.....	19,786	6.47	41 banks, \$1.15 per M (4 par, 19 not reporting).
Seattle.....	34,095	8.928	40 banks, \$1.36 per M (4 par, 20 not reporting).
San Francisco.....	50,745	9.404	39 banks, \$0.87 per M (6 par, 19 not reporting).
Los Angeles.....	27,967	8.937	40 banks, \$1.10 per M (4 par, 20 not reporting).
One-tenth points.....		4.177	44 banks, \$0.609 per M (20 banks not reporting).
One-fourth points.....		7.000	44 banks, \$1.40 per M (1 par, 19 not reporting).

Subsequent to the appointment of this committee on inland exchange by the clearing-house committee of the New York Clearing House Association, the bankers' associations of New York, New Jersey, Connecticut, and Massachusetts took similar action. These committees in due course communicated to your committee their desire to discuss this subject fully with it. Their requests were gladly granted, and at appointed times your committee has had the pleasure of entertaining the representatives of each of these associations.

In view of the foregoing resumé of the scope and detail of the work of your committee and of the facts thus ascertained, and because your committee is convinced that the operation of the present rules and regulations of the New York Clearing House Association in respect of charges on inland exchange, results in barely making good to the banks and trust companies making their exchanges through the clearing house, their actual outlay in handling such business, including the amounts of exchange charged on or deducted from return remittances, without substantial return for the enormous volume of the business thus undertaken and its risks, your committee feels itself compelled in the interest of the conservative business methods which are required in good banking, respectfully to recommend that the main body of the existing rules and regulations of the New York Clearing House Association, regarding collections outside of the city of New York, shall remain unchanged.

In the judgment of your committee, however, within certain restricted territories, and for reasons which are in each instance peculiar to the areas involved, the rules should be modified with advantage alike to ourselves and to the inland banks and business interests affected by them.

After a careful consideration of all the questions involved, it furthermore respectfully recommends that all banks and trust companies in the States of Massachusetts, Rhode Island, Connecticut, New Jersey, and New York, which will engage themselves in writing to the manager of the New York clearing house, over the signature of the president, cashier, or treasurer to remit to the members of the New York Clearing House Association at par, in New York funds, on the day of receipt, the charge shall in all cases be discretionary with the collecting bank.

It is not proposed that the foregoing recommendations shall in any way disturb the relations now existing between our members and the banks located in the present discretionary cities.

In the opinion of your committee this proposed modification of the rule respecting discretionary places so as to include the entire region mentioned, provided the local banks themselves in any community wish it, rather than extending the privilege of a few specially designated cities or towns in that territory, will, if adopted, do much toward relieving the irritation and dissatisfaction which have heretofore existed among many near-by banks not situated in a discretionary city. This proposal affords opportunity to the banks in each locality to determine for themselves and for their customers whether or not they wish to enjoy the benefits and share the burdens of a discretionary or free collection point.

All of which is respectfully submitted.

(Signed)

JAMES G. CANNON,
WALTER E. FREW,
JOSEPH T. TALBERT,
EDWARD TOWNSEND,
JOHN W. PLATTEN,

Committee on Inland Exchange.

Senator HITCHCOCK. We had before us the other day a witness who said that the earnings of small banks in Mississippi in the exchange of checks amounted to over \$600,000 a year, which the banks of Mississippi would lose.

Mr. CANNON. I think that must include drafts.

Senator NELSON. I understood him to include both checks and drafts. I think, if you will look up his remarks in the record, you will find that to be so. And that gentleman who appeared with the Chicago delegation, too; I understood in both cases, they included checks and drafts.

Senator SHAFROTH. He said his own losses would be \$20,000.

Mr. CANNON. It could not possibly be that. They could not possibly charge that much on checks drawn upon them. Now, the gentleman also forgets, I think, that under this act they are going to be able to secure a very much larger amount of business in their own neighborhood than they had before, and a good many other things will accrue to their interest that they have not thought of probably.

I am very much interested in that statement because all the investigations we have made over a period of years I have never seen anything like that. What are his deposits?

Senator HITCHCOCK. \$618,000.

Mr. CANNON. And how large a city is it?

Senator HITCHCOCK. It is a small town, the town of Bessemer.

Mr. CANNON. From my investigations which I have made over a period of years, I do not believe that the exchange on checks will be much. But I think the general good to the country from being able to have these Federal reserve association act, as you might say, as clearing houses for this entire matter, will certainly be to the great good of the mercantile interests and banking interests of the country, as far as I can see.

Senator HITCHCOCK. The population of the town I spoke of is 10,800.

Mr. CANNON. I do not believe that could be on checks then. I think a large amount of that would be on time deposits, which do not draw checks. Will you kindly have that analyzed as a personal matter and let me know?

Senator HITCHCOCK. But other witnesses who came from other States, I remember, were very positive that the losses to country banks would be a large proportion of their total earnings if they lost these collection charges.

Mr. CANNON. There is nothing in the act; they can charge just the same, if they want to. The amendment to the House bill specifically states that they can charge, if they want to, the Federal reserve bank for collecting those checks.

Senator HITCHCOCK. Suppose they undertake to charge the Federal reserve bank. What would they do?

Mr. CANNON. They would stand the charge, I suppose.

Senator HITCHCOCK. They would charge the member bank?

Mr. CANNON. No; they could not do that, because you would have taken them for nothing. That would be a part of the business of the bank.

Senator BRISTOW. How much could they charge?

Mr. CANNON. How much could who charge?

Senator BRISTOW. Why, the country bank.

Mr. CANNON. That would vary according to the town.

Senator BRISTOW. How much could it charge the Federal reserve bank, if it could charge?

Mr. CANNON. It can only, according to the act, make a reasonable charge; that is, it would be according to whether their exchange is at a premium or at a discount, what the situation was, and the time of the year in which the checks were drawn.

Senator HITCHCOCK. These charges made by small country banks, I understand, are not so much for exchange; they are really such a charge as a lawyer would make for making such a collection.

Mr. CANNON. This must be on drafts; it would not be on checks, because a check is drawn absolutely on a country bank, and we send it directly to them now, and they remit to us, deducting 5 cents or 3 cents, and some deduct only the postage.

Senator HITCHCOCK. Is it not a fact that many of them deduct a tenth of 1 per cent?

Mr. CANNON. Yes.

Senator HITCHCOCK. And one-quarter of 1 per cent?

Mr. CANNON. I will read you the figures we gathered through our committee from the New York banks during the month of May, 1912. The daily average amount of these foreign checks we received then was \$16,000,000; on points where no charge was made at all there was \$11,400,000. On quarter points it was only \$365,000, which is very small in proportion.

Senator BRISTOW. Now, to get this clearly in my mind, suppose I, living at Salina, Kans., pay a bill that I may have in Chicago for \$1,000 by sending to my Chicago creditor a check for \$1,000—

Mr. CANNON (interposing). On your local bank?

Senator BRISTOW. On my local bank. That settles my account with him. I am given credit for that \$1,000. Now, that comes back to the bank where my account is, and is charged to me. What charge is made on that check in that process?

Mr. CANNON. You can not tell. There may not be any charge. It may be a question of reciprocal balances. It may be something that nobody knows except your bank and the Chicago bank.

Senator BRISTOW. What interest has the local bank in that check?

Mr. CANNON. All the interest he has is to pay it and charge it to your account.

Senator BRISTOW. So he gets nothing out of that?

Mr. CANNON. Well, you draw your check to-day, for instance, and send it to Chicago, on Salina, Kans. Now, if you are out there in Salina, Kans., you may go in there and draw that money and send it to Chicago and he gets the use of that money a longer time than he would ordinarily.

Senator BRISTOW. Now, the Chicago banker might charge my creditor for the collection of that check, or he might not.

Mr. CANNON. Or he might not.

Senator BRISTOW. Now, a man at Plainville, Kans., owes me \$100, we will say, and he sends me a check and I deposit that in my local bank. Now, the local bank may charge me for the collection of that—

Mr. CANNON (interposing). According to your balance in the bank. If your balance is a good balance, and you only put in these out-of-town checks once in awhile it would not charge you a cent, because your balance would be ample to cover any exchange charge there might be.

Senator BRISTOW. The interchange of these checks is what you call domestic exchange?

Mr. CANNON. Yes, sir; that is it—checks.

Senator BRISTOW. Now, in some communities they charge for these collections, and in others they do not?

Mr. CANNON. But gradually extending throughout the country is the Boston system. As I said a moment ago to Senator Weeks, we take off our hat to Boston, because they originated the Boston system of exchanging these checks without charge. Kansas City has a plan now which is gradually being extended to collections throughout the country. So these checks pass quickly from the maker of the check back to their redemption without any charge and they pass as the circulating medium of the country to a great extent.

Senator BRISTOW. To carry this illustration further, suppose my creditor at Chicago deposited that check with the Chicago bank that is a member of this national organization. That bank would not charge him?

Mr. CANNON. It would not charge him; no, sir.

Senator BRISTOW. Because the Federal reserve bank would not charge him anything?

Mr. CANNON. It would not charge him anything; that is it. And you can see that the merchantile interests would be greatly benefited by that all over the country.

Senator WEEKS. Can you see any objection to transferring that business to the Federal reserve banks, unless it is the possibility of preventing all loss in earnings accruing to the country banks?

Mr. CANNON. I can not see any at all. I think it is an advantage to the country generally.

Senator WEEKS. What do you enumerate as the advantages?

Mr. CANNON. The advantages?

Senator WEEKS. Yes.

Mr. CANNON. I would enumerate the quick returns, the same as we have in the clearing house to-day. We have this large volume of business throughout the country, and these entries would be made, as I look at it—the transfers would be made upon the books of the Federal reserve banks. I feel that the amount of money that would be saved to all concerned would be very considerable.

Senator HITCHCOCK. Would it amount to an expansion of credits?

Mr. CANNON. No, sir; it would amount to a quick payment.

Senator HITCHCOCK. Let me take an illustration. Suppose Senator Bristow's check, to which reference has been made, is in the hands of a Chicago merchant, and that is deposited in the bank to its credit on that day instead of waiting four or five days. Would they not receive that much additional credit?

Mr. CANNON. Now it extends credit in more ways than one. What would happen to the Senator's check would be that that bank in Chicago would say that I do not want to send that check out to Salina, Kans., and so I will send that to Kiowa. So the bank in Chicago sends that to Kiowa and gets a credit of \$1,000 at Kiowa, and the banker at Kiowa says "I will send that to Uncle John Mulvane, at Topeka"; and so he sends that to Uncle John, and Uncle John sends it to Salina to see whether the Senator's check is good. And there is where the expansion of credit is now.

Senator WEEKS. Uncle John would not have to do that; he knows it is good. [Laughter.]

Senator HITCHCOCK. Is that done now?

Mr. CANNON. Yes; it is constantly done now. We do that in our own bank. We have checks we send to points up in Connecticut, and the bank in Connecticut sends them to another bank in Albany, N. Y., and they come back to us from Albany. We had one like that the other day. Under this scheme everything would be handled directly and quickly and with greater safety to everybody.

Senator BRISTOW. Tell me why the bank at Chicago would send it to Decatur.

Mr. CANNON. Because they think probably they may get an account out of Decatur. There are all sorts of by-arrangements. The bank at Decatur thinks they will send it to Uncle John, because they want to do something with him. That thing is coming up constantly in all sorts of ways.

Senator BRISTOW. In the meantime has the person who deposited the check originally still got a credit?

Mr. CANNON. Oh, yes; but they never know for a long time whether it has been paid. Those checks go all around, and finally it comes back to the bank in which it was originally deposited.

Senator WEEKS. As a matter of fact, if that merchant in New York, instead of Chicago, deposited Senator Bristow's check with you and you were paying him interest on his deposit, you would not pay him on that check until it had been collected?

Mr. CANNON. We would not now. We would deduct so much from his interest account. Under this scheme he would not be a

loser, because it would be done very quickly. We do not pay mercantile accounts any interest in our house. Many banks do, however.

Senator WEEKS. Many banks pay interest on certain kinds of individual accounts.

Mr. CANNON. Yes.

Senator HITCHCOCK. Would it not be a balance that could be checked against?

Mr. CANNON. According to whether the account was good, bad, or indifferent, depending upon the depositor.

Senator HITCHCOCK. If the depositor is a man of good credit it would increase his credit with you?

Mr. CANNON. Yes.

Senator HITCHCOCK. He might put out 100 checks of that sort and his credit would be increased?

Mr. CANNON. Yes. I believe this will be very helpful in doing away with these notes current all over the country, having these Federal reserve banks acting as clearing houses in this matter. I do not know that I have been very helpful to you, but such suggestions as I have had I have been very glad to give to you.

Senator O'GORMAN. What is your idea, generally, of this proposed change in our currency system?

Mr. CANNON. How is that?

Senator O'GORMAN. What is your idea generally regarding the proposed changes in our currency system?

Mr. CANNON. I think if you can make some of these changes in your bill, and make it so it will be acceptable to a large number of people, I think it will be very advantageous to the country, with these changes incorporated in.

Senator WEEKS. What is the relative importance of the mobilization of reserves and the elasticity of currency; which do you regard as the more important?

Mr. CANNON. I would have to differentiate between them. I think they are both quite important.

Senator WEEKS. England has mobilization of resources and practically not an elastic currency.

Mr. CANNON. Our country is large, scattered over such a tremendous district; we do our business in such an entirely different way from what they do their business over there that I do not believe you can take England as an example.

Senator NELSON. They do their business on bills of exchange in drafts; we do ours on promissory notes.

Mr. CANNON. That is true.

Senator POMERENE. I want to ask you a question right there. In the earlier part of your statement, in speaking about having these notes guaranteed by the Government, you used an expression something like this, that you would fix the notes so as not to embarrass the Government in their redemption. What did you have in mind?

Mr. CANNON. To make those redeemable in gold you must have some arrangement whereby they could not in any way embarrass the Government by a great amount of them coming in upon the Government, as was the case in Mr. Cleveland's time.

Senator POMERENE. How would you do it?

Mr. CANNON. I am not clear in my own mind about that. It is a very difficult question. The question is whether they shall be redeemed in Washington—

Senator BRISTOW. Suppose—these notes are not good for reserves, and of course they will accumulate in New York, just like national bank notes.

Mr. CANNON. Where will they accumulate?

Senator BRISTOW. In the banks at New York.

Mr. CANNON. Outside those who are not members?

Senator BRISTOW. In the general transaction of business, will not this money which can not be used for reserves in the banks finally get back to the place of redemption, just like national bank notes do?

Mr. CANNON. That is what the act provides for—prompt redemption of the notes.

Senator BRISTOW. They will come to the Treasury Department, large amounts of them, would they not, in the operation of business, just like the national bank notes do now?

Mr. CANNON. I do not believe they would under this act, because, you see, here we would be members of the Federal reserve bank, and we would deposit those notes immediately in our own Federal reserve banks.

Senator NELSON. They must be sent to the bank which issues them.

Mr. CANNON. Yes. The amended section provides what shall be done with them. They are to be sent to the bank upon which they are issued, not to be paid out again.

Senator BRISTOW. Does it say not to be paid out again?

Senator NELSON. I call your attention to line 6 on page 31 of the bill, where it says:

Whenever Federal reserve notes issued through one Federal reserve bank shall be received by another Federal reserve bank they shall be returned for redemption to the Federal reserve bank through which they were originally issued, or shall be charged off against Government deposits and returned to the Treasury of the United States, or shall be presented to the said Treasury for redemption.

Mr. CANNON. That is it; yes.

Senator NELSON. But the question is, if they are presented to the issuing bank—that was the question submitted yesterday.

Mr. CANNON. You do not think that is quite clear in the act?

Senator NELSON. If they are presented to the issuing bank for redemption and the issuing bank redeems them, what becomes of them? Are they retired, or can they be put into circulation again?

Mr. CANNON. That is not clearly stated here.

Senator NELSON. Ought it not to be clearly stated?

Mr. CANNON. I think it should.

Senator NELSON. And inasmuch as they are based upon this asset currency ought they not to retire the notes, if they come back, after they have been redeemed by the bank?

Mr. CANNON. I do not see why they should not.

Senator NELSON. That is, the bank ought not to have the right to issue that note again? It has gone its rounds. It was issued on commercial paper with that reserve. It has performed its functions and come back and been redeemed. If the bank issued it again without having additional paper for security, there is no security back of it, nothing but the redemption fund. Ought it not to be retired?

Mr. CANNON. I should think so.

Senator HITCHCOCK. Senator Nelson, the bank has security up for that loan; it has segregated a certain amount of that loan which is not yet due.

Senator NELSON. I know, but it has paid gold for it.

Senator HITCHCOCK. The accident of its coming back is like the accident of another deposit made in the bank.

Mr. CANNON. The bank pays a tax upon it until it comes back.

Senator WEEKS. What have you to say about paying a tax on circulation?

Senator NELSON. I want to get clear on your opinion as to that one point. Ought that note to be retired after it has gone the round and been redeemed?

Mr. CANNON. I believe it should.

Senator NELSON. Redeemed by the issuing bank?

Mr. CANNON. Redeemed by the issuing bank and a tax paid on it until it comes back.

Senator NELSON. Now, ought not the regional reserve banks that issue this currency provide this gold reserve, this 33 $\frac{1}{3}$ per cent gold reserve, instead of the Government?

Mr. CANNON. I think so; generally; yes.

Senator NELSON. They ought to provide it?

Mr. CANNON. Sure.

Senator NELSON. And relieve the Government entirely of the burden?

Mr. CANNON. That is what I say.

Senator NELSON. Would it not be wise to require, instead of 5 per cent in gold for that reserve, that they should deposit 10 per cent?

Mr. CANNON. You mean for the redemption fund?

Senator NELSON. Yes.

Mr. CANNON. I do not believe that redemption fund would do; I would have the whole 33 $\frac{1}{3}$ per cent, too.

Senator NELSON. In the vaults of the Government?

Mr. CANNON. No; 5 per cent in the Government vaults and the other 28 per cent in the banks.

Senator NELSON. Would it not be better to have 10 per cent of that gold reserve?

Mr. CANNON. I do not believe so, Senator. Because the history of the past in redemption of national-bank notes would show that. I do not know what the average has been.

Senator NELSON. Do you not think that redemption ought to be in gold and not in lawful money?

Mr. CANNON. That is what I said.

Senator SHAFROTH. You say you desire that the Government should be saved from any run upon its Treasury?

Mr. CANNON. Yes.

Senator SHAFROTH. Does not the system of having the United States notes redeemable in gold and this currency issued under this bill redeemable in lawful money have a tendency to relieve this in this way: If I am a holder of \$1,000 of this currency and I take it to the reserve bank, and the reserve bank says, "I can not give you gold, but I can give you lawful money," and then it says, "If there is going to be a run for gold we will just simply hold this and keep it in the vault." The man gets his \$1,000 in United States notes and goes to Washington, and he says, "I want my gold"; and the Gov-

ernment says, "If there is going to be a run on this thing we will hold this United States note." Now, by the process of putting out \$1,000 in gold you have practically retired \$2,000 of notes that are ultimately redeemable in gold, and by reason of one of them being redeemable in lawful money there has been a redemption of \$2,000 of obligations; and does not that save the Government?

Mr. CANNON. No; I think you have injured the standard of the Government.

Senator SHAFROTH. The national-bank notes are not redeemable in gold.

Mr. CANNON. No; they are not redeemable in gold.

Senator SHAFROTH. And the person having these notes goes to the bank and says, "I want legal tender," and he sends the legal tender to the United States Government and gets this gold. All the functions of the parity of the money are complied with. Now, if you have the other system, you are going to make a great drain on the gold of the country, and I think that provision allowing the bankers to pay in lawful money simply narrows the gold reserve it is necessary to keep in Washington. We have \$150,000,000, which supports a currency of \$356,000 in United States notes and, on top of that, \$750,000,000 of bank notes, and it is done by \$150,000,000, and if you make those notes so redeemable you would have to keep something like \$250,000,000 in gold in addition to the \$150,000,000 now there in order to redeem \$356,000,000 of greenbacks, and that makes a greater drain and demand upon gold for that purpose. Inasmuch as the blanket is a little short, it seems to me it would induce much more criticism.

Mr. CANNON. I think the credit of the country is at stake in this matter.

Senator SHAFROTH. One objection made to that was that the foreign countries would be discouraged, but these notes are not supposed to go to foreign countries.

Mr. CANNON. I think in establishing any new system you want to take great pains to see that we never let down on anything we have already, and I think it would be a great mistake—

Senator SHAFROTH (interposing). The national-bank notes are not redeemable in gold?

Mr. CANNON. These notes ought to be. You would get a better note out of it in that way.

Senator SHAFROTH. If you have 12 distinct districts in the United States, each one competing for gold, and you are going to have 12 competing points, and thus it will require a good deal more to redeem these obligations than if one is payable in lawful money and that lawful money is redeemable in gold.

Mr. CANNON. That is what I said; I hope you would not have 12.

Senator POMERENE. Mr. Cannon, several witnesses have discussed before us the propriety of giving additional charter powers to the national banks in order to induce them to come into this scheme, and also, perhaps, to curtail some of the powers now enjoyed by State banks which might come in. I would like to have your views on that.

Mr. CANNON. I had not given that point any thought. It is a new thought to me. I have not even heard it mentioned. I should think that might require considerable thought, because the State banks and the national banks are so intertwined together that it might be difficult.

to act. Your idea is to make this more attractive and give the national banks new powers?

Senator POMERENE. Yes; and not to discriminate between the two classes of banks. I can understand why a State bank with certain powers might desire to come in here and get additional powers, and if it came in and enjoyed all the powers the national bank would now have it might discourage the national banks from going into the scheme.

Mr. CANNON. That is important, and it is quite a big thought, and I would not care to answer the question until I had given it some consideration.

Senator POMERENE. I would be pleased if you would send us the result of your thought on that matter.

Mr. CANNON. I would be very glad to think it over and communicate with you about it.

Senator POMERENE. Now, another matter. There has been considerable difference of opinion as to whether or not a sufficient number of banks might come into this scheme to organize the number of regional banks which may be determined upon. Of course, we understand it is to some extent problematical. Would there be any objection to providing, for instance, that these banks should have a given length of time within which to subscribe, and if a sufficient number did not come in to organize the requisite number of regional banks, then to open up the stock books to the public and permit the public to subscribe?

Mr. CANNON. I should be a little afraid of that.

Senator POMERENE. For what reason?

Mr. CANNON. I think these banks would come in. I would prefer something of the kind which I outlined and laid before you here. If the banks felt that by their coming in they were not going to be tied up, if they were able to sell their stocks to people who were acceptable as stockholders to the directors in a Federal reserve bank and sell it for investment where it could be watched; otherwise you would get a miscellaneous lot of stockholders, and the stock would be thrown upon the street, and it would see-saw up and down, and like everything else of that kind, you would have more or less speculation in it all the time, and it does not strike me as a good thing to do. I would rather remove in some way the conditions which these banks have in that matter in coming in and get them to come in and take the stock and throw it open to the public.

Senator POMERENE. The fact is that some banks may object to it, because in their judgment it ties up a certain amount of their funds?

Mr. CANNON. I think you could work out a plan which will meet that objection by permitting the sale of that stock at the proper time to investors, who would not have a vote, and who would not have a right of transfer, except, as I said, to people who were approved by the board.

Senator POMERENE. You were speaking about the call loans in New York. What portion of the loans are call loans?

Mr. CANNON. We had the annual meeting of the clearing house on Tuesday. The clearing house sent out just before this meeting to 20 banks, members of the association who have \$20,000,000 and over of deposits.

Senator POMERENE. Each bank?

Mr. CANNON. Each bank; and they asked each bank a question as to how much they were loaning out on call for out-of-town customers, and how much they were loaning out themselves on call loans. In round figures these 20 banks were loaning out for their own customers \$175,000,000, for their out-of-town customers. For themselves they were loaning \$265,000,000. That was out of a total of loans and discounts of \$1,226,000,000 that those banks reported.

Senator POMERENE. A little over one-third of the loans are call loans?

Mr. CANNON. Yes.

Senator WEEKS. Is that right? Were they loans for themselves?

Mr. CANNON. For out-of-town banks.

Senator WEEKS. Would they be loaning for themselves \$1,200,000,000?

Mr. CANNON. Let me see if those figures are right. They were loaning for themselves \$265,000,000.

Senator WEEKS. What was their total loan?

Mr. CANNON. The total amount was \$1,226,000,000. I can tell very quickly whether that total is correct. I think the clearing-house people added into that total what they were loaning to the out-of-town banks. The total in the New York banks was \$1,324,000,000, of which they were loaning on call \$265,000,000. I may possibly be mistaken in saying that was all money. It may have been what was loaned out to Wall Street, on what I understood was call money—\$85,000,000 and \$1,324,000,000—and they were loaning for their out-of-town correspondents \$175,000,000.

Senator WEEKS. Does that include foreign banks?

Mr. CANNON. I think it does; I think it must include foreign banks as well.

Senator WEEKS. Is it not true that the Canadian banks loan in New York from \$25,000,000 to \$50,000,000 all the time?

Mr. CANNON. But they loan through bankers.

Senator WEEKS. They do not use very many local bankers?

Mr. CANNON. Quite a good many. They lend money to their bankers, but we do not keep track of it.

Senator WEEKS. You are giving the figures here, as I understand it, for 20 national banks?

Mr. CANNON. Twenty banks which are members of the clearing-house association, who have deposits of \$20,000,000.

Senator WEEKS. There are some 66 banks in the city?

Mr. CANNON. Yes.

Senator WEEKS. And would the other banks have about the same proportion of call loans?

Mr. CANNON. I do not know. The Fifth Avenue Bank, of which I am a director, I think has \$2,000,000 or \$3,000,000. I do not know what that proportion would be.

Senator WEEKS. Is this about the average proportion?

Mr. CANNON. I should think that would be about the average proportion.

Senator WEEKS. Now, from your experience as a banker, what, in your judgment, would be the proper discount rates to start with if this regional bank was organized?

Mr. CANNON. I could not tell you. You are a practical banker.

Senator WEEKS. I have not any idea on the subject.

Mr. CANNON. All that I can say—all that I did in my calculations was to take 4 and 3 per cent. I just took it as a rough calculation. It would depend upon the state of the money market. It would depend upon what changes are being made in the banking system; whether money would be very active or anything of that kind. It will be very difficult to tell until after the thing was settled down for a year or so.

Senator WEEKS. Have you any preference as between four or six banks over one?

Mr. CANNON. Of course, I would like to have one bank, but we can not have it.

Senator WEEKS. What makes you say that?

Mr. CANNON. Politically it is impossible ever to have a single central bank in this country.

Senator WEEKS. You think, from the economical standpoint, it would be better to have one than any additional number?

Mr. CANNON. Well, I would have to answer that yes and no. Some ways it would be an advantage and some ways it would not.

Senator WEEKS. What would be the disadvantage, from an economic standpoint, that would arise in having one rather than four?

Mr. CANNON. I think the centralization in one place; I do not know that you would serve the whole country as well.

Senator WEEKS. Are you not going to serve the country through branches anyway, whether you have 1 or 10?

Mr. CANNON. To an extent only. The central reserve banks are going to be of very great service to the country at large.

Senator WEEKS. Undoubtedly; each of these Federal banks is going to have numerous branches.

Mr. CANNON. Yes.

Senator WEEKS. Would it be any advantage to have branches extend from four rather than from one?

Mr. CANNON. I do not know, Senator Weeks; I would not like to say on that.

Senator WEEKS. If it were possible to provide for 1 bank instead of 12, you would prefer it?

Mr. CANNON. One instead of 12? Yes.

Senator WEEKS. If it were possible to provide one rather than six, would you prefer it?

Mr. CANNON. I do not know. I should want to consider that very carefully.

Senator WEEKS. You referred to issuing circulation. My recollection is that in the early nineties, when people drew money out of the banks for hoarding purposes, they to a considerable extent asked for gold or gold certificates, and that in 1907 they asked for circulation, without much regard for what it was. Is that your experience?

Mr. CANNON. I think you are right; yes.

Senator WEEKS. Is that not due to the fact that in the meantime we had established a gold standard and people knew that they could get redeemed whatever circulation they may have in gold?

Mr. CANNON. The people in the country know we are on a gold standard.

Senator WEEKS. If we issue these notes, in whatever form they may be, and make provision for their redemption in gold, do you not think

the people would take them without any regard to whether they were bank notes or some other kind of notes?

Mr. CANNON. It would make a difference if they had the name of the United States Government on them.

Senator WEEKS. Mr. Cannon, you know that in the panic of 1907 in several places there were large quantities of clearing-house certificates issued?

Mr. CANNON. Oh, yes.

Senator WEEKS. And they went into circulation?

Mr. CANNON. Yes.

Senator WEEKS. They were used for pay rolls, and there never was an instance where anybody refused to take them.

Mr. CANNON. I do not know about that. When they issued those checks in Chicago they had to call all the employees in and show them a check and tell them that the checks were perfectly good. When they issued the checks in Pittsburgh they had to put them in four different languages to get those fellows to take them.

Senator WEEKS. Quite likely.

Mr. CANNON. There was trouble also in Harrisburg. I have here a picture of the Harrisburg certificate, which says it may be deposited and will not be paid in cash.

Senator WEEKS. I made considerable effort to look into that at one time, and I could not find any instance where those certificates had not passed current without any serious question.

Mr. CANNON. The employers had to take a lot of them.

Senator WEEKS. Undoubtedly.

Mr. CANNON. They had to get their men together and explain them.

Senator WEEKS. Yes.

Mr. CANNON. They had to get their men together and explain the certificates.

Senator WEEKS. Undoubtedly they explained to their employees what they were doing. But was there any instance where the employees refused to take them?

Mr. CANNON. I think they had a hard time in a good many cases. I think you will find in Chicago and in Pittsburgh they had a pretty hard time with those certificates. I do not believe you could pay out a note of a regional reserve bank and have it circulate freely among certain classes without the guaranty of the Government.

Senator WEEKS. I do not believe anybody would know or care what they had if they had a note and felt sure that it could be redeemed on presentation.

Senator POMERENE. This is a case where bankers seem to differ.

Mr. CANNON. Oh, yes; on various points.

Senator WEEKS. What do you mean by prime commercial paper?

Mr. CANNON. Notes.

Senator WEEKS. The reason I ask that question is that we have got to define it, and we have got to define it with great definiteness, I think. Otherwise we are going to have paper purchased as commercial paper which really is not commercial paper. I would like your definition of what you would call prime commercial bills.

Mr. CANNON. I should say, Senator, prime commercial bills would be notes issued for money either at a bank or other commercial house, which money is to be used in the handling of legitimate mer-

cantile business. Notes issued in the ordinary course. I do not know as you could specify the line of business.

Senator WEEKS. I do not think you have gotten that definite enough to be of any use to us. I wish you would think that over and let us know what your conclusion is.

Mr. CANNON. I will be glad to do that and give you a definition.

Senator BRISTOW. Mr. Cannon, what do you regard as the defects in our present system?

Mr. CANNON. I should hate to start in and go through all the things. I think our currency is not elastic enough. That is only one thing.

Senator BRISTOW. What else?

Mr. CANNON. I would not want to enumerate them in full. There are a great number.

Senator BRISTOW. We have only heard two objections that I remember—that is, with regard to the inelasticity of the currency and to the inability to mobilize reserves. Those two terms have been used, but I have not heard any other objection to it, any other practical objections. There have been some theoretical objections. You think there are many other defects?

Mr. CANNON. I think I could point out some others to you. I will be very glad to do so.

Senator BRISTOW. What I was getting at was what were the defects that had to be cured, and I had supposed those were the two principal defects we are seeking to remedy.

Mr. CANNON. Those are the two, but I think there are a good many others.

Senator BRISTOW. Others that this bill seeks to remedy?

Mr. CANNON. Others that this bill seeks to remedy; yes. I will be very glad to include them.

Senator BRISTOW. I am interested to know what they are, because I have not heard any others, except some theoretical objections to basing currency on debts, but that is the whole proposition, so that that could not be suggested as a defect that is to be remedied. You said that you would prefer a single bank, but it was politically impossible to get it. What made you say it was politically impossible?

Mr. CANNON. I do not think the people of the country would favor a single bank.

Senator BRISTOW. Why do they not favor a single bank?

Mr. CANNON. I think they think there would be too much concentration in the hands of the men who are running the single bank.

Senator BRISTOW. You think they would believe there would be too much concentration in the hands of the men who were managing the single bank. Would that place any greater power, to have 1 bank in the hands of this Federal board, than we are placing in it now, over the 12?

Mr. CANNON. I do not think it would.

Senator BRISTOW. Is not the objection which the people have to one central bank, not to the system but to the ownership and control of the bank?

Mr. CANNON. I know there is an objection. What is in their own minds I could not answer.

Senator BRISTOW. The objection which I have understood—and I am as much opposed to it as any one; I am one of the people as far

as that is concerned—I am opposed to any central bank that is owned by the banks, controlled by the banks, and managed by them, because I think it would result in one set of financiers, or a combination of a few interests getting control, more than they have now, of the banking system of the country and the credit business of the country. Do you not think that is the cause of the prejudice against the central bank?

Mr. CANNON. I could not answer that. I know a prejudice exists. I would not want to say whether that was the cause unless I was pretty clear in my own mind about it.

Senator BRISTOW. What objection other than the power that would be centered in the management of this bank do you see against the central bank?

Mr. CANNON. I do not see any objection further than that, except, as I said a moment ago, whether one bank could serve the whole country. The vast area of this country is all I have ever had in my mind. Of course you could start branches, but whether the one institution could serve the whole country—

Senator BRISTOW. I believe that 1 bank located in one city could not serve the purposes of this country. It is a big country, and it is proposed here to create 12 and then establish branches in the cities. It is not proposed here that 1 bank shall serve a twelfth of the country, because, as has been pointed out by witnesses, we have had before us in the northwest part of the country, with a regional bank at St. Paul or Minneapolis, it would have to take in, in order to get the required capital, a territory 600 miles wide and 1,400 miles long. I do not believe anybody would suggest that 1 reserve bank serving a territory reaching from St. Paul to the Pacific Ocean would be enough to serve the region up there without branches. Now, if the 12 banks are to establish branches, and the purpose of organizing this association is to mobilize the reserves, could not they be more efficiently mobilized if we had 1 with branches than 12 with branches?

Mr. CANNON. I have no doubt it could.

Senator BRISTOW. Then, if the same powers that are placed in the hands of this board over the 12 were given the board in the management of the 1, would it not simplify the mechanical operation of the institution?

Mr. CANNON. If it could serve the country, if that 1 bank could serve the country?

Senator BRISTOW. Yes; by the establishment of these various branches?

Mr. CANNON. Yes; if that service could be done. As I said a moment ago, I want to think about that pretty carefully, to see if it can. Of course, as I stated at the beginning, the act provides for 12, and I thought it should be less than that number, because of the necessity for not having any disturbance when you are making this great change.

Senator BRISTOW. I think we will agree it will be better to have it that way if it can be done successfully. I was going to suggest the possibility of the concentration of control under the present system. I think it is just as easy for the great interests that we are trying to render as harmless as possible and the monopolization of certain

credits—or not just as easy, but I think it is entirely possible—for them to get control of these regional banks organized as they are. And the thing which a good many regard as the most desirable feature in this legislation is to break up what they call the Money Trust; and the bill may fail in that respect, and those influences would control a Federal board. Although they might do it, it is not probable; but they will control the local boards that control the regional banks. Do you believe—or have you given that phase any consideration—do you believe it would be as easy for these interests to get control and dominate the credits of the country if we had the Federal bank managed by a Federal board?

Mr. CANNON. I have not given any consideration to that at all.

Senator BRISTOW. You have not?

Mr. CANNON. No.

Senator BRISTOW. There is another feature of this I would like to invite your attention to. A country bank under the present law has a 15 per cent reserve requirement. It keeps 6 per cent of it in its vaults, and has the 9 per cent—we will say 3 per cent in St. Louis, 3 per cent in Chicago, and 3 per cent in New York. In the handling of its business, it may check out the entire reserve in one city and increase it in another the same day. It might be convenient for it to carry, for a day, in the handling of its business, a reserve of 33 per cent—6 per cent in Chicago, and practically check out its balance at St. Louis, or the same between Chicago and New York. So that, as a matter of fact, in the practical operation of its business, it utilizes these reserves. That is a fact, is it not, and that under this system that will be impossible?

Mr. CANNON. I do not know. After I heard your discussion here I did not suppose it would be impossible. I thought you were going to be able to utilize the reserves in the Federal reserve banks.

Senator BRISTOW. You could not check them out. It could not use it for transfer from one city to the other, as it does now, to suit its convenience. They are there, and it can not take them out of that bank and check them to Chicago, or some other place, where it does business.

Mr. CANNON. Perhaps I do not get your clear meaning on this point. Will you repeat that once more? Do you mean to say their reserves are changed from one city to another?

Senator BRISTOW. Yes; from day to day. The reserve requirements, for instance, in one city, varies very greatly, and it can use its entire reserve on deposit in one city one day if, in the operation of its business, it becomes convenient to do so, while it increases the amount of that reserve in another city; and then in another city it might check out, and so on, if it is a usable fund, where it is divided up between three or four cities.

Mr. CANNON. Does that reserve which you speak of—is that what you mean in the items they are sending from one bank to the other? Are they to be in transit, or to be actually on deposit? In my opinion, in the running of a national bank, for instance, they have a lot of checks coming on New York to-day, and they separate them to-day and charge them off. They are not counted as reserve, notwithstanding the fact they will not reach New York for two or three days.

Senator BRISTOW. I supposed they were; that is my understanding, at least.

Mr. CANNON. I am not familiar with that practice, at all. I understand a reserve must be in a bank before they can count it as reserve. They can not count items in transit as reserve.

Senator NELSON. I do not believe they can.

Senator SHAFROTH. If they can not, I do not see what advantage it is to have them shift around in other banks?

Senator BRISTOW. I think they do.

Mr. CANNON. For instance, if a bank in New York City received to-day a lot of checks on Chicago and St. Louis, you think it could send them out in the mail to-night, and charge them up to this bank, and charge them to reserve whether they have arrived or not?

Senator BRISTOW. Yes; I think so.

Mr. CANNON. If may be possible, Senator; but I do not know.

Senator BRISTOW. We will clear up that point before we get through. I understood it was a fact.

Mr. CANNON. I would like to know about that.

Senator NELSON. At any rate, Senator Bristow, you claim it was only a momentary change. They still have to keep it. It is only while those checks are in transit; that is all.

Senator BRISTOW. But they use it.

Senator NELSON. They use it for that time.

Senator BRISTOW. Yes.

Mr. CANNON. I do not believe they can count checks in transit as reserve. I do not understand you can count it as a reserve on anything until you get the money back on it. I do not believe the country bank does that.

Senator NELSON. I think you are right.

Mr. CANNON. Because those checks and shifting matters of that kind are mere matters of detail in the bank, all the time. I do not believe that is reserve in the bank, Senator. Will you look that up and let me know? I would not want to answer the question until I knew about that.

Senator BRISTOW. Now, I suppose you are like all these other commercial bankers: You do not believe real estate mortgages ought to be used as the basis for currency?

Mr. CANNON. Oh, no; I do not think so.

Senator BRISTOW. Why not?

Mr. CANNON. I do not see how you would turn them into a fund for redeeming that currency; how you could redeem currency issued on a real estate mortgage. Of course, you would have to sell it; there are times when it would pile up on your hands. They are long-period loans are they not?

Senator BRISTOW. Do you expect this currency to be redeemed by the maturing securities that are deposited for it?

Mr. CANNON. A good deal of it would be paid off when their notes are paid off.

Senator BRISTOW. Do you not expect other notes would be substituted?

Mr. CANNON. Oh, at times, certainly. But you want to keep your source pure and clean and have it the very best there is. Of course, I am not saying anything about real estate mortgages, because I am a firm believer in real estate mortgages, farm mortgages, and things of that kind.

Senator BRISTOW. We will take a bank, speaking about the region with which I am familiar, at Salina, Kans. As you define it, it would have some commercial paper—that is, the notes, the one-name notes, as a rule?

Mr. CANNON. Or two-name notes of merchants in Salina, Kans.

Senator BRISTOW. The merchants in Salina, Kans., do not get two-name notes.

Mr. CANNON. Well, one-name notes. The merchants in Salina, Kans., I have been there, and they are a good crowd.

Senator BRISTOW. The two-name paper is not as good, as a rule, as the one-name paper?

Mr. CANNON. That is right.

Senator BRISTOW. Because when you ask for the second name, it is an indication you are afraid of the first?

Senator SHAFROTH. And because people have quit going security on notes?

Mr. CANNON. It is out of fashion in this country to indorse notes now.

Senator BRISTOW. And it ought to be.

Mr. CANNON. Yes; that is right.

Senator BRISTOW. They take the paper of various individuals, many of them leading farmers there, the people of that community, and they take it to the Federal bank for discount. It is discounted. They get some of this money. Now, when that bank collects in and the pressure is over it takes up these notes. They do not have to take up those notes with the security that it deposited there.

Mr. CANNON. Oh, not always; no.

Senator BRISTOW. Then what is the purpose of that security? It is for the purpose of making the Government securer or the regional bank securer in the issue of that paper, is it not?

Mr. CANNON. Yes.

Senator BRISTOW. If that security is abandoned and the bank is a commercial bank, why is not a real-estate mortgage, which is better than those notes, as far as security goes, just as good a basis for that as anything else?

Mr. CANNON. I do not think there should be anything except a liquid security behind these notes.

Senator BRISTOW. The commercial bank has what is called liquid security. Do you believe that the notes, the circulating medium of the country, should be based upon commercial business only?

Mr. CANNON. Is not that what you say in the act here?

Senator BRISTOW. The act may say that, but that is not what I say.

Mr. CANNON. Yes.

Senator BRISTOW. Why should not an investment security have as much consideration at the hands of the Government in making a currency law as a commercial security?

Mr. CANNON. Because I suppose it is not liquid, and these are inclined to be liquid and take care of themselves.

Senator BRISTOW. But, as a matter of fact, they do not do it. You are a practical man; you know that the banker at Salina, Kans., does not enforce the payment of those notes. I know it mighty well, when they are due. They may be given for 90 days, but very often,