

because it is not convenient, they are given for 6 months, and sometimes they will be paid and sometimes they will be increased.

Mr. CANNON. Like the fellow who said "If you want to have a winter go fast, you want to give a six months' note." Is that the idea? [Laughter.]

Senator BRISTOW. I think that is very good; yes. Those notes are to be renewed; the bankers know they are to be renewed. This year out in our country they are all renewed; they have to be renewed. Now, I can not understand why a note that has a mortgage security, upon which there can not be a loss, for there never was a man in the section of the country where I live who lost money on a farm mortgage if he knew enough to keep it—or if he took the farm, he would be a good deal better off, because he could make money on it.

Mr. CANNON. That is the point. They do not take farm mortgages, because they might have to take the security, the real estate back of it, and it could not handle the real estate.

Senator BRISTOW. Suppose it was the local bank?

Mr. CANNON. Suppose something happened that the local bank could not redeem those notes?

Senator BRISTOW. Do you not think to have a farm mortgage would be better rather than your note that sometimes the people can not pay at all?

Mr. CANNON. You would not want to get the bank loaded up with a lot of real estate?

Senator BRISTOW. Would it not be better than to load up with the notes of merchants?

Mr. CANNON. I do not think it should be either way; I do not think it should load up with either thing.

Senator BRISTOW. If something happens to the bank, if some of the notes would not be paid, if there is a catastrophe in that community, why is the paper which is not as good preferred over paper that is better—has better security? That is what I want to know.

Mr. CANNON. Because, as I have just said, you are likely to have to foreclose on the security that is behind those notes, and you are liable to have a lot of real estate on your hands, and it is not a liquid asset.

Senator BRISTOW. You think it is better to have a liquid asset, then, even if the man could not pay it?

Mr. CANNON. As I said, in the first place, I have no objection to either, but I would not be in favor of making real-estate notes the basis for circulation, or real-estate mortgages.

Senator NELSON. It might have five years to run?

Mr. CANNON. Yes.

The CHAIRMAN. Mr. Cannon, I was requested to ask you about one point affected by this bill whether, in your opinion, the United States should retire the national-bank notes, and, if so, why?

Mr. CANNON. You mean as secured by the twos?

The CHAIRMAN. Yes.

Mr. CANNON. Well, that would depend upon whether the issue of bank notes under this Federal reserve scheme would become too redundant at any time. It would seem better to get those old bank notes out of the way, so as not to have, finally, to go out and get that

cleared up, and have the bank notes of the country issued through these Federal reserve banks. That would be my reason for doing it.

Senator NELSON. Then it would be better to have one kind of currency?

Mr. CANNON. Yes; it would be better to have one kind of currency. And you are liable to have a redundancy of currency if you are going to keep the old paper outstanding—you are liable to have the Federal bank currency on top of it. I should say yes it would be a good thing to retire the old bank notes, if it can be done without loss on the old 2 per cent bonds.

Senator BRISTOW. How would you retire it without loss on the 2 per cent bonds?

Mr. CANNON. I do not know; I have no remedy for that. As I say, I have not given that consideration.

Senator BRISTOW. You do not believe they ought to be retired and these bonds thrown on the market, and let the banks get what they could?

Mr. CANNON. No. I have stated here I have no remedy to suggest. I think the committee might suggest something that would meet the situation.

Senator POMERENE. Mr. Cannon, there seems to be a good deal of objection to some provisions of this bill on the part of the small country banker. I mean those with a capitalization of \$25,000 or \$50,000.

Mr. CANNON. Yes.

Senator POMERENE. And that objection is made for this reason, that they handle very little so-called commercial paper, as ordinarily understood. They have paper that runs for six months or nine months. Now, can you suggest any amendment to this bill which would recognize the different methods of doing business as between, for instance, a city bank like yours and one of these country banks which would, at the same time, give him the privilege of discount, etc., provided for in this bill?

Mr. CANNON. I suppose by that time the notes have matured, as a rule, because they are all the time maturing where they have a lot of paper. That is the thing; they have a lot of paper that is short of time.

Senator POMERENE. If that is true, it would avoid the objection largely. But they contend, for instance, in the wheat-growing belt that the borrowing is done at one time, and the notes are redeemed, say, late in the fall, when the crop is harvested?

Mr. CANNON. I do not know enough about interior country banks to go into that. But here is a country banker, we will say, who has six-months paper. That will become 90-day paper within a very short time. Every banker has part of his paper coming out of his portfolio all the time. You have 90-day paper right ahead of you all the time, besides your four, five, and six months paper; and I should think that would work out itself in the ordinary course of events.

Senator POMERENE. That is certainly true where the industries of the community are diversified, but it seems to be contended that is not the case; for instance, with the wheat-growing belt.

Senator NELSON. If you will allow me to interrupt you, on that point—

Senator POMERENE. (interposing). Yes.

Senator NELSON. For instance, in our country, which is largely a wheat-growing country, the notes are usually given early in the

spring. The farmer has been unable to pay all of his debts out of the last year's crop. The merchant is crowding him; the agricultural implement dealer or his help is crowding him. In the spring he gives a six months' note payable in the fall. The strain for currency for moving our crops does not come until in September and October, and by that time that paper is a 90-day paper.

Mr. CANNON. That is what I had in mind.

Senator NELSON. So that it can be utilized in that way. I can see how that can be covered in that way.

Senator POMERENE. That avoids the objection that has been raised here by many of our western friends.

Mr. CANNON. Yes; I should think that would cover the occasion. Well, gentlemen, am I to be relieved from further questions?

Senator NELSON. Suppose where they issue notes that are given for a year the strain did not come until the last part of the year, the farmers generally give a note payable just after they are thrashing, and when they commence to haul wheat to the railroad station and to the elevator.

Mr. CANNON. Yes.

Senator NELSON. By that time this year note has only 90 days or less to run. Now, then, they have harvested and thrashed and are ready to haul the grain out, so that the banker could get that money in time to move that crop?

Mr. CANNON. That is the very idea.

Senator POMERENE. And the demand is made on New York, for instance, later in the season?

Mr. CANNON. Yes.

Senator POMERENE. But that only covers a period of two or three months I take it?

Mr. CANNON. Just about 60 days.

Senator POMERENE. So that these small western banks could go to the regional bank and get their accommodations?

Senator BRISTOW. They have got to carry it, however, for three months or six months, while the city bank does not have to carry it a day, unless it wants to.

Mr. CANNON. Oh, we take six-months notes, lots of them. We give credit for six months. We have a large amount of commercial paper sold on the market which is six-months paper. There is very little four-months paper sold on the open market. Every good banker provides his pocketbook and portfolio with paper which he keeps ahead of him all the time; and most of the paper sold on the market in New York, and most of the paper sold in Chicago, and most all the notes we get from merchants, except in special cases, runs from four to six months' time. And, as I said a moment ago, he will always have in his portfolio ample paper maturing this month, next month, and the next month. Every banker ought to do that, and if he is a careful banker he will keep the maturity of his paper shifting all the time, so that he will get paper maturing all down the line.

Senator POMERENE. I wanted to direct your attention to the cotton section. Is it not true that the larger banks in the cotton States make their principal pressure upon New York for loans within 90 days of the time that the cotton crop begins to mature?

Mr. CANNON. Yes; I should say so.

Senator POMERENE. So that they then must have been able to have carried the situation in their section themselves from their supply of

money until within about 90 days, and must then call upon their correspondents to help?

Mr. CANNON. That is right. And I think as soon as that provision is thoroughly known it can be handled.

Senator SHAFROTH. Mr. Cannon, I want to ask you what you think of this scheme or proposition for the retirement of the national-bank notes in a separate bill which I introduced?

Mr. CANNON. I have not seen the bill.

Senator SHAFROTH. I will read it to you and see what you think about it:

That as gold certificates are received into the Treasury or any subtreasury of the United States they shall be canceled and the gold represented by such certificates transferred to the reserve fund in the Division of Redemption of the Treasury, and in lieu of such canceled gold certificates there shall be issued United States notes of like denominations, redeemable in gold coin at the Treasury or any subtreasury or mint of the United States which may be designated by order of the Secretary of the Treasury, which notes shall be a legal tender in payment of all debts, public and private, within the United States and its possessions. And there shall also be issued at the same time a like amount of such United States notes for substitution for all national-bank notes and for the cancellation of the bonds of the United States securing the same until all of said national-bank notes are retired.

SEC. 2. That upon the request of any national bank the Secretary of the Treasury is authorized, at his discretion, to assume the redemption of its national-bank notes, to pay to such national bank in cash the difference between the amount due at that date on the United States bonds securing said notes and said notes, and to cancel said bonds. When national-bank notes, assumed as aforesaid, shall be received into the Treasury or any subtreasury of the United States they shall be canceled and retired, and in lieu thereof United States notes authorized by this act to the same amount and like denominations shall be issued, paid out, and kept in circulation.

SEC. 3. That as the United States notes heretofore issued are received into the Treasury or any Subtreasury the Secretary of the Treasury is directed to cancel the same and issue in lieu thereof United States notes authorized by this act, and to transfer to the redemption fund herein created a proper proportion of the \$150,000,000 of gold now held to redeem the same.

SEC. 4. That a gold reserve of 50 per cent of all United States notes issued and put in circulation under the provisions of this act shall be maintained in the reserve fund of the Division of Redemption of the Treasury for the purpose of redeeming the same, and the Secretary of the Treasury is authorized for that purpose to purchase gold and exercise all of the powers granted to him by section 2 of the act of Congress entitled "An act to define and fix the standard of values, to maintain the parity of all forms of money issued or coined by the United States, to refund the public debt, and for other purposes," approved March 14, 1900, and he is further authorized by general orders to require all national banks to keep in their vaults as their lawful money reserve such kinds of United States money as he may deem to be the best interest of the Government.

Mr. CANNON. Good gracious! You do not ask me to pass on that right off the bat?

Senator SHAFROTH. Perhaps not. The only thing is, it is a scheme by which the money would be uniform. The gold reserve would be increased, and it would be so self-acting nobody would discover it while it was going on, and at the same time it would be sounder money than our greenback is now.

Mr. CANNON. I will read that with very great pleasure.

Senator SHAFROTH. It would save the Government \$14,000,000 in interest, which it pays now on 2 per cent bonds, and it would obviate the necessity of the issuing of the 3 per cents that were spoken of.

Mr. CANNON. I will take that with me and read it with great pleasure.

Mr. Chairman, is that all you want of me to-day?

Senator POMERENE. There are a couple of matters we will hear from Mr. Cannon on later.

Senator WEEKS. If Mr. Cannon has any tables or other matter which he might have referred to or did refer to, I would suggest that he put those tables in the record.

The CHAIRMAN. There are one or two questions I wanted to ask you. We should be glad to have placed in the record the tables which you have read.

Mr. CANNON. I will have some copies made and send them to you, with great pleasure.

(The tables referred to by the witness follow:)

Condensed summary of reports as of June 4, 1913, and changes that will be made under the Federal reserve act.

COUNTRY BANKS.

Items.	June 4, 1913.	60 days.	14 months.	36 months.	Thereafter.
1. Loans, discounts, and overdrafts.....	\$3,202,437	\$3,202,437	\$3,202,437	\$3,202,437	\$3,202,437
2. United States bonds and premiums.....	545,195	545,195	545,195	545,195	545,195
3. Federal reserve bank stock.....	61,005	61,005	61,005	61,005	61,005
4. Other investments.....	771,812	771,812	771,812	771,812	771,812
5. Due from Federal reserve banks.....			107,280	178,800	250,320
6. Due from approved agents (net).....	482,508	482,508	367,900	296,380	224,860
7. Exchanges, cash items, and bills of other national banks.....	66,751	66,751	66,751	66,751	66,751
8. Minor coin.....	2,447	2,447	2,447	2,447	2,447
9. Specie and ledger tender.....	255,059	205,054	178,800	178,800	178,800
10. 5 per cent fund.....	23,332	23,332	23,332	23,332	23,332
11. Due from United States Treasurer.....	1,573	1,573	1,573	1,573	1,573
Total resources.....	5,362,114	5,362,114	5,328,532	5,328,532	5,328,532
12. Capital.....	610,053	610,053	610,053	610,053	610,053
13. Surplus and undivided profits.....	516,953	516,953	516,953	516,953	516,953
14. National bank notes outstanding.....	481,089	481,089	481,089	481,089	481,089
15. Due to national and State banks and trust companies (net).....	101,290	101,290	101,290	101,290	101,290
16. Individual deposits and dividends unpaid.....	3,543,036	3,543,036	3,543,036	3,543,036	3,543,036
17. United States deposits, postal savings, and United States disbursing officers.....	33,582	33,582			
18. Bills rediscounted and payable, reserves, and other liabilities.....	76,111	76,111	76,111	76,111	76,111
Total liabilities.....	5,362,114	5,362,114	5,328,532	5,328,532	5,328,532
MEMORANDA.					
Net deposits subject to reserve..	3,609,584	3,609,584	3,576,002	3,576,002	3,576,002
Total reserve required.....	15% 541,438	15% 541,438	12% 429,120	12% 429,120	12% 429,120
Cash reserve required.....	207,242	5% 180,479	5% 178,800	5% 178,800	5% 178,800
Cash on hand (specie and legals).....	266,059	205,054	178,800	178,800	178,800
Cash in excess of requirements.....	58,817	24,575			
On deposit in Federal reserve banks:					
Required.....			3% 107,280	5% 178,800	5% 178,800
Optional.....				2% 71,520	2% 71,520
On deposit with approved reserve agents.....	3% 310,863	10% 360,959	4% 143,040	2% 71,520	
Held by approved reserve agents.....	482,508	482,508	367,900	296,380	224,860
Excess with approved reserve agents.....	171,645	121,549	224,860	224,860	224,860
Redemption fund.....	23,332				

Condensed summary of reports as of June 4, 1913, etc.—Continued.

RESERVE CITY BANKS.

Items.	June 4, 1913.	60 days.	14 months.	36 months.	Thereafter.
1. Loans, discounts, and over-drafts.....	\$1,643,502	\$1,643,502	\$1,643,502	\$1,643,502	\$1,643,502
2. United States bonds and premiums.....	203,033	204,033	204,033	204,033	204,033
3. Federal reserve bank stock.....	308,714	26,422	26,422	26,422	26,422
4. Other investments.....	308,714	308,714	308,714	308,714	308,714
5. Due from Federal reserve bank.....			55,838	91,777	162,882
6. Due from approved agents (net).....	233,783	233,783	156,360	96,991	2,457
7. Exchanges, cash items, and bills of other national banks.....	100,054	100,054	100,054	100,054	100,054
8. Minor coin.....	869	869	869	869	869
9. Specie and legal tender.....	242,296	215,874	167,516	165,199	162,881
10. 5 per cent fund.....	8,091	8,091	8,091	8,091	8,091
11. Due from United States Treasurer.....	3,312	3,312	3,312	3,312	3,312
Total resources.....	2,744,654	2,744,654	2,674,711	2,648,964	2,623,217
12. Capital.....	264,217	264,217	264,217	264,217	264,217
13. Surplus and undivided profits.....	251,428	251,428	251,428	251,428	251,428
14. National-bank notes outstanding.....	161,903	161,903	161,903	161,903	161,903
15. Due to national banks (net).....	217,612	217,612	176,353	150,606	124,859
15a Due to State banks and trust companies (net).....	352,175	352,175	352,175	352,175	352,175
16. Individual deposits and dividends unpaid.....	1,436,124	1,436,124	1,436,124	1,436,124	1,436,124
17. United States deposits, postal savings, and United States disbursing officers.....	28,684	28,684			
18. Bills rediscounted and payable, reserves, and other liabilities.....	32,511	32,511	32,511	32,511	32,511
Total liabilities.....	2,744,654	2,744,654	2,674,711	2,648,964	2,623,217
MEMORANDA.					
Net deposits subject to reserve.....	1,931,229	1,931,229	1,851,286	1,835,539	1,809,792
Total reserve required.....	25% 482,807	20% 386,246	18% 335,031	18% 330,397	18% 325,763
Cash reserve required.....	1% 237,358	10% 193,123	9% 167,516	9% 165,199	9% 162,881
Cash reserve optional.....					
Cash on hand (specie and legal).....	242,296	215,974	167,516	165,199	162,881
Cash in excess of requirements.....	4,938	22,651			
On deposit in Federal reserve bank, required.....			3% 55,838	5% 91,777	5% 90,490
On deposit in Federal reserve bank, optional.....					72,392
On deposit with approved reserve agents.....	1% 237,358	10% 193,123	6% 111,677	4% 73,421	
Held by approved reserve agents.....	233,783	233,783	156,360	96,528	2,457
Excess with approved reserve agents.....	3,575	40,660	44,683	22,974	2,457
Redemption fund.....	8,091				

CENTRAL RESERVE BANKS.

1. Loans, discounts, and over-drafts.....	\$1,316,095	\$1,316,095	\$1,316,095	\$1,316,095	\$1,316,095
2. United States bonds and premiums.....	89,874	89,874	89,874	89,874	89,874
3. Federal reserve bank stock.....		18,265	18,265	18,265	18,265
4. Other investments.....	250,284	250,284	250,284	250,284	250,284
5. Due from Federal reserve banks.....			42,315	65,268	58,253
6. Due from approved reserve agents (net).....					
7. Exchanges, cash items, and bills of other national banks.....	179,386	179,386	179,386	179,386	179,386

Condensed summary of reports as of June 4, 1913, etc.—Continued.

CENTRAL RESERVE BANKS—Continued.

Items.	June 4, 1913.	60 days.	14 months.	36 months.	Thereafter.
8. Minor coin.....	\$264	\$264	\$264	\$264	\$264
9. Specie and legal tender.....	405,628	387,363	211,575	169,696	151,456
10. 5 per cent fund.....	3,972	3,972	3,972	3,972	3,972
11. Due from United States Treasurer.....	4,752	4,752	4,752	4,752	4,752
Total resources.....	2,250,255	2,250,255	2,116,782	2,097,856	2,072,601
12. Capital.....	182,650	182,650	182,650	182,650	182,650
13. Surplus and undivided profits.....	220,367	220,367	220,367	220,367	220,367
14. National bank notes outstanding.....	79,133	79,133	79,133	79,133	79,133
15. Due to national banks (net).....	390,180	390,180	239,408	134,266	6,041
15a. Due to State banks and trust companies (net).....	379,398	378,398	378,398	378,398	378,398
16. Individual deposits and dividends unpaid.....	975,831	975,831	975,831	975,831	975,831
17. United States deposits, postal savings, and United States disbursing officers.....	6,120	6,120			
18. Bills rediscounted and payable, reserves, and other liabilities.....	16,576	16,576	16,576	16,576	16,576
19. Rediscounts due to Federal reserve bank.....			23,419	109,635	224,687
Total liabilities.....	2,250,255	2,250,255	2,116,782	2,097,856	2,072,601
MEMORANDA.					
Net deposits subject to reserve.....	1,567,391	1,561,271	1,410,499	1,305,357	1,165,050
Total reserve required.....	25% 391,848	20% 312,254	18% 253,890	18% 234,964	18% 209,709
Cash reserve required.....	25% 387,876	10% 156,127	9% 126,945	9% 117,482	9% 104,854
Cash reserve optional.....		10% 156,127	6% 84,630	4% 52,214	4% 46,602
Cash on hand (specie and legal).....	405,628	387,363	211,575	169,696	151,456
Cash in excess of requirements.....	17,752	75,109			
On deposit in Federal reserve banks:					
Required.....			3% 42,315	5% 65,268	5% 58,253
Optional.....					
Redemption fund.....	3,972				

NEW YORK CITY BANKS.

1. Loans, discounts, and overdrafts.....	\$887,137	\$887,137	\$887,137	\$887,137	\$887,137
2. United States bonds and premiums.....	53,227	53,227	53,227	53,227	53,227
3. Federal reserve bank stock.....		11,970	11,970	11,970	11,970
4. Other investments.....	210,880	210,880	210,880	210,880	210,880
5. Due from Federal reserve banks.....			29,596	45,791	41,075
6. Due from approved reserve agents (net).....					
7. Exchange, cash items, and bills of other national banks.....	156,851	156,851	156,851	156,851	156,851
8. Minor coin.....	142	142	142	142	142
9. Specie and legal tender.....	292,518	280,548	147,979	119,058	106,794
10. 5 per cent fund.....	2,477	2,477	2,477	2,477	2,477
11. Due from United States Treasurer.....	3,171	3,171	3,171	3,171	3,171
Total resources.....	1,606,403	1,606,403	1,503,430	1,490,704	1,473,724
12. Capital.....	119,700	119,700	119,700	119,700	119,700
13. Surplus and undivided profits.....	176,442	176,442	176,442	176,442	176,442
14. National bank notes outstanding.....	48,013	48,013	48,013	48,013	48,013
15. Due to national banks (net).....	262,345	262,345	160,966	90,268	4,074
15a. Due to State banks and trust companies (net).....	280,471	280,471	280,471	280,471	280,471
16. Individual deposits and dividends unpaid.....	705,113	705,113	705,113	705,113	705,113
17. United States deposits, postal savings, and United States disbursing officers.....	3,586	3,586			

Condensed summary of reports as of June 4, 1913, etc.—Continued.

NEW YORK CITY BANKS—Continued.

Items.	June 4, 1913.	60 days.	14 months.	36 months.	Thereafter.
18. Bills rediscounted and payable, reserves, and other liabilities.....	\$10,733	\$10,733	\$10,733	\$10,733	\$10,733
19. Rediscounts—due to Federal reserve banks.....			1,992	59,964	137,326
Total liabilities.....	1,606,403	1,606,403	1,503,430	1,490,704	1,473,724
MEMORANDA.					
Net deposits subject to reserve.	1,091,493	1,091,493	986,528	915,830	821,488
Total reserve required.....	272,876	218,298	177,575	164,849	147,869
Cash reserve:					
Required.....	270,399	109,149	88,787	82,425	73,934
Optional.....		109,149	59,192	36,633	32,860
Cash on hand (specie and legals).....	292,518	280,548	147,979	119,058	106,794
Cash in excess of requirements.....	22,119	62,250			
On deposit in Federal reserve bank:					
Required.....			29,596	45,791	41,075
Optional.....					
Redemption fund.....	2,477				

Tentative balance sheet Federal reserve bank of New York.

	First year.	Second year.	Third year.
ASSETS.			
Cash reserve required on deposits.....	\$42,298,000	\$53,830,000	\$55,000,000
Cash reserve required on note liability.....	33,334,000	33,334,000	33,334,000
Rediscounts.....	100,000,000	100,000,000	100,000,000
Investments.....	70,770,000	93,834,000	96,174,000
Total.....	246,402,000	270,998,000	284,508,000
LIABILITIES.			
Capital 10 per cent paid in.....	19,508,000	19,508,000	19,508,000
General fund ¹	75,000,000	75,000,000	75,000,000
Required deposit of subscribing banks.....	51,894,000	86,490,000	90,000,000
Note issue or deposit credit arbitrary.....	100,000,000	100,000,000	100,000,000
	246,402,000	280,998,000	284,508,000

¹ If the general fund is distributed on the basis of capital New York would get about 18.5 per cent or \$55,500,000. I have arbitrarily raised this figure to \$75,000,000 assuming that New York would be favored to that extent because of the larger amount of work it would be called upon to do as fiscal agent.

The CHAIRMAN. I wanted to ask you what you would think of allowing the stock subscriptions by the proposed member banks to be lowered to this point: Six per cent against the amount of the capital stock and the surplus with one-half paid in? That would make above \$51,000,000 for the whole national-bank system, which would be about half the present requirement.

Mr. CANNON. That is to say, your regional fund would be about half the size?

The CHAIRMAN. No; their reserves would be about the same and the Government deposits would be about the same, but the capital would be about one-half.

Mr. CANNON. It had looked that up a little bit—

The CHAIRMAN (interposing). The total capital stock of the national banks is \$1,056,000,000 and the reserves are \$720,000,000. Three per cent of that would be something over \$50,000,000.

Mr. CANNON. Your idea is that the regional banks would have a capital of \$50,000,000?

Senator NELSON. Would you mean to have 3 per cent paid in cash and 3 per cent—

The CHAIRMAN (interposing). Subject to call.

Senator NELSON. In 60 days?

The CHAIRMAN. Oh, no; 3 per cent paid in in cash during such period of time as may be convenient and 3 per cent subject to call.

Senator NELSON. So the amount would be only 6 per cent instead of 20 per cent?

The CHAIRMAN. Yes; I thought perhaps that would be more agreeable to the banks.

Mr. CANNON. Could they still handle the business and at the same time come in competition with the large banks?

The CHAIRMAN. They would not be in competition with the large banks, because they have the opportunity to issue currency, which the large banks have not.

Mr. CANNON. For instance, the First National Bank of New York has a total capital with undivided profits of \$31,600,000; the National Bank of Commerce, \$41,200,000; the National City Bank, \$51,500,000; National Park Bank, \$15,000,000; Continental Commercial, \$30,600,000; St. Louis Bank of Commerce, \$12,700,000. I just noted those down as the sizes of the other large banks of the country.

The CHAIRMAN. The total of the system would be \$720,000,000, with \$1,056,000,000 of capital. That would make somewhere near \$1,800,000,000 of total capital, surplus, and undivided profits.

Mr. CANNON. You think that would be more likely to meet with the approval of the national banks than having such a large contribution? As far as we are concerned, we would like that. We would have to put up under this bill \$1,000,000. If you could finance the system on that basis I think it would be acceptable to the banks.

Senator NELSON. Would you include the surplus, too?

The CHAIRMAN. Oh, yes; the surplus, too.

Mr. CANNON. We would certainly look with favor upon that if it would finance the system properly.

Senator NELSON. Your capital and surplus is how much?

Mr. CANNON. \$10,000,000.

The CHAIRMAN. I understand you would be content with the present requirements?

Mr. CANNON. This would certainly be very much better. We would be content if we could get out of it some way at the proper time.

The CHAIRMAN. You would prefer this?

Mr. CANNON. Yes, sir; I would, if it would finance the system properly.

The CHAIRMAN. A good many of the country banks have been rather timid at the idea of subscribing an amount equal to 20 per cent, whereas I think they would not mind at all subscribing an amount equal to 6 per cent of their capital and surplus. Some of the banks which have a large surplus would be getting corresponding benefits in excess of what others would get, and it seemed to me it might be more equitable to arrange it on capital and surplus. You think, that being smaller, it would not seem—

Mr. CANNON (interposing). It would not seem quite as if you were putting your hand in their pockets too much.

The CHAIRMAN. I just thought I would ask you what you thought of it.

Mr. CANNON. I should think that would meet with the approval of the banks.

Senator NELSON. But the regional bank in New York ought to have a bigger capital than any of the local banks.

Mr. CANNON. It would not anyway under the present scheme.

Senator NELSON. It would depend upon what territory you took in. I mean, counting the capital and the deposit account.

Mr. CANNON. Oh, yes.

The CHAIRMAN. What would you think of allowing the banks the privilege of placing with the Federal reserve bank the amount which now they are compelled by this bill to keep in their own vaults, leaving it optional with them to leave it with the Federal reserve bank or not, as they please?

Mr. CANNON. Would not that weaken your reserve system a little bit? I am afraid that would weaken your reserve system.

The CHAIRMAN. Why?

Mr. CANNON. Here is a bank that is some distance off from your Federal reserve bank. Something comes up in that town, some man drops dead, and you have a run on the bank. If all the reserve is off at the Federal reserve bank you might have difficulty in handling that crowd. They ought to have a substantial amount in their own vaults.

The CHAIRMAN. They would exercise their option as to that. If they were far removed from the reserve bank they would carry more money, but if they were in the same city they would do as they pleased about it. They themselves would consult their own convenience—

Mr. CANNON. I should be afraid it might weaken your reserve.

Senator NELSON. And then, Senator, as long as they do not get any interest on their deposit with the Federal reserve bank, what is the object of putting it there?

The CHAIRMAN. The object would be that you would have a larger gold reserve, and therefore a greater power in the Federal reserve bank.

Mr. CANNON. You want to consider a little bit the effect it would have upon the general reserves. How could you give that privilege to a bank in a city where the Federal reserve bank is situated and not give it to all the banks?

The CHAIRMAN. It is not proposed to give it to all the banks, but those in one city would exercise that right.

Mr. CANNON. Would not they consider that a kind of favoritism? They can not do as they please, because they might please to put it in and could not.

The CHAIRMAN. If the city banks should put this money in, it would give the reserve bank greater power to accommodate other banks.

Mr. CANNON. I should want to give further consideration to that.

Senator WEEKS. You do not think any country banker would deposit any such large percentage of reserve with a reserve bank that he would be embarrassed in his daily business?

Mr. CANNON. It does not seem to me that he would, but you can not tell what bankers would do.

The CHAIRMAN. We are very much obliged to you, Mr. Cannon.

Mr. CANNON. Not at all, sir. I hope I have been of some service.

(Senator Reed presented the table facing this page for insertion in the record.)

Statement showing money in circulation from 1860 to 1912.

Year.	Gold in circulation.	United States notes in circulation.	Average gold value of United States notes. ¹	Gold certificates in circulation.	Silver in circulation.		Silver certificates in circulation.	National bank notes in circulation.	Total circulation per capita of national bank notes.	Capital of national banks.	Surplus of national banks.	Individual deposits of national banks.	Number of national banks.	Population.	Total circulation per capita.	Year.
					Standard silver dollars.	Subsidiary silver.										
1860..	\$228,304,775			None.	(2)	(2)	None.							31,443,321	\$13.85	1860
1861..	246,400,000			None.	(2)	(2)	None.							32,064,000	13.98	1861
1862..	309,697,744	\$72,865,665	88.3	None.	(2)	(2)	None.							32,704,000	10.23	1862
1863..	570,394,038	312,481,418	68.9	None.	(2)	(2)	None.			\$7,188,393.00	\$128,030.26	\$8,497,681.84	66	33,365,000	17.84	1863
1864..	644,641,478	415,115,990	49.2	None.	(2)	(2)	None.	\$31,235,270	\$0.09	86,782,802.00	2,010,286.10	122,166,536.40	508	34,046,000	19.67	1864
1865..	689,971,860	378,916,742	63.6	None.	(2)	(2)	None.	146,406,725	4.12	393,157,206.00	38,713,380.72	500,910,873.22	1,513	34,748,000	20.58	1865
1866..	648,591,701	327,792,305	71	None.	(2)	(2)	None.	276,116,170	7.77	415,472,369.00	53,359,277.64	564,616,777.64	1,664	35,469,000	18.99	1866
1867..	637,126,128	319,437,702	72.4	None.	(2)	(2)	None.	286,889,020	7.92	420,073,415.00	66,695,589.01	540,797,837.51	1,642	36,211,000	18.29	1867
1868..	655,886,198	328,571,665	71.6	None.	(2)	(2)	None.	295,151,410	7.98	420,634,511.00	77,995,761.40	580,940,820.85	1,643	36,973,000	18.42	1868
1869..	640,573,364	314,702,094	75.2	None.	(2)	(2)	None.	292,876,157	7.75	426,399,151.00	86,165,335.32	511,400,196.63	1,617	37,756,000	17.63	1869
1870..	651,284,427	324,962,638	87	None.	(2)	(2)	None.	289,719,714	7.51	435,356,004.00	94,705,740.34	507,368,618.67	1,648	38,558,371	17.51	1870
1871..	693,616,114	343,068,970	89.5	None.	(2)	(2)	None.	314,132,781	7.94	460,225,866.00	101,573,153.62	596,586,487.54	1,790	39,555,000	18.17	1871
1872..	716,548,708	346,168,680	89	None.	(2)	(2)	None.	332,276,164	8.18	482,606,252.00	111,410,248.98	598,114,679.26	1,940	40,596,000	18.27	1872
1873..	728,799,412	348,464,145	87.9	None.	(2)	(2)	None.	340,880,078	8.22	490,266,611.00	120,961,267.91	540,510,602.78	1,976	41,677,000	18.09	1873
1874..	751,083,051	371,421,452	89.9	None.	(2)	(2)	None.	340,265,544	7.97	495,802,481.00	130,485,641.37	682,846,607.45	2,027	42,796,000	18.13	1874
1875..	729,101,947	349,686,335	87	None.	(2)	(2)	None.	340,546,545	7.74	505,485,865.00	133,085,422.30	618,517,245.74	2,086	43,951,000	17.16	1875
1876..	702,609,388	331,447,378	89.8	None.	(2)	(2)	None.	316,120,702	7.00	497,482,016.00	131,390,664.67	619,350,223.06	2,082	45,137,000	16.12	1876
1877..	697,314,883	337,899,344	94.4	None.	(2)	(2)	None.	301,289,025	6.49	477,128,771.00	121,618,455.32	604,512,514.52	2,074	46,353,000	15.58	1877
1878..	704,132,634	320,905,895	99.2		\$1,209,251	\$53,918,322	\$7,080	311,724,361	6.13	464,874,996.00	116,402,118.84	598,805,775.56	2,055	47,598,000	15.32	1878
1879..	110,505,362	301,644,112	100	\$15,279,820	\$1,036,439	\$1,346,584	414,480	321,404,996	6.16	454,498,515.00	115,429,031.93	755,459,996.01	2,052	48,866,000	16.75	1879
1880..	225,695,779	327,895,457	100	7,963,900	20,110,557	48,511,788	5,789,569	337,415,178	6.72	458,540,085.00	121,824,629.03	1,006,452,852.82	2,095	50,155,783	9.41	1880
1881..	315,312,877	328,126,924	100	5,759,520	29,342,412	46,839,364	39,110,729	349,746,293	6.81	465,639,835.00	129,867,493.92	1,102,679,163.71	2,164	51,316,000	21.71	1881
1882..	358,251,325	325,255,427	100	5,029,020	32,403,820	46,379,949	54,506,090	352,464,788	6.73	484,883,492.00	135,930,969.31	1,066,901,719.85	2,308	52,495,000	22.37	1882
1883..	344,653,495	323,242,177	100	59,807,370	35,651,450	46,474,299	72,620,686	348,598,488	6.49	511,837,575.00	144,800,252.13	1,106,453,118.23	2,529	53,693,000	22.93	1883
1884..	340,624,203	318,687,214	100	71,146,640	40,690,200	45,660,808	96,427,011	330,689,893	6.00	524,089,065.00	146,867,119.06	987,649,055.68	2,664	54,911,000	22.65	1884
1885..	341,668,411	331,218,637	100	126,729,730	39,086,969	43,702,921	101,530,946	309,124,222	5.50	529,360,725.00	150,155,549.52	1,111,429,914.98	2732	56,148,000	23.03	1885
1886..	358,219,575	323,812,699	100	76,044,375	52,668,623	46,173,990	88,116,225	304,976,044	6.09	550,698,675.00	159,573,479.21	1,169,716,413.13	2875	57,404,000	21.78	1886
1887..	376,540,681	326,667,219	100	91,225,437	55,548,721	48,583,865	142,118,017	276,855,203	4.71	580,733,094.42	175,246,408.26	1,235,757,941.59	3070	58,680,000	22.45	1887
1888..	391,114,033	300,000,040	100	121,094,650	55,527,396	50,362,314	200,759,657	245,306,780	4.16	593,848,247.29	187,292,469.97	1,331,265,617.08	3150	59,974,000	22.88	1888
1889..	376,481,568	316,439,191	100	117,130,229	54,457,299	51,477,164	257,155,565	207,220,633	3.38	617,840,164.67	198,508,794.14	1,436,402,685.65	3326	61,289,000	22.52	1889
1890..	374,258,923	334,688,977	100	130,830,859	56,278,749	54,032,587	297,556,238	181,604,937	2.90	657,877,225.00	214,965,633.67	1,485,095,855.70	3573	62,622,250	22.82	1890
1891..	407,319,163	343,207,360	100	120,063,069	58,286,179	58,219,220	307,235,966	162,220,646	2.54	677,356,927.00	228,221,530.31	1,602,052,766.59	3692	63,844,000	23.45	1891
1892..	408,568,824	309,559,904	100	141,093,619	56,817,462	63,293,704	326,693,465	167,221,517	2.56	689,698,017.50	239,931,932.08	1,764,456,177.11	3784	65,086,000	24.60	1892
1893..	408,535,663	319,559,426	100	92,642,189	56,929,673	65,469,866	326,823,848	174,669,786	2.63	681,812,960.00	246,739,602.09	1,539,399,795.23	3787	66,349,000	24.06	1893
1894..	495,976,730	266,589,602	100	66,339,849	52,564,662	58,510,957	326,990,726	200,718,200	2.96	666,271,045.00	244,937,179.48	1,695,489,346.08	3737	67,632,000	24.56	1894
1895..	479,637,961	263,648,985	100	48,381,309	51,986,043	60,350,014	319,622,941	206,953,051	3.00	656,956,245.00	246,177,563.53	1,720,550,241.03	3,706	68,934,000	26.24	1895
1896..	454,905,064	224,249,868	100	42,198,119	52,116,904	60,204,451	330,657,191	215,168,122	3.06	647,186,395.00	247,399,567.15	1,639,688,393.60	3,661	70,254,000	21.44	1896
1897..	517,589,688	245,954,622	100	37,285,339	51,940,281	59,616,409	357,849,312	226,318,003	3.16	629,655,365.00	246,416,688.48	1,916,630,252.25	3,607	71,592,000	22.92	1897
1898..	657,950,463	284,569,022	100	35,811,589	58,482,966	64,056,920	390,126,510	222,990,987	3.05	620,516,245.00	246,695,552.28	2,225,269,813.21	3,590	72,947,000	25.19	1898
1899..	679,738,050	308,351,842	100	32,655,919	61,481,426	69,065,824	402,136,617	237,805,439	3.19	606,725,265.00	250,367,091.89	2,380,610,361.43	3,602	74,318,000	25.62	1899
1900..	610,806,472	313,971,545	100	200,733,019	65,889,346	76,160,988	408,465,574	300,115,111	3.93	632,353,405.00	262,387,647.59	2,623,997,521.88	3,942	76,303,387	26.93	1900
1901..	629,790,765	330,045,406	100	247,036,359	66,921,323	79,235,214	429,643,556	345,110,800	4.43	665,340,664.00	287,170,337.92	2,964,417,965.82	4,291	77,754,000	27.98	1901
1902..	632,394,289	334,291,722	100	306,399,009	68,747,349	85,721,228	446,559,662	345,476,516	4.36	714,616,353.00	335,763,730.38	3,152,878,796.65	4,666	79,117,000	28.43	1902
1903..	617,266,739	334,248,567	100	377,258,559	72,391,240	92,726,694	454,733,013	399,996,709	4.09	758,315,170.00	375,503,102.21	3,176,201,572.89	5,118	80,487,000	29.42	1903
1904..	645,817,576	333,759,425	100	465,655,099	71,313,826	95,528,343	461,138,698	433,027,835	5.29	776,089,401.00	399,961,534.15	3,707,706,530.93	5,477	81,867,000	30.77	1904
1905..	651,063,589	332,420,697	100	485,210,749	73,584,336	101,437,707	454,864,708	480,028,849	5.76	808,328,658.00	420,785,055.00	3,989,582,834.59	5,833	83,260,000	31.08	1905
1906..	668,655,075	335,940,220	100	516,561,849	77,001,368	111,509,624	471,520,054	548,001,238	6.48	847,514,653.00						

(The chairman presented the following statistical table and requested that it be inserted in the record:)

Aggregate resources and liabilities of national banks, 1908 to 1912.

Classification.	1908 (July 15).	1909 (Apr. 28).	1910 (June 30).	1911 (June 7).	1912 (June 14).
	6,824 banks.	6,893 banks.	7,145 banks.	7,277 banks.	7,372 banks.
RESOURCES.					
Loans on real estate.....		\$57,070,962.46		\$65,112,003.29	\$74,831,997.28
Loans on other collateral security.....	¹ \$1,990,152,632.00	1,939,431,702.85	\$2,050,590,293.00	2,004,993,992.88	2,135,767,904.39
Other loans and discounts.....	2,625,522,899.59	2,966,608,204.24	3,379,568,893.75	3,540,732,790.84	3,743,304,530.18
Overdrafts.....	24,705,023.68	24,584,055.22	25,743,314.27	23,397,257.78	19,849,391.65
United States bonds.....	732,599,187.16	740,167,972.67	748,797,808.97	754,744,891.34	783,497,976.72
State, county, and municipal bonds.....	² 179,384,137.05	156,612,965.93	² 161,998,193.97	176,284,278.64	210,426,073.39
Railroad bonds and stocks.....	³ 507,425,613.60	351,371,083.96	298,692,105.00	361,221,071.31	384,321,275.41
Bank stocks.....					
Bonds of other public-service corporations.....		148,643,966.78	153,025,132.00	182,297,622.00	195,707,108.25
Other stocks, bonds, etc.....	153,305,600.23	208,165,517.21	249,447,101.58	287,840,448.00	287,328,544.09
Due from other banks and bankers.....	1,104,458,684.94	1,232,556,106.45	1,201,606,823.38	1,376,785,821.33	1,424,091,680.31
Real estate, furniture, etc.....	198,279,190.33	215,966,786.14	236,463,370.67	253,009,304.09	266,625,008.70
Checks and other cash items.....	271,464,243.39	338,383,768.51	482,805,231.42	317,477,121.00	295,215,400.32
Cash on hand.....	889,213,394.43	926,776,902.82	865,452,856.21	998,061,441.05	996,142,823.46
Other resources.....	37,553,793.69	62,593,847.89	42,433,572.51	41,090,650.76	44,654,163.00
Total.....	8,714,064,400.09	9,368,883,843.13	9,896,624,696.73	10,383,048,694.31	10,861,763,877.15
LIABILITIES.					
Capital stock.....	919,100,850.00	933,979,903.00	989,567,114.00	1,019,633,152.25	1,033,570,675.00
Surplus fund.....	504,045,022.80	587,132,286.31	644,857,482.82	671,946,796.68	693,990,419.08
Other undivided profits.....	184,656,576.85	207,944,821.08	216,546,125.10	241,554,106.09	256,837,095.57
Dividends unpaid.....	2,849,822.39	1,130,750.07	15,144,463.48	1,851,823.47	1,622,560.16
Individual deposits.....	4,374,551,208.33	4,826,060,384.38	5,287,216,312.20	5,477,991,156.45	5,825,461,163.36
United States deposits.....	130,266,023.63	70,401,818.99	54,541,349.41	48,455,641.54	58,945,980.66
Due to other banks and bankers.....	1,822,853,669.00	2,036,753,287.47	1,900,135,622.01	2,147,440,999.04	2,178,163,418.11
Other liabilities.....	715,741,227.09	705,480,591.83	788,616,227.71	774,175,018.79	813,172,565.21
Total.....	8,714,064,400.09	9,368,883,843.13	9,896,624,696.73	10,383,048,694.31	10,861,763,877.15

¹ Classification as of September call.

² Includes State, etc., and railway bonds held by Treasurer of United States to secure public deposits.

³ Includes bonds of other corporations.

⁴ Includes deposits of United States disbursing officers.

NOTE.—For consolidated statement of all banks, see text of this report.

Aggregate resources and liabilities of State banks from 1908 to 1912.

Classification.	1908	1909	1910	1911	1912
	11,220 banks.	11,319 banks.	12,166 banks.	12,864 banks.	13,381 banks.
RESOURCES.					
Loans on real estate.....	\$188,352,185	\$414,820,580.12	\$472,428,488.53	\$489,660,852.27	\$572,934,870.29
Loans on other collateral security.....	127,270,669	559,690,457.10	594,419,425.26	606,377,489.15	563,942,284.11
Other loans and discounts.....	2,090,944,681	1,112,841,061.34	1,308,646,565.82	1,311,054,107.83	1,379,585,928.04
Overdrafts.....	29,447,901	34,316,574.20	30,972,194.87	32,322,218.37	32,860,093.94
United States bonds.....	2,888,514	5,221,710.94	2,050,780.00	2,848,777.50	4,330,539.47
State, county, and municipal bonds.....	3,729,479	65,892,211.21	63,952,194.59	55,096,142.18	81,967,470.56
Railroad bonds and stock	2,098,260	75,036,949.01	69,343,008.35	75,753,959.38	71,549,647.21
Bank stocks.....	184,385				
Bonds of other public service corporations.....		50,977,866.08	44,484,912.86	52,742,087.88	53,609,977.26
Other stocks, bonds, etc.	492,935,533	95,892,443.89	123,793,905.69	129,109,896.01	130,339,491.98
Due from other banks and bankers.....	549,297,603	491,961,365.43	485,361,856.14	525,822,785.89	530,161,901.29
Real estate, furniture, etc.	136,146,988	119,702,242.64	130,844,382.91	135,115,589.73	138,428,757.38
Checks and other cash items.....	71,251,438	75,096,440.72	105,187,734.98	77,855,345.68	77,752,380.52
Cash on hand.....	308,736,342	227,039,134.90	240,580,836.12	236,662,497.38	241,756,724.48
Other resources.....	28,754,507	10,180,096.61	22,892,480.69	17,364,546.20	18,550,760.18
Total.....	4,032,638,485	3,338,669,134.19	3,694,958,766.81	3,747,786,296.35	3,897,770,826.71
LIABILITIES.					
Capital stock.....	502,513,303	416,059,900.00	435,822,833.58	452,944,684.44	459,067,206.81
Surplus fund.....	217,112,085	152,639,305.36	187,571,005.45	170,566,937.42	271,373,944.18
Other undivided profits.....	86,503,972	91,213,767.57	65,678,941.67	92,785,739.26	
Dividends unpaid.....	682,749	1,039,492.86	2,441,796.41	1,235,652.15	829,045.40
Individual deposits.....	2,937,129,598	2,466,958,665.76	2,727,926,986.03	2,777,566,835.81	2,919,977,897.99
Due to other banks and bankers.....	207,432,987	158,958,549.87	129,768,527.09	144,578,103.41	142,644,643.99
Other liabilities.....	81,263,791	51,799,452.77	145,748,676.58	108,108,343.86	103,878,088.34
Total.....	4,032,638,485	3,338,669,134.19	3,694,958,766.81	3,747,786,296.35	3,897,770,826.71

Aggregate resources and liabilities of savings banks (mutual and stock savings) from 1907-8 to 1912.

Classification.	1907-8	1909	1910	1911	1912
	1,453 banks.	1,703 banks.	1,759 banks.	1,884 banks.	1,922 banks.
RESOURCES.					
Loans on real estate.....	\$1,440,061,503	\$1,620,131,445.62	\$1,832,097,713.03	\$1,963,906,841.51	\$2,087,677,677.90
Loans on other collateral security.....	66,624,785	232,893,152.92	226,704,806.91	205,912,380.77	240,472,906.77
Other loans and discounts.....	364,362,059	177,977,493.04	233,707,955.82	243,857,140.37	259,374,577.22
Overdrafts.....	1,050,343	2,266,509.26	1,906,951.03	1,595,816.33	1,978,070.99
United States bonds.....	13,860,545	43,566,428.18	32,082,745.00	13,226,534.10	29,031,138.45
State, county, and municipal bonds.....	587,155,390	710,159,543.86	743,463,260.89	779,927,236.80	776,431,140.75
Railroad bonds and stocks	618,193,415	769,980,508.90	783,704,137.70	792,998,933.33	794,083,005.53
Bank stocks.....	24,265,271				
Bonds of other public service corporations.....		96,554,513.65	120,134,242.69	101,139,974.97	143,565,265.60
Other stocks, bonds, etc.	343,465,167	93,009,919.88	117,727,439.77	161,976,217.67	179,809,612.84
Due from other banks and bankers.....	163,616,708	218,477,832.87	214,327,121.92	242,389,433.46	258,280,430.86
Real estate, furniture, etc.	57,010,988	68,123,675.81	73,955,091.77	75,866,650.82	80,830,846.65
Checks and other cash items.....	779,228	3,944,728.46	5,397,201.49	4,552,812.46	4,594,881.48
Cash on hand.....	43,483,533	32,697,021.94	50,880,340.23	42,408,336.78	45,452,063.85
Other resources.....	85,604,217	2,927,330.95	45,782,436.65	22,554,993.25	21,141,671.69
Total.....	3,809,533,152	4,072,710,105.34	4,481,871,444.90	4,652,313,302.62	4,922,723,290.63
LIABILITIES.					
Capital stock.....	36,013,455	59,506,420.00	68,320,822.30	72,177,899.09	76,871,811.79
Surplus fund.....	244,711,801	224,424,711.93	276,229,027.77	261,834,083.46	280,036,025.43
Other undivided profits.....	39,412,250	62,160,100.11	53,814,779.06	77,264,792.69	89,595,370.89
Dividends unpaid.....		92,707.96	364,639.25	51,294.48	262,835.16
Individual deposits.....	3,479,192,891	3,713,405,709.80	4,070,486,246.70	4,212,583,598.53	4,451,555,687.72
Due to other banks and bankers.....	3,187,417	8,234,513.44	6,690,451.96	8,084,294.10	10,181,417.50
Other liabilities.....	7,015,338	4,885,942.10	5,965,477.86	20,317,340.27	14,220,142.14
Total.....	3,809,533,152	4,072,710,105.34	4,481,871,444.90	4,652,313,302.62	4,922,723,290.63

Aggregate resources and liabilities of private banks from 1908 to 1912.

Classification.	1908	1909	1910	1911	1912
	1,007 banks.	1,497 banks.	934 banks.	1,116 banks.	1,110 banks.
RESOURCES.					
Loans on real estate.....	\$19,610,740	\$36,636,702.07	\$22,746,018.18	\$37,536,422.83	\$39,531,511.77
Loans on other collateral security.....	7,521,699	21,096,873.66	13,832,195.89	16,316,121.32	19,775,745.64
Other loans and discounts.....	80,226,816	103,569,194.24	70,224,281.77	71,559,680.21	68,106,577.60
Overdrafts.....	1,796,144	4,616,218.90	1,646,968.46	2,633,647.85	2,370,427.64
United States bonds.....	297,157	609,219.30	389,190.00	410,282.47	422,117.74
State, county, and municipal bonds.....	1,100,443	3,228,802.32	2,336,285.00	2,466,506.72	2,436,189.39
Railroad bonds and stocks.....	550,901	1,213,577.66	584,460.18	448,547.28	1,412,833.27
Bank stocks.....	205,348				
Bonds of other public service corporations.....		1,760,406.73	1,106,865.55	1,418,865.04	1,986,671.33
Other stocks, bonds, etc.....	5,821,879	6,187,297.87	5,992,780.67	5,125,443.71	7,667,677.09
Due from other banks and bankers.....	27,298,378	40,832,891.79	24,069,188.01	26,168,941.51	29,622,664.53
Real estate, furniture, etc.....	6,448,497	13,026,388.49	7,482,500.61	9,621,350.43	14,214,049.23
Checks and other cash items.....	1,529,589	1,387,731.95	704,623.55	1,039,498.54	860,206.87
Cash on hand.....	8,497,540	11,053,706.52	6,764,890.90	7,189,327.84	7,450,404.38
Other resources.....	636,349	1,037,343.91	2,135,304.04	889,584.93	1,083,320.94
Total.....	161,541,480	246,256,355.41	160,015,552.81	182,824,220.68	196,940,397.42
LIABILITIES.					
Capital stock.....	21,122,836	27,726,922.00	18,899,561.74	21,872,416.34	22,348,040.33
Surplus fund.....	5,556,239	10,195,237.01	6,541,431.06	7,329,974.38	9,333,680.83
Other undivided profits.....	3,475,238	5,533,006.44	3,160,559.55	3,421,956.92	4,250,634.46
Dividends unpaid.....	35,160	62,003.43	62,448.49	189,643.09	74,638.22
Individual deposits.....	126,673,158	193,263,224.31	124,644,003.22	142,277,224.21	152,494,618.90
Due to other banks and bankers.....	1,561,453	3,404,236.54	1,644,318.25	1,583,296.84	1,707,139.16
Other liabilities.....	3,117,396	6,071,725.68	5,063,230.50	6,149,708.90	6,731,645.52
Total.....	161,541,480	246,256,355.41	160,015,552.81	182,824,220.68	196,940,397.42

Aggregate resources and liabilities of loan and trust companies from 1908 to 1912.

Classification.	1908	1909	1910	1911	1912
	842 companies.	1,079 companies.	1,091 companies.	1,251 companies.	1,410 companies.
RESOURCES.					
Loans on real estate.....	\$153,727,485	\$377,318,280.19	\$369,161,435.56	\$467,531,456.44	\$526,509,702.69
Loans on other collateral security.....	821,341,681	1,222,881,129.16	1,230,282,986.02	1,289,452,721.54	1,279,983,539.16
Other loans and discounts.....	404,412,308	460,550,859.39	655,016,724.24	668,650,649.78	900,350,885.96
Overdrafts.....	800,744	3,916,235.40	2,111,764.82	3,786,253.54	4,397,620.37
United States bonds.....	555,308	3,222,380.20	1,271,940.00	2,224,692.43	5,985,094.59
State, county, and municipal bonds.....	89,639,651	155,647,931.87	144,495,162.24	187,123,910.87	202,293,176.75
Railroad bonds and stocks.....	29,576,312	362,404,241.30	312,518,321.28	371,707,846.78	380,190,967.79
Bank stocks.....	4,805,842				
Bonds of other public-service corporations.....		168,589,933.84	159,294,782.36	212,593,716.76	208,673,579.15
Other stocks, bonds, etc.....	651,298,154	468,914,756.87	541,978,126.32	341,128,520.22	421,996,627.13
Due from other banks and bankers.....	391,573,223	578,243,506.14	467,643,271.31	617,605,590.28	605,669,597.26
Real estate, furniture, etc.....	97,112,461	127,216,448.81	125,486,325.05	143,081,102.71	157,188,159.03
Checks and other cash items.....	5,878,676	19,129,908.47	26,374,390.56	21,763,736.38	51,677,976.00
Cash on hand.....	118,398,874	254,447,910.16	260,129,890.91	269,825,566.23	282,151,463.26
Other resources.....	96,452,153	34,641,394.69	80,379,723.21	68,635,104.75	80,375,993.13
Total.....	2,865,632,876	4,068,534,982.65	4,216,850,061.52	4,665,110,868.71	5,107,444,382.27
LIABILITIES.					
Capital stock.....	278,408,759	362,763,223.00	367,333,556.37	385,782,933.44	418,985,771.77
Surplus fund.....	370,145,308	351,699,101.89	432,718,233.98	400,406,067.99	424,313,939.08
Other undivided profits.....	45,894,591	141,683,091.23	65,448,601.52	138,464,384.81	136,428,039.39
Dividends unpaid.....	467,115	985,990.44	2,842,956.53	2,360,771.04	850,048.81
Individual deposits.....	1,866,964,314	2,835,835,180.79	3,073,122,706.20	3,295,855,895.27	3,674,578,238.92
Due to other banks and bankers.....	163,014,678	276,753,308.05	187,141,876.31	319,368,254.43	299,938,456.82
Other liabilities.....	140,738,111	98,815,087.25	88,242,130.61	122,872,561.73	152,349,887.48
Total.....	2,865,632,876	4,068,534,982.65	4,216,850,061.52	4,665,110,868.71	5,107,444,382.27

Aggregate resources and liabilities of national and other reporting banks on or about June 30, 1908 to 1912.

Classification.	1908	1909	1910	1911	1912
	21,346 banks.	22,491 banks.	23,095 banks.	24,392 banks.	25,195 banks.
RESOURCES.					
Loans on real estate.....	\$1,801,751,913.00	\$2,505,977,970.46	\$2,696,433,655.30	\$3,023,747,576.34	\$3,301,485,759.93
Loans on other collateral security.....	3,012,911,466.00	3,975,993,315.69	4,115,829,707.08	4,123,052,705.66	4,239,942,380.07
Other loans and discounts.....	5,565,468,763.59	4,821,546,812.25	5,647,164,421.40	5,835,854,369.03	6,350,722,499.00
Overdrafts.....	57,860,155.68	69,699,592.98	62,381,193.45	63,735,193.87	61,455,604.59
United States bonds.....	750,200,706.16	792,787,711.29	784,592,463.97	773,455,177.84	823,266,866.97
State, county, and municipal bonds.....	² 861,009,108.05	1,091,541,455.19	1,116,245,096.69	1,200,898,075.21	1,273,554,050.84
Railroad bonds and stocks.....	1,158,444,501.60	1,560,006,360.83	1,464,842,032.51	1,602,130,358.08	1,631,544,479.26
Bonds of other public-service corporations.....		466,526,687.08	478,045,935.46	550,192,266.65	603,542,601.59
Bank stocks.....	29,460,847.00				
Other stocks, bonds, etc.....	1,646,826,333.23	703,580,001.88	979,644,571.67	925,180,526.51	1,026,975,383.45
Due from other banks and bankers.....	2,236,244,596.94	2,562,071,702.68	2,393,008,260.76	2,788,772,572.47	2,847,992,843.93
Real estate, furniture, etc.....	494,998,124.33	544,035,541.89	574,231,671.01	616,693,997.78	657,299,660.36
Checks and other cash items.....	350,903,174.39	437,892,578.11	620,469,182.00	422,688,514.06	430,101,255.82
Cash on hand.....	1,368,329,683.43	1,452,014,676.34	1,423,808,814.37	1,554,147,169.28	1,572,953,479.43
Other resources.....	249,001,019.69	111,380,014.05	193,623,517.10	150,534,879.89	165,805,908.94
Total.....	19,583,410,393.09	21,095,054,420.72	22,450,320,522.77	23,631,083,382.67	24,986,642,774.18
LIABILITIES.					
Capital stock.....	1,757,159,203.00	1,800,036,368.00	1,879,943,887.99	1,952,411,085.56	2,010,843,505.70
Surplus fund.....	1,401,570,455.80	1,326,090,642.50	1,547,917,181.08	1,512,083,859.93	1,584,981,106.44
Other undivided profits.....	359,942,627.85	508,534,786.43	404,649,006.90	553,490,979.77	581,178,042.47
Circulation (national banks).....	613,663,963.00	636,367,526.00	675,632,565.00	681,740,513.00	708,690,593.00
Dividends unpaid.....	94,034,846.39	3,310,944.76	20,856,304.16	5,689,184.23	3,639,127.75
Individual deposits.....	12,784,511,169.33	14,035,523,165.04	15,283,396,254.35	15,906,274,710.27	17,024,067,606.89
United States deposits.....	130,266,023.63	70,401,818.99	54,541,349.41	48,455,641.54	58,945,980.66
Due to other banks and bankers.....	2,198,050,204.00	2,484,103,895.37	2,225,380,795.62	2,621,054,947.82	2,632,635,075.58
Other liabilities.....	344,211,900.09	230,685,273.63	358,003,178.26	349,882,460.55	381,661,735.69
Total.....	19,583,410,393.09	21,095,054,420.72	22,450,320,522.77	23,631,083,382.67	24,986,642,774.18

¹ Includes mortgages owned.

² Includes bonds of other corporations for national banks.

Aggregate loans, resources, capital, and deposits for the fiscal years 1908 to 1912, inclusive, of banks reporting to Comptroller of the Currency.

[In millions of dollars.]

Year.	Number of banks.	Loans.	Resources.	Capital.	Individual deposits.
1908.....	21,346	\$10,437.9	\$19,583.4	\$1,757.1	\$12,784.5
1909.....	22,491	11,393.1	21,035.0	1,800.0	14,035.5
1910.....	23,095	12,521.7	22,450.3	1,879.9	15,283.3
1911.....	24,392	13,046.4	23,631.0	1,952.4	15,906.3
1912.....	25,195	13,953.6	24,986.6	2,010.8	17,024.0

Summary of reports of condition from 25,195 banks in the United States and island possessions (including National, State, savings, and private banks and loan and trust companies), showing their condition at the close of business June 14, 1912.

RESOURCES.

Loans and discounts:	
Secured by real estate (including mortgages owned) -----	\$3,301,485,759.93
Secured by collateral other than real estate -----	4,239,942,380.07
All other loans -----	6,350,722,499.00
Overdrafts -----	61,455,604.59
	<hr/> \$13,953,606,243.59
Bonds, securities, etc., including premiums thereon:	
United States bonds -----	\$823,266,866.97
State, county, and municipal bonds -----	1,273,554,050.84
Railroad bonds -----	1,631,544,479.26
Bonds of other public-service corporations (including street and interurban railways bonds) -----	603,542,601.59
Other bonds, stocks, warrants, etc. -----	1,026,975,383.45
	<hr/> \$5,358,883,382.11
Banking house, furniture, and fixtures -----	550,326,884.44
Other real estate owned -----	106,972,775.92
Due from banks -----	2,847,992,843.93
Checks and other cash items -----	55,236,223.74
Exchanges for clearing house -----	374,865,032.08
Actual cash on hand:	
Gold coin -----	238,389,386.74
Gold certificates -----	¹ 643,547,090.00
Silver dollars -----	22,957,395.00
Silver certificates -----	194,374,169.00
Subsidiary and minor coins -----	37,738,008.29
Legal-tender notes -----	253,122,053.00
National-bank notes -----	108,281,687.00
Cash not classified -----	74,543,690.40
	<hr/> 1,572,953,479.43
Other resources -----	165,805,908.94
	<hr/> 24,986,642,774.18

LIABILITIES.

Capital stock paid in -----	\$2,010,843,505.70
Surplus -----	1,584,981,106.44
Undivided profits -----	581,178,042.47
National-bank circulation -----	708,690,593.00
Due to banks -----	2,632,635,075.58
Dividends unpaid -----	3,639,127.75
Individual deposits subject to check without notice -----	\$8,323,485,623.53
Saving deposits or deposits in interest or savings department -----	6,496,192,707.60
Certificates of deposit -----	1,952,784,093.94
Certified checks -----	135,241,263.20
Cashier's checks outstanding -----	116,363,918.62
	<hr/> 17,024,067,606.89
United States deposits -----	58,945,980.66
Notes and bills rediscounted -----	21,836,346.24
Bills payable, including certificates of deposit representing money borrowed -----	127,778,722.66
Other liabilities -----	232,046,666.79
	<hr/> 24,986,642,774.18

¹ Includes \$80,479,000 clearing-house certificates.

Principal items of resources and liabilities of State, savings, and private banks, loan and trust companies, and national banks, from 1863 to 1912.

[From 1833 to 1872, inclusive, data from various sources; from 1873 compiled from reports obtained by the Comptroller of the Currency.]

[Amounts in millions of dollars.]

Year.	Number of banks reporting.	Loans and discounts (including overdrafts).	Bonds, stocks, etc.	Due from banks and bankers.	Specie.	Paper currency. ¹	Total cash in bank.	Capital.	Surplus and profits.	Circulation. ²	United States deposits. ³	Individual deposits.	Due to banks.	Total assets.
1863.....	1,466	\$648.6	\$180.5	\$96.9	\$46.1		\$205.5	\$405.0		\$238.7		\$393.7	\$100.5	\$1,191.7
1864.....	1,089				50.7					163.3				
1865.....	646	70.7	93.4	33.3		47.6	75.2	\$4.2		189.1		119.4	27.4	252.3
1866.....	1,960	362.4	404.3	103.0	9.4	\$190.0	199.4	397.0	54.5	131.5	\$58.0	641.0	157.8	1,126.5
1867.....	2,267	550.4	465.2	110.7	12.6	219.3	231.9	480.8	79.4	267.8	39.1	815.8	122.4	1,476.4
1868.....	2,279	588.5	443.1	100.0	11.1	194.5	205.6	483.8	93.9	291.8	33.3	876.6	112.5	1,494.1
1869.....	2,293	655.7	440.5	123.1	20.8	179.9	200.7	486.4	109.4	294.9	28.3	968.6	140.7	1,572.2
1870.....	2,354	686.3	414.6	107.6	18.5	144.0	162.5	489.7	126.0	292.7	12.8	1,032.0	129.0	1,564.2
1871.....	2,457	719.3	406.1	121.2	31.1	156.6	187.7	513.7	132.7	291.8	13.2	1,051.3	148.5	1,510.7
1872.....	2,796	789.4	419.9	143.8	19.9	174.1	194.0	561.7	143.1	315.5	11.1	1,251.6	176.4	1,730.6
1873.....	3,066	871.5	431.2	144.0	24.3	153.3	177.6	592.6	155.4	327.1	12.4	1,353.8	172.7	1,770.8
1874.....	1,968	1,439.9	713.2	167.1	\$27.9		218.2	532.9	215.6	340.2	15.1	1,421.2	178.6	2,731.3
1875.....	1,893	1,564.5	723.2	193.6	\$22.3		252.2	550.3	199.9	338.7	10.6	1,526.5	232.5	2,890.4
1876.....	3,336	1,748.1	793.1	195.0	\$19.0		238.7	592.6	254.2	318.1	10.2	1,787.0	194.7	3,204.6
1877.....	3,448	1,727.1	807.3	198.2	\$25.4		226.4	602.3	261.6	294.8	11.1	1,778.6	183.3	3,183.1
1878.....	3,384	1,720.9	841.2	184.6	\$21.3		230.5	614.2	260.5	290.4	10.9	1,813.6	170.1	3,204.1
1879.....	3,229	1,561.2	865.9	183.2	\$29.7		214.6	587.7	237.7	300.4	25.6	1,717.4	161.7	3,080.6
1880.....	3,335	1,507.4	1,032.9	204.0	\$42.7		216.3	580.4	246.1	307.7	252.1	1,694.2	187.9	3,212.6
1881.....	3,355	1,662.1	900.6	248.9	\$100.2		285.5	565.2	260.2	318.4	10.7	1,951.6	239.6	3,399.0
1882.....	3,427	1,901.9	500.9	346.1	\$129.5		295.0	572.3	292.0	312.5	12.2	2,296.8	314.7	3,869.1
1883.....	3,572	2,050.3	1,049.1	307.3	\$112.4		287.1	590.6	310.1	309.2	12.6	2,460.1	279.0	4,031.1
1884.....	3,835	2,133.6	951.2	392.8	\$116.2		321.0	625.6	347.8	312.2	13.9	2,568.4	288.2	4,208.0
1885.....	4,111	2,260.7	1,030.4	294.1	\$110.2		321.2	656.4	379.6	295.3	14.2	2,566.4	227.0	4,221.3
1886.....	4,350	2,272.3	952.0	432.9	\$179.0		414.3	678.0	362.0	269.2	14.0	2,734.3	293.0	4,426.9
1887.....	4,378	2,456.7	1,031.1	349.8	\$152.2		375.5	686.7	393.8	238.0	17.1	2,812.0	308.9	4,521.5
1888.....	6,179	2,944.9	999.9	632.1	\$165.1		432.8	806.8	460.2	166.8	23.2	3,308.2	350.1	5,203.7
1889.....	6,647	3,161.1	1,112.1	439.1	226.4	219.7	446.1	853.7	493.7	155.5	58.4	3,422.7	366.1	5,470.4
1890.....	7,203	3,475.2	1,111.9	513.7	\$221.5	277.6	499.1	893.3	531.9	129.0	46.7	3,778.1	434.6	5,940.9
1891.....	7,999	3,842.1	1,158.0	531.3	221.9	256.4	478.3	968.7	584.0	126.5	30.6	4,062.5	432.3	6,343.0
1892.....	8,641	3,965.9	1,042.5	652.6	217.3	261.8	479.1	1,029.7	619.2	124.0	25.9	4,196.8	415.7	6,562.1
1893.....	9,338	4,336.6	1,269.4	684.3	262.2	324.2	586.4	1,071.1	650.3	141.2	14.2	4,664.9	464.9	7,245.3
1894.....	9,492	4,368.6	1,354.1	549.2	210.9	305.0	515.9	1,091.8	689.3	155.1	13.7	4,627.3	419.9	7,192.3
1895.....	9,508	4,085.0	1,445.3	705.1	283.4	405.5	688.9	1,069.8	682.4	171.8	14.1	4,651.2	599.1	7,290.6
1896.....	9,818	4,268.8	1,565.2	714.4	246.3	384.8	631.1	1,060.3	699.3	178.8	13.2	4,921.3	600.5	7,609.6
1897.....	9,469	4,251.1	1,674.4	645.0	251.2	280.6	531.8	1,051.9	694.4	199.2	15.4	4,945.1	521.7	7,553.9
1898.....	9,457	4,216.0	1,732.3	781.4	297.7	330.5	628.2	1,012.3	712.7	196.6	16.4	5,094.7	673.4	7,822.1

1898.	9,485	4,652.2	1,859.7	924.9	402.2	285.6	687.8	992.0	732.7	189.9	52.9	5,688.2	809.8	8,609.0
1899.	9,732	5,177.6	2,179.0	1,203.1	449.1	274.2	723.3	973.6	761.1	199.4	76.3	6,768.7	1,046.4	9,904.9
1900.	10,382	5,657.5	2,398.3	1,272.8	449.7	300.2	749.9	1,024.7	882.2	265.3	98.9	7,238.9	1,172.5	10,785.9
1901.	11,406	6,425.2	2,821.2	1,448.0	479.0	328.5	807.5	1,076.1	955.6	319.0	99.1	8,460.6	1,333.0	12,357.5
1902.	12,424	7,189.0	3,039.2	1,561.2	541.0	307.1	848.1	1,201.6	1,096.9	309.4	124.0	9,104.7	1,393.2	13,363.9
1903.	13,684	7,738.9	3,400.1	1,570.6	478.2	379.0	857.2	1,321.9	1,273.4	359.2	147.3	9,553.6	1,475.9	14,303.1
1904.	14,850	7,982.0	3,654.2	1,842.9	612.2	378.4	990.6	1,392.5	1,360.9	399.6	110.3	10,000.5	1,752.2	15,198.8
1905.	16,410	9,027.2	3,987.9	1,981.9	617.3	376.8	994.1	1,463.2	1,439.5	445.4	75.3	11,350.7	1,904.3	16,918.2
1906.	17,905	9,893.7	4,073.5	2,029.2	633.0	383.4	1,016.4	1,565.3	1,558.9	510.9	89.9	12,215.8	1,890.0	18,147.6
1907.	19,746	10,763.9	4,377.1	2,135.6	719.5	394.2	1,113.7	1,690.8	1,645.0	547.9	180.7	13,099.6	2,875.4	19,645.0
1908.	21,346	10,438.0	4,445.9	2,236.2	860.5	507.8	1,368.3	1,757.2	1,761.5	613.7	130.3	12,784.5	2,198.0	19,583.4
1909.	22,491	11,373.2	4,614.4	2,562.0	1,044.6	407.4	1,452.0	1,800.0	1,834.6	636.3	70.4	14,035.5	2,484.1	21,095.0
1910.	23,095	12,521.8	4,723.4	2,393.0	1,009.6	414.2	1,423.8	1,880.0	1,952.6	675.6	54.5	15,283.4	2,225.3	22,450.3
1911.	24,392	13,046.4	5,051.9	2,788.8	1,110.7	443.4	1,554.2	1,952.4	2,065.6	681.7	48.5	15,906.3	2,621.1	23,631.1
1912.	25,195	13,953.6	5,358.9	2,848.0	1,137.0	435.9	1,572.9	2,010.8	2,166.1	708.7	58.9	17,024.0	2,632.6	24,986.6

¹ Includes cash not classified.² Includes State bank circulation.³ Includes deposits of United States disbursing officers.⁴ Specie funds and notes of other banks.⁵ From Homan's Banker's Almanac.⁶ National banks.⁷ Number of national banks only; number of State and savings banks not reported.⁸ Specie in national banks; incomplete for State banks.⁹ Includes coin certificates from 1889; specie for 1902 partially estimated.

NOTE.—Since 1873 the Comptroller of the Currency has collected and published statistics of State banks, but complete data for compiling these statistics for a number of years thereafter were available only for those States in which the banks were required to report to some State official. For recent years the statistics are practically complete.

(Thereupon, at 5.45 o'clock p. m., the committee adjourned to meet at 10.30 o'clock a. m. to-morrow, Saturday, October 11, 1913.)

SATURDAY, OCTOBER 11, 1913.

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

The committee met at 10.33 o'clock a. m.

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

The CHAIRMAN. Judge Montgomery, we will hear you now, if you please.

STATEMENT OF S. B. MONTGOMERY, OF QUINCY, ILL.

Mr. MONTGOMERY. It was suggested that I should be called first, because I was appointed chairman of this committee and in view of the fact that I was president of the Illinois Bankers' Association, and not because I was expected to do much of the talking. This morning I dictated a little statement, and if it is not objectionable I will just read it.

The CHAIRMAN. That will be all right.

Mr. MONTGOMERY. The committee appearing here was authorized at the meeting of the Illinois Bankers' Association on October 26, 1913. That convention was the largest ever held in Illinois. In fact, double as large as the largest State convention that was ever held. There is no doubt that interest in the pending legislation in Congress is responsible for so large an attendance.

Senator SHAFROTH. What date did you say it was?

Mr. MONTGOMERY. October 26.

Senator SHAFROTH. October?

Mr. MONTGOMERY. Oh, I do not mean October; September 26.

Senator SHAFROTH. I thought we had not arrived at that date.

Mr. MONTGOMERY. No; as president of that association I was authorized to appoint this committee. In doing this I thought it best to confine myself to down-State bankers. Those selected I think represent the various sections and localities of the State and the different systems of banking. The resolution adopted at Chicago provided that we indorsed and approved the Chicago conference report, but that has largely been modified, and I think we are here not for the purpose of urging any part of that now. It is only the different items we think of interest to what we call ourselves—country bankers. The names of the members of this committee and their banks, and location of the same, are as follows: William George, president of the Old Second National Bank of Aurora; B. F. Harris, vice president of the First National Bank of Champaign (both of these gentlemen are ex-presidents of the Illinois Bankers' Association); John M. Crebs, president National Bank of Carmi; H. D. Sexton, president Southern Illinois National Bank; Ashe V. Cox, Xenia, president of Orchard City Bank (a private bank); William C. White, president Illinois National Bank, Peoria; and J. S. Aisthorpe, president First Bank & Trust Co., Cairo, Ill.

In reference to Mr. Crebs, I want to say one word. He has been for a long time in the southeastern part of the State, and for a long time has been president of the State fair association, and is quite

well acquainted in the State. Mr. Harris is one of the ex-presidents of the Illinois Bankers' Association, and is right here by me, and he is just as big an apostle of the farmer.

The CHAIRMAN. Yes; I have had the pleasure of meeting Mr. Harris a number of times.

Mr. MONTGOMERY. The organization in Illinois is made up of 10 groups, covering the State, one in the city of Chicago and counties adjoining it, and nine others down State. I was only made chairman of the committee because I happened to be president of the Illinois Bankers' Association, and not on account of my fitness. I practised law a good part of my life and, besides, being a State banker, we are not so vitally interested at present, at least, as are the national banks.

You have heard this bill discussed from so many angles and by so many experts that I do not feel we should consume much of your time. We are not experts. I think the entire committee comes here with the feeling that your committee is working conscientiously and faithfully to make a banking and currency law that will be a credit and help to all the people, and that includes the bankers.

We are not here attempting or wishing to defeat this bill. We are favoring many parts of it, especially that which provides the banks a place to go for credit when they need it. That is the greatest need of the American banking system to-day. Under the present system at the first appearance of trouble we at once become selfish and try to strengthen ourselves at the expense of everyone else, and thus accentuate, precipitate, and bring on the very trouble we were fearing. It would appear that this bill if enacted into law would cure that trouble. At the same time we are compelled to say to you that there exists among country bankers a very widespread and almost universal sentiment unfavorable to some of the features of the proposed law.

For the past month I have talked with, I might say, hundreds of bankers, and while they are favorable to the law in the main, it is always with the qualification that it be modified in many of its features. I shall mention only a few of these points and then ask other members of the committee who are real bankers to express their views to you.

First. There is a wish among country bankers that the amount they should be required to subscribe to the Federal reserve bank, should be reduced from 20 to 10 per cent, 5 per cent of the same to be paid in.

Second. Bankers have suggested that the Federal reserve board be composed of seven men to be appointed by the President. The suggestion I am about to make, I saw in the paper yesterday, Mr. Cannon has already made to the committee. As I say, bankers have suggested that the Federal reserve board be composed of seven men to be appointed by the President, but instead of the Secretary of the Treasury, the Secretary of Agriculture and the Comptroller of the Currency being members of the Federal reserve board, our suggestion is that they be left off, and that the President appoint three bankers to be selected by him.

I think that the Comptroller of the Currency would be very properly one of this board, but he is so extremely busy it seems to me it would be hard for him to perform the duties that would be required.

Third. It seems unnecessary that there should be a requirement for 12 regional Federal reserve banks. It would be easier to put the law in operation with half that number.

Fourth. Another thing that would be popular with the bankers would be that the stock should pay 6 per cent cumulative instead of 5 per cent cumulative interest.

Fifth. Another objection is the proposition to transfer items at par without exchange. Bankers would hope that this might be changed so that it would only be items "drawn by" one member bank instead of "drawn on" member banks.

Sixth. The savings bank feature seems unnecessary. Many small country banks are in the habit of accepting savings and yet the business done does not develop very largely, and it would be extremely burdensome to them to segregate their capital and their investments and be compelled to carry on this small savings part of their business separately.

Seventh. Bankers in our section do not understand the proposition of allowing real estate loans to be made for a period of one year only. I understand that is hardly sufficient to cover that feature and other legislation may follow it, and that it had reference to some particular locality. No loans on real estate are made for one year in that section. The maturity is almost invariably 5 or 10 years, and so far as that section is concerned it would be utterly useless. My colleagues on this committee will elaborate on these objections, and others of which they may speak.

The CHAIRMAN. I think most of those objections are recognized by the members of the committee as having force, and that the committee will take some steps toward granting relief along the lines of those objections. I will not go into the details about it, but I think that is really the attitude of the committee.

Mr. MONTGOMERY. Now, shall I introduce the other speakers?

The CHAIRMAN. If you please.

Mr. MONTGOMERY. Mr. Aisthorpe is the next speaker.

STATEMENT OF J. S. AISTHORPE, VICE-PRESIDENT OF THE ILLINOIS BANKERS' ASSOCIATION, CAIRO, ILL.

Mr. AISTHORPE. Gentlemen, I represent perhaps what is known as the country banker. While in some respects not occupying the position directly of the country banker, I am in a small city surrounded by what are termed country banks. They object to the fact that this law really makes a clearing house through the reserve bank of country checks, as we term them.

The CHAIRMAN. Checks of your depositors, you mean?

Mr. AISTHORPE. Checks of our depositors—individual checks. Now, as you know, the country banker, or at least a large per cent of them, charge for remitting those checks.

The CHAIRMAN. That is, for remitting the proceeds of those checks?

Mr. AISTHORPE. Yes; the proceeds of those checks. And in some respects it is a burden upon them to do that.

The CHAIRMAN. It costs you money to run that business?

Mr. AISTHORPE. Certainly.

The CHAIRMAN. And you have to have men employed for that express purpose?

Mr. AISTHORPE. Yes. This section is not quite understood, if it applies to individual checks; that is, depositors' checks drawn on the member bank.

The CHAIRMAN. I think that is a fair interpretation of it.

Mr. AISTHORPE. They object to that check being collected at par or deposited at par and collected at par through the reserve or regional bank, whatever you may call it.

The CHAIRMAN. There is a net profit to the country bank on that business?

Mr. AISTHORPE. Yes.

The CHAIRMAN. And that net profit is what they wish to retain. That is right, is it not?

Mr. AISTHORPE. Yes. I do not know whether the committee really understands the fact that that is an item of profit to the small country bank, and it is one of the things they exist upon; while, taking it in my city, we kick against it all the time. We do not like the charges the way they do. At the same time it is fair that should be retained. It does not seem fair that the city banker, the large city banker, the reserve banks of the cities at the present time, should be allowed to deposit in the regional bank or the reserve bank those checks and receive credit at par.

The CHAIRMAN. It was thought, I think, that the depositors of the country banks who remitted to their wholesale merchants, for instance, while they do not pay directly it is believed that the wholesalers in reality charge them more for their goods in order to meet any incidental expenses of that kind.

Mr. AISTHORPE. I do not know whether they do that, because they take it for granted it can be collected at very little expense. The clearing houses in some of the reserve cities, of course, have a fixed charge on collecting country checks of \$1 a thousand. They do that; but the individual merchant, the wholesaler, or jobber in the town, or even a retail merchant, rather than go to a bank and buy his exchange, or get a post-office order, or an express order, he will send his own individual check.

The CHAIRMAN. That is a thing that may be illustrated by the popular song, "Everybody's doing it." [Laughter.]

Mr. AISTHORPE. Everybody's doing it; that is true. And he does that not only because it does not cost him anything to do it, but it also gives him time to meet that check when it is presented at the bank. Now, if this law gives the right to the depositing bank that is a member of the reserve bank to deposit that check at par, then it will be sent to the member bank on whom it is drawn, and they will have to remit at par or, rather, it is charged to their account, whichever way you put it.

The CHAIRMAN. That is the way it is to be done under this bill. They would not remit at all, but simply charge it to their account. And, in like manner, their checks would be credited to them.

Mr. AISTHORPE. I presume it would be charged at the reserve bank as of the date of its receipt.

The CHAIRMAN. Oh, yes; there is no waiting. But in the same way the member bank would be given credit when it sent in its own checks on other banks.

Mr. AISTHORPE. That does not seem to be fair to the country banker. In the first place, it opens the gateway for check discounting.

The CHAIRMAN. The country bank, of course, would get credit immediately for all its checks sent in in the same way.

Mr. AISTHORPE. Yes; but the country bank does not get as many checks in proportion as the large city banks do. Of course, there are no jobbing houses in the country towns, and they do not have checks to handle at their end of the line like the banks in the towns where the large retail houses and wholesale houses are located. Therefore they would get no remuneration in that respect.

Senator NELSON. I want to call your attention to this phraseology in the bill on page 33. After referring to the other matter, it says:

Nothing herein contained to be construed as prohibiting member banks from making reasonable charges to cover actual expenses incurred in collecting and remitting funds for their patrons.

Mr. AISTHORPE. Yes; that is true that it does contain that. But I take it for granted that will be largely in the control of the managers of the reserve bank as to what shall be done in that respect. If they say, "Why, no; we credit you at par on any items you send to us, and therefore we charge you direct the items we send you," it is a little bit misunderstood—the language there—and I think it should be made plain. My idea is, taking it from the small country bank, that its check—the bank's check—drawn on another bank should be charged to him at par in the regional bank or the reserve bank, but his depositor's checks should not be permitted to be charged to his account at all. In other words, I think the committee should amend that section there and let it stop.

Senator NELSON. You would distinguish between individual checks and bank checks?

Mr. AISTHORPE. And the bank's checks; yes.

Senator NELSON. The check of one bank on another would be within the rule?

Mr. AISTHORPE. Yes; within the rule.

Senator NELSON. And the individual check you would exclude?

Mr. AISTHORPE. I would exclude that entirely. When you stop to think about it, gentlemen—for instance, take a retail man who buys a bill of goods in New Orleans. I am in Cairo, Ill., and he buys a bill of goods from New Orleans. Now, instead of going into the bank and buying a New Orleans exchange he sends his own individual check.

Senator NELSON. On his local bank.

Mr. AISTHORPE. On his local bank. Now, that check is deposited in the regional bank in New Orleans and is deposited at par. That regional bank sends it, of course, to me as a member of the association—the reserve bank—and I have to remit at par or, rather, it is charged to my account. It is not a question of remitting, exactly; it is charged to my account. Now, the bank has made no profit and has had nothing to do with the transaction whatever.

The CHAIRMAN. It would save you from the expense of keeping these extra accounts.

Mr. AISTHORPE. You mean with the reserve agents in different cities?

The CHAIRMAN. Yes; keeping accounts with banks in different cities.

Mr. AISTHORPE. I take it for granted, as far as that is concerned, the bank will have to keep what we might call our individual accounts with another bank, even were this banking law in effect.

The CHAIRMAN. Doubtless they would keep accounts anyway for the purpose of obtaining rediscounts, in case they need it.

Mr. AISTHORPE. Certainly. But here is the point: You are imposing on the bank at Cairo, through the transfer of funds at New Orleans, where the wholesaler there made a profit on his sale of goods to the merchant in my town—you are imposing that burden on the bank. It does not seem that burden ought to be imposed. Between the banks that is a different proposition.

The CHAIRMAN. The proposal is that your bank should be allowed to send all of its checks at par to the Federal reserve bank, and you would immediately get credit for those checks, and it would save you from carrying on the miscellaneous correspondence incident to sending checks to the various parts of the country for collection.

Mr. AISTHORPE. That is true.

The CHAIRMAN. And save you time and expense, and you get immediate credit, which is a positive advantage. Another advantage is, as far as the exchange is concerned, you will not be compelled to carry accounts in banks in various parts of the country upon which your customers may desire exchange, but you can give them exchange on any part of the country by your own checks.

Mr. AISTHORPE. I agree with you in that; but the volume of business which is transacted is so much larger against the country bank that the country bank can not remunerate itself from its end of the line.

The CHAIRMAN. You mean to say the income and outgo do not balance each other?

Mr. AISTHORPE. The checks do not. In our country banks, you know, the farmer does not come in, as a rule, and deposit a check. He generally has the money, or if it is a check it is a local check in the part of the town in which he lives.

Senator NELSON. Pardon me for interrupting you, but would it not be fair for the local bank to charge the local customer for it? The local customer instead of buying his draft, as he should do, to send to New Orleans gives his check.

Mr. AISTHORPE. Yes; he ought to do that; I admit that.

Senator NELSON. It is up to him. Now, the store merchant in Cairo could go to the bank and buy New Orleans exchange instead of sending his check on the Cairo bank, and that is what he should do.

Mr. AISTHORPE. That is what he ought to do, but what he don't do and won't do.

Senator NELSON. If he neglects that he should bear that burden.

Mr. AISTHORPE. Not the banks; that is what I am trying to eliminate.

Senator SHAFROTH. But he does it that way in order to have a receipt right on the back of his check.

The CHAIRMAN. And it is so convenient to inclose a check in a letter, rather than to go out and buy a draft, and be bothered in that way, and that is why it has grown to be a universal custom. It has been estimated that there are 15,000,000 checks in circulation in this country daily in process of collection. It has become the habit of the citizen, who consults his own convenience when he wants to pay

an account in a distant place, to slip his own check in a letter and send it through the mail, and that saves his time.

Senator SHAFROTH. Some times he has to wait in line in order to get a draft.

The CHAIRMAN. It is not convenient to him. It may take 15 or 20 minutes, or it may take an hour to send his boy down to get a draft. It is a matter of convenience all around and obtains in the whole country.

Mr. AISTHORPE. The wholesaler and jobber are benefited, and the banks have been trying to break up that practice.

The CHAIRMAN. The depositor is benefited, because it saves him the expense of sending a man down to the bank with his check to exchange for a bank check on that center to which he wants to remit, and he might send a boy down there and have to wait half an hour or an hour, and it may be necessary to do that, perhaps, three or four times a day, and he sends his own check as a matter of convenience.

Mr. AISTHORPE. I admit what you say, that it is an accommodation to the customer in that respect, but the individual bank, with this method that the committee proposes here, is absolutely placing those checks at a premium, in a sense. That is, it is allowing the merchants to run their checks out, and the regional bank that is at the point where they are received—they will be deposited there by the bank which will get credit for them at par immediately, and they will be charged to the country bank against its account, before it has had an opportunity to know whether that check is good or whether, really, any check has been drawn or not.

The CHAIRMAN. I think an item should be placed in this bill that would bar checks of any persons who have sent through the bank a check that is not good at the time it was made. I think there should be a barrier placed on that.

Mr. AISTHORPE. I do not think individual checks ought to be charged to the account of the bank on which they are drawn at the time they are deposited.

The CHAIRMAN. When they are drawn, of course, they go to the wholesaler, and then he underwrites that check, puts his name on it, and he is good for it. Then it goes to his bank and his bank underwrites it, and so there are two additional parties underwriting that check before it goes to the reserve bank. Therefore there is no reasonable doubt about that check. Yet, there will occur a time when some check will be found wrongfully drawn, perhaps.

Senator NELSON. If you will allow me, I do not think such a check as we have referred to, a check by a merchant in Cairo upon the local bank there, comes within the scope of this bill, if you will read it. I call your attention to the language—

It shall be the duty of every Federal reserve bank to receive on deposit, at par and without charge for exchange or collection, checks and drafts drawn upon any of its depositors or by any of its depositors upon any other depositor—

Now, the depositors of the regional bank are not individuals; they are the banks.

The CHAIRMAN. And the checks drawn upon a depositor would be drawn upon a member bank.

Senator NELSON. The depositors of the regional banks are only member banks, not individuals.

The CHAIRMAN. That is right.

Senator NELSON. Therefore this check that he describes would not come within the provisions of this bill—

It shall be the duty of every Federal reserve bank to receive on deposit, at par and without charge for exchange or collection, checks and drafts drawn upon any of its depositors.

Who are its depositors? The member banks.

Mr. AISTHORPE. If you stop right there, that is true.

Senator NELSON. "Or by any of its depositors upon any other depositor." If you make that clear, so as to apply to the member banks, there can not be any doubt about it.

Mr. AISTHORPE. No; that is the point exactly, sir.

The CHAIRMAN. If you would read that checks and drafts drawn upon any of its "depositors" or "member banks," it would mean the same thing.

Senator NELSON. "Or by any of its depositors upon any other depositor."

Senator POMERENE. That is, drawn by one member bank upon another bank.

Mr. AISTHORPE. That is just the point I am trying to make.

Mr. MONTGOMERY. That suggestion is in my paper there, just what the gentleman said, "drawn by" one member bank, instead of "drawn on" member banks.

The CHAIRMAN. Yes; but a check drawn upon any of its depositors means drawn upon any of its member banks, and does not mean anything but that.

Senator NELSON. I do not think such checks as you describe here, checks drawn by your local merchant, on your local bank, would come within the scope of this bill at all.

The CHAIRMAN. I do not understand how you interpret it, Senator; I think, however, we are depriving the witness of an opportunity to give his views.

Senator WEEKS. I was going to suggest that we might take this up among ourselves later.

Mr. AISTHORPE. But here, Senator, it reads this way, "checks and drafts drawn upon any of its depositors or by any of its depositors upon any other depositor." There is too much there in the language. I can be misconstrued. If you would eliminate all of this "depositor" business, after you get down to "it shall be the duty of every Federal reserve bank to receive on deposit, at par and without charge for exchange or collection, checks and drafts drawn upon any of its depositors," and put a period in there, then you are applying it directly to the member banks of the reserve bank.

The CHAIRMAN. That is not the intention of the section; it is intended to cover private checks.

Mr. AISTHORPE. I am taking for granted it is.

The CHAIRMAN. You are objecting to that, and your reason is that it deprives the country bank of its revenue.

Mr. AISTHORPE. That is true.

The CHAIRMAN. And the question is, How much revenue?

Mr. AISTHORPE. In my bank it does not make so much difference. I am talking to you particularly for the small banks, where I know a large proportion of their income is derived from these charges.

The CHAIRMAN. You mean their net income?

Mr. AISTHORPE. Net income, derived from the charges they make in remitting for checks drawn on them.

The CHAIRMAN. Could they charge their depositors for checks sent to outside parties, which come in that way, without causing unfriendly comment from their depositors?

Mr. AISTHORPE. Yes, sir. That has been discussed a number of times among the bankers.

The CHAIRMAN. Could they not, through the banking associations, agree they would charge a depositor a reasonable fee for checks sent outside and which they collect for the Federal reserve bank?

Mr. AISTHORPE. That was taken up in the Illinois Bankers' Association.

The CHAIRMAN. Would not that really be right?

Mr. AISTHORPE. They could not get any concerted action on it at all.

The CHAIRMAN. You have no such system?

Mr. AISTHORPE. Yes; we tried.

The CHAIRMAN. Not an adequate system, because you would have to deal with so many clearing places, so many different clearing banks and reserve agents.

Mr. AISTHORPE. The idea was to get a charge by all banks in the State on checks drawn on them that came through other sources.

The CHAIRMAN. It seems to me the country banks could easily, through group arrangements, agree to make a reasonable charge upon checks sent outside and collected at foreign points against the bank, that that could be easily obtained and would compensate them for their trouble in the matter, and of course return a reasonable profit.

Mr. AISTHORPE. If you will just stop and think a moment, I do not believe that could be enforced, for the reason it is a question left entirely in the hands of the reserve bank or the regional bank.

The CHAIRMAN. The local deposits of the member banks could be arranged by group arrangements.

Mr. AISTHORPE. It says it shall not prohibit. It is just the same now.

The CHAIRMAN. Where two banks are in competition with one another, and the one gives free exchange and the other will not, of course you have difficulty with the depositors. But if that is adjusted by group arrangement, I should think it might be provided for without violating the antitrust law.

Mr. AISTHORPE. I will ask you this question: Why is it that these checks, these individual checks, should be handled at par, and that forced on the bank?

The CHAIRMAN. For economic conditions; for economy, to save in handling credit.

Mr. AISTHORPE. That is simply between the bank.

The CHAIRMAN. I am not talking about clearing personal checks, but the matter of transferring more quickly and at less expense to the country, including the banks. I believe the banks have a right to charge their customers for sending checks out in that way. I think that would be a reasonable change to make.

Mr. AISTHORPE. Would it be the intention of the committee in framing up this section that the reserve bank shall permit that to be done?

The CHAIRMAN. Yes; that is obviously done in this, because exception is made in here. I think that is perfectly right, and I think the country banks ought to have a right to do that if they want to. I do not see why it can not be adjusted by group arrangement.

Mr. AISTHORPE. All I am asking for, gentlemen, is that I think you ought to stop at bank checks, bank drafts.

The CHAIRMAN. Yes; we have heard the argument, of course, and we understand and appreciate the point of view you have.

Senator WEEKS. Let me ask you this question: If there is going to be a great economic saving by the clearing of all checks—private checks and otherwise—through the reserve banks, could it be arranged so that the country banks could, as they should, as the chairman has stated, make a charge for collecting individual checks? Do you not think this committee ought to recommend some kind of legislation which would provide for that?

Mr. AISTHORPE. That is true.

Senator WEEKS. You and I agree, undoubtedly, that there is a great economic waste in the collections on domestic exchange in this country. I recall a case some years ago which was brought to my attention, where a concern kept an account of \$20,000 in a bank. The bank was paying interest on \$10,000 of it, and \$10,000 was a free deposit. They had not made a careful examination of the cost of collections on that account until one day somebody did make that investigation, and it was found that the firm only had an actual balance of \$4,000, \$16,000 being in the process of collection all the time. In other words, the bank had been paying interest on \$6,000 which was not in the bank at all, and the concern had no free balance at any time during the year. Now, that is occurring everywhere, all over the United States, and if some method can be developed to produce a more prompt collection agency and to prevent what is an abuse, in my judgment—that is, drawing a private check on a bank in Cairo to pay a bill in New Orleans and requiring that check to be sent to New Orleans and then sent back for collection to you and then sending it to a little bank of a town near Cairo—if that can be prevented it ought to be done.

Mr. AISTHORPE. I agree with you on that absolutely; but I think you want to make it plain in that section, so that when it comes to the individual checks there shall be a charge, and let the reserve bank fix what that charge shall be.

Senator SHAFROTH. Mr. Weeks, I do not understand why there would not be a balance there of \$20,000, because when the individual check is given it does not come back to be charged on the debit side of the account until after it reaches there, and the bank, in the meantime, has had the full use of that money.

Senator WEEKS. I do not think we ought to take this witness's time to discuss it; but let us suppose you deposited five checks of \$4,000 each in your bank. One is to pay a bill in Boston, one is to pay a bill in San Francisco, another in New Orleans, and another in Atlanta, and the other is local. Those four checks that are going to foreign places are going to be in process of collection several days.

Senator SHAFROTH. Yes; but my balance remains at the bank all the time.

Senator WEEKS. But, as far as your checks are concerned, you have not \$20,000 in the bank.

Senator SHAFROTH. The bank gets the benefit of the \$20,000. It does not know what my books show.

Senator WEEKS. Yes; but those checks are outstanding against your account.

Senator SHAFROTH. That is true; but that money remains in the bank until the checks come in.

Senator WEEKS. I do not think we should discuss that now, but we ought to let the witness proceed.

Mr. AISTHORPE. You are charging up the individual checks of the member bank to the reserve bank. Suppose, now, a customer of mine has drawn a check of \$25,000. I am not advised of it at all. His account is good for it. He sends that check to Cleveland, Ohio, in some transaction. That check is deposited in the reserve or regional bank, and the regional bank charges it to my account and sends it down to me. I have not had any notice of the check at all, but my balance has been reduced. I won't know of that check, and I may have to remit in some way or other to make that balance good. Suppose that is all I have in excess of the reserve requirements of the law, which says I shall keep there a reserve balance?

The CHAIRMAN. The effect of that is that if he were to draw that check immediately on you you would have to remit earlier than you would under this arrangement, and therefore you get the benefit of the use of the money a few days longer, until you are notified to make good your deficit?

Mr. AISTHORPE. I do not think so; not in this present way.

Senator HITCHCOCK. The provision of the law is that a regional bank may notify a member bank to make good whenever its balance falls below the legal reserve. If it goes below the legal requirement all the reserve bank could do would be to notify the member bank to make good its deficit. As the chairman says, it seems to me it would not be in any worse plight than if the individual had come in to draw out the cash.

Mr. Aisthorpe, we are using up your time in discussing this matter. I think you ought to give some attention to this section, distinguishing very clearly as to what it shall apply to. We will let the matter rest.

It is your view a bank should not be charged with a check drawn by one of its depositors; it should simply be sent out for collection?

Mr. AISTHORPE. Yes.

Mr. HARRIS. I think that Senator Weeks, as he expressed himself a few moments ago, expressed our view, and we are willing to take his statement and save the committee's time by passing on.

Mr. MONTGOMERY. I should like Mr. Harris to be heard next, if you please.

STATEMENT OF B. F. HARRIS, VICE PRESIDENT FIRST NATIONAL BANK, CHAMPAIGN, ILL.

Mr. HARRIS. Our chairman has told you that we are not experts, and I want to emphasize that in my case. I am not a banking expert, but, as he said, I have devoted most of my time to agriculture, especially with respect to the banker's relation to the subject.

Senator HITCHCOCK. Will you please state the size of your town and the size of your bank?

Mr. HARRIS. The town has a population of 15,000. The bank has a capital of \$100,000, a surplus of \$130,000, and deposits of about \$1,300,000. It is the First National Bank.

Senator POMERENE. Your position?

Mr. HARRIS. Vice president, although I am not active in the bank in any way.

In the second place, I do not know of any way in which this bill as it passed the House would hurt or help our bank, unless it might affect our 2 per cents, of which we have \$65,000. On the other hand, I want you to feel that anything I have to say is in no way influenced by the personal side, although the personal side has a right to come in, every man speaking for the effect the bill might have on him or his bank. So I want you to get my point of view as trying to be of service and understand that any comments I make are entirely with reference to the general public aspect of the bill.

Senator HITCHCOCK. The committee would like to know the effect this will have upon the bank, because the witness can testify to that, and can give the committee a clear idea.

Mr. HARRIS. Well, I was asked to talk on one or two points, more especially concerning control, and I think some time will be saved if you will let me run over that. I want to say for the bankers in general, so far as I can speak for them, that I believe the banker understands and appreciates better than anybody else the need, the urgent need, for this legislation. I have not seen any bankers who want to delay this legislation if there is any opportunity to get a bill along reasonable lines, and I think I can say I have not seen any banker who thinks that the bill as it passed the House is what it should be. Further than that, I believe every good banker and every good business man believes in supervision and regulation, but the further we go in that direction, especially toward more or less absolute control—which some have said comes within the definition of socialism—the more careful we should be.

That brings up the point on which I am supposed to talk. We are to have a Federal board of seven men. Only one of those men is supposed to know or is required to know anything about banking. It would seem to me, from the economic point of view, you ought to have experienced men on the board, and, further, that the bankers who contribute the capital and reserves to this bank ought to have a reasonable minority voice; in other words, three out of seven. There is an unfair reflection on the banker, which he resents, when the bill says, in effect, that the President, who has the selection of all these men, can not find, or is not to find, more than one man among the banking fraternity who is morally fit to fill the position. That is a thing that goes against the grain more than any other feature of the bill.

Senator HITCHCOCK. The bill, as I recall it, does not exclude bankers from his choice.

Mr. HARRIS. No; it does not, but the inference is that he shall not; and when you think of the possible political effect and all that, the President might not be inclined to go further than he is expected to go, because the people, to whom some of us "appeal," would say that the President was favoring too many bankers.

Senator SHAFROTH. You know, there is not a banker on the board of directors of the Bank of England or the Bank of France?

Mr. HARRIS. I have heard that statement made many times, but I think that is hardly correct in this respect, that several large banking houses are indirectly represented——

Senator SHAFROTH (interposing). Not check-paying houses; they are investment houses.

Mr. HARRIS. Of course, that is a matter of information.

Senator WEEKS. You would not imagine that any one would advocate, and you would not advocate, I presume, that any man should be put on that board who continued to be actively connected with a bank?

Mr. HARRIS. Not for one moment.

Senator WEEKS. I do not understand that anyone would advocate having a man connected with a private bank a member of that board.

Mr. HARRIS. He should have no banking connections in any way that would challenge his action.

Senator WEEKS. What you are advocating is that the board shall have the benefit of the experience of men who have been connected with the banking business?

Mr. HARRIS. I consider this absolutely necessary, to have at least a minority of the board—and, from a business standpoint, they should be the majority of the board—men of more or less wide financial experience, because they are to exercise the greatest power that has ever been given, in my opinion, to any board.

Senator POMERENE. Do you imagine any President would put men on that board who were not able men, of wide experience?

Mr. HARRIS. I do not imagine that any man we elect President, in so far as his own ability or knowledge is concerned, would deliberately appoint any such men, but those accidents do happen. What I should say is this, three of the seven men the bill provides to be appointed by the President—the Secretary of the Treasury, the Comptroller of the Currency, and the Secretary of Agriculture—should be left off, because they have all they can do if they run their departments as they should run them; and the bill should be so drawn that no President in his first term should appoint more than three of those seven men. This would prevent a change in practice with each presidential administration. I should say that three out of the seven men should be bankers, but not connected in any way with banking institutions.

Senator NELSON. Either as stockholders or officers?

Mr. HARRIS. Not in any way, nor in any measure.

Senator SHAFROTH. I think all four of them could be, under this bill.

Mr. HARRIS. I do not imagine, when the bill reads as it does, that any President would feel like going so far. I do not think that President Wilson would, from the attitude he seems to hold and the expressions he has made on the subject. I think, as President Wilson was quoted as saying the other day, that the power to control the credits of this country is the power to absolutely shape and control the direction in which all our industries and all our development, financially and commercially, shall go. That is what this tremendous power means; and, as I have said, it is a reflection upon the bankers that even when the President himself has the choice he is not supposed or required to select more than one man of banking experience,

and the rest are merely political appointees. It seems to me that the mobilization of credit is the one thing that we should have uppermost, and that we should reduce the number of banks from 12 to not more than 5 and 3 would be better.

Then our people feel that the subscription to the stock should be reduced from 20 per cent to 10 per cent—

Senator HITCHCOCK (interposing). Why do you feel that, Mr. Harris? Will you state your reason?

Mr. HARRIS. When I say our people feel that, I am telling you what they tell me, without having all their reasons at hand.

Senator HITCHCOCK. Is it because you would estimate the higher amount too heavy a drain on the banks?

Mr. HARRIS. Yes. I think when a bank is compelled to tie up, in the first instance, at 5 per cent interest, 10 per cent of its capital, subject to a demand for another 10 per cent, and then tie up at least 5 per cent, and possibly 7 per cent of its reserves without interest, that infringes on the earning capacity of the bank. Now, that does not apply in my case, because in the case of my bank we do not use rediscounts; we probably would not use them under the new bill. Our circumstances and conservative practices are such that we would not. On the other hand, we keep about 12 to 15 per cent cash on hand, and we keep about 20 to 25 per cent with our reserve banks. In other words, we have from 40 to 45 per cent cash and exchange.

Senator HITCHCOCK. What benefits would you get out of the bill?

Mr. HARRIS. No benefit, as I said when I began. As a matter of fact, in the last few years I consider we have been at a great disadvantage in being a national bank. We have 42 banks in our county, which is an agricultural county, and the State banks take mortgages and may do many things that we may not do. And I will say to you frankly that, for a number of reasons, I think we should become a State bank; and under the House bill, even if we should have to take a loss on our 2 per cents, we would reorganize as a State bank. You might provide that the member banks could pay for their regional-bank stock with 2 per cent Government bonds.

Senator SHAFROTH. This bill is presumed to give you a reservoir from which you may draw, so you do not have to keep as large a reserve. That being true, it would release to you 18 per cent—

Mr. HARRIS. I understand the purpose of the bill, but we do not release now half of what we could release.

Senator SHAFROTH. That is because you have not got this reservoir, but if you had this reservoir to draw upon you could release it.

Mr. HARRIS. My bank is more conservative, perhaps, than it ought to be, because we like to be on the safe side. I know there is the danger, under some conditions, of a little too much expansion.

Senator SHAFROTH. If that 18 per cent, which you have been in the habit of using, were released so you could use it, it would be a great thing, would it not?

Mr. HARRIS. Yes; for banks and the people generally; but why am I compelled under the bill to go into this whether I want to or not? The State banks have the privilege of going in or not as they please. I think that is one of the worst and most un-American features of the bill.

Senator WEEKS. Don't you think that legislation which will promote commerce and create stability in banking and in business

generally ought to be encouraged, even if the personal equation does not seem to be benefited?

Mr. HARRIS. Yes, sir; I do. That is my whole attitude. I am not speaking from the personal point of view, because the general interest is the banker's interest.

Senator WEEKS. Of course, we can not make any progress in this world without seeming to affect individual and personal interests.

Mr. HARRIS. Exactly.

Senator WEEKS. That must be taken into consideration. But if it is going to be of marked benefit to the whole country and the commerce of the country, without wantonly endangering private and vested interests, you would agree that we ought to take some action, I think.

Mr. HARRIS. There is no question about it. There is no direct way of arriving at the percentage, but I think you would be amazed to find how few national banks would go into the scheme on the basis of the bill as it passed the House.

Senator HITCHCOCK. How many national banks have you in Illinois?

Mr. HARRIS. We have about 600. We have about 1,800 banks of all kinds, and they are almost equally divided. There is a larger percentage of State banks than private and national banks. Statistics we have gathered show that in Illinois, outside of Chicago, 65 per cent of bank stockholders are farmers directly or indirectly interested in farming.

Senator HITCHCOCK. Have you any estimate of the number of national banks that would denationalize if the bill should be passed as it came from the House?

Mr. HARRIS. It is mere guesswork, but I should imagine that the proportion would be very large.

Senator HITCHCOCK. Half of them?

Mr. HARRIS. Yes; 80 per cent of them; perhaps 90 per cent.

Senator HITCHCOCK. Do you think any State banks would come into the organization?

Mr. HARRIS. I have not seen any State banks that would come in.

Senator WEEKS. Were you present at the Boston meeting?

Mr. HARRIS. Yes, sir.

Senator WEEKS. Were you present at the meeting of the country bankers?

Mr. HARRIS. I was.

Senator WEEKS. Do you think the country bankers were embarrassed by the influence of others in the conclusion which they came to?

Mr. HARRIS. Not in the slightest. It was a splendidly attended meeting. I do not think any city banker embarrasses any country banker, or that the country bankers are affected by the views of the city bankers.

Senator WEEKS. Do you not think it is a reflection upon the character and ability of country bankers to assume even that their action in such matters would be influenced by anyone?

Mr. HARRIS. I do, most emphatically, and I think the several statements that have been made with reference to that very point are unfair, to say the least. I was in the meeting and I made only one sug-

gestion—that the bankers be polled on this subject—because I thought in that way Congress would get information that it needs and that it could not get otherwise with reference to the percentage of banks that would come in. But I am as sure of the statement I made as I am of anything undetermined, that the percentage of national banks and State banks that would come in would be so small you would not accomplish anything at all. And even if all national banks came in, you would have only 30 or 35 per cent of the total banking resources of the country at that, and any system which proposes to make a successful currency system is not a success if you can only get one-third of the banking fraternity into it.

Senator HITCHCOCK. Do you personally indorse the recommendations made by this bankers' convention in Boston?

Mr. HARRIS. I personally indorse the recommendations and the action they took. And, personally, I think the recommendations made at the Chicago conference, at which I was present, were admirable and remarkably conciliatory, considering all the facts in the case.

Senator HITCHCOCK. Will you distinguish between the two?

Mr. HARRIS. The Chicago conference, if I keep the details fairly well in mind—I have not read the action of either conference lately—comprehend practically the action of the country bankers in Boston, but went further and referred to other matters in the bill. The country bankers in Boston had this viewpoint; I did not go into the little meeting of the men that issued the call. Their feeling was that they must only state before this committee the things that directly concern the country bank or that would affect it on its personal side. They said, "We do not like the way in which this control is affected; we do not like the compulsory feature, but we are not going to go into that. In order to save time, we will just refer to four or five points," which you have seen in their resolution.

Senator HITCHCOCK. You were present at this meeting?

Mr. HARRIS. I was.

Senator HITCHCOCK. Of the 2,000 estimated to be present, what number do you think objected to the conclusions?

Mr. HARRIS. I do not think any of them, and I can give you the test of that. I was present at the best-attended session of the convention, the best-attended session I have ever seen of an American bankers' meeting, when the whole matter was subdivided into five resolutions, and on four of those there was not even a dissenting vote.

Senator HITCHCOCK. Have you a copy of the resolutions here?

Mr. HARRIS. The general purport of that resolution was to indorse the Chicago conference. Mr. O'Neil had a resolution; Mr. Hill had a resolution—there was only one dissenting voice on any of those, and that was from Mr. McRae, of Arkansas.

Senator HITCHCOCK. Was there any attempt to railroad resolutions through?

Mr. HARRIS. On the contrary, Mr. George M. Reynolds and several other prominent members of the association came forward on the platform and said that every man who had a word to say, especially those opposed to the action, should be given ample opportunity to speak; and this received large applause, and to help that matter along

they adjourned for luncheon before voting on the resolution and had an hour's recess, and afterwards every man who wanted to say a word had an opportunity to say it.

Senator HITCHCOCK. What was the purpose of that recess?

Mr. HARRIS. They took a recess from half past 1 to half past 2. They had not had luncheon, and the whole purpose, as stated, was to stop any idle talk that they were trying to railroad the matter through. Mr. McRae made statements that the facts did not justify, and there were cries from the house of "No," and hissing and "Question," because Mr. McRae was not fair in his statements.

Senator HITCHCOCK. Was Mr. McRae given a fair hearing?

Mr. HARRIS. Yes; Mr. McRae was invited to the platform and talked for 15 or 20 minutes, and once or twice when he said he was through and the crowd said, "Good," that started him off again. The chairman said, "Mr. McRae, you may have all the time you please."

Senator HITCHCOCK. Did he have any sympathizers?

Mr. HARRIS. He voted by himself. He called for a division on the resolutions. He said, "I have the right to call for a division on this resolution; it can really be divided into five parts." So he called for the question on the five different features.

Senator HITCHCOCK. A viva voce vote?

Mr. MONTGOMERY. Finally it was by a rising vote.

Mr. HARRIS. They first had a viva voce vote, and then they had a rising vote, too.

Senator HITCHCOCK. How many voted against the resolution?

Mr. HARRIS. Only Mr. McRae, of Arkansas.

Senator HITCHCOCK. Out of 2,000 people?

Mr. HARRIS. There were probably 2,500 or 3,000 at the convention; the 2,000 were at the separate country bankers' meeting Monday.

Senator HITCHCOCK. The committee wanted to talk with some one who had personally been at the convention.

Mr. HARRIS. That committee, I understand, is to be here Monday.

Senator REED. I have not heard all the testimony, but I am curious about one matter. Is it true that the bankers applauded the statement that Congress was being run by Socialists, etc.?

Mr. HARRIS. No; the statement was not made in that way. If I can repeat the language correctly, Mr. Hepburn made this statement; he defined very briefly what socialism was, and said, "If this definition is correct, then this bill approaches socialism." You can find the exact language.

Senator REED. You spoke in innuendo, and gently insinuated that most of the people down here were cranks?

Mr. HARRIS. No; he read this statement, which you may get, and you may draw your own inference. But he defined socialism and then said that this bill amounted to socialism.

Senator WEEKS. What inference did you draw from his statement?

Mr. HARRIS. Well, having told you how I feel—that I believe thoroughly in supervision and regulation for every form of public or quasi-public business whatever it may be—I do feel that the bill as passed in the House is just what Mr. Hepburn said it was. And yet that bill would not affect me in my individual banking business; but, as a whole, taking the make-up of the board, the fact that the Presi-

dent, in one administration could control that whole board by appointment—

Senator REED (interposing). Let me ask your view on this question—

Mr. HARRIS (interposing). I will say to you this is not a political matter. In reaching my conclusions I should remove myself from the banking field, just as I believe you gentlemen should remove yourselves from the political field—

Senator NELSON (interposing). Allow me to make a suggestion at this point, which, I think, would clear up this matter a little. Socialism is divided into what they call state socialism and private or personal socialism. State socialism is simply where the State undertakes to do a thing that many people believe ought to be done by private parties. For instance, we are doing a lot of Government work here in this country that comes under the head of state socialism. The Post Office Department, the Interstate Commerce Commission, and the meat inspection, the pure-food law, all come under the head of state socialism, and that was the great fad of Bismarck. He was a state socialist, but socialism in its odious sense is not state socialism; it is that other species of socialism.

Mr. HARRIS. Mr. Hepburn, I think, had the state socialism sense in mind.

Senator NELSON. The work done by the Government, which I have referred to, is what I would call state socialism, and in that sense it is not an odious term, as it is when used in the other sense.

Senator REED. I do not know in what sense he used it. I find that bankers, like other people, have their limitations.

Mr. HARRIS. There is no question about it.

Senator REED. A banker, not more than other people, and I am inclined to think not less, and they sometimes go off at a tangent.

I want to suggest two or three things to you, because you are a banker.

Mr. HARRIS. One moment, please. I would like to be here as long as you want me, but I am only one member of our committee, and I do not want to take up any unnecessary time.

Senator REED. I am taking the time, not you.

Mr. HARRIS. I am glad to be at your service.

Senator REED. That the board under this bill does not possess in any particular, or in all particulars together, as much power as the Secretary of the Treasury now exercises as one man.

Mr. HARRIS. Personally I do not object to control—or, rather, supervision and regulation, though it is control in this bill—but I do object, as I said, perhaps before you came in, to the way in which the board is constituted.

Senator REED. The general board. I am calling your attention just to this one thought, that there is a more arbitrary power vested to-day in the Secretary of the Treasury than is vested in this board by this bill.

Mr. HARRIS. Without being familiar with all the details, there can be no question, it seems to me, but that you are wrong in that, because the Secretary of the Treasury can not control credits, can not control rates of interest, and all that sort of thing. It would be a very easy matter, Senator, it seems to me, for a President from the West or a President from the South, for instance, as we saw it re-

cently. There was a great demand for more money when Secretary McAdoo——

Senator REED (interposing). You are talking about the bill?

Mr. HARRIS. I am talking about what the board can do. You say that the Secretary of the Treasury has more power to-day, more arbitrary power, than the board would have?

Senator REED. Yes; that is, more than this board will have when this committee gets through with this bill.

Mr. HARRIS. That is an unknown quantity. If this committee——

Senator REED (interposing). What I mean is this: This bill permits certain things that are not now permitted to any department of the Government. The question of how the bill will come out of this committee, whether there will be legal restrictions placed upon the whole matter, is a question; but I am speaking now just about this exercise of arbitrary power that the Secretary of the Treasury has under the Aldrich-Vreeland Act. He can issue \$500,000,000 worth of currency or he can refuse to issue it. He is vested with the arbitrary power, in the case of a panic, to sit here and let the country suffer under it, or he is vested with the power, of course, upon application and in conformity with the measure, of issuing this vast sum of money. I am only suggesting this; I do not say it in the way of antagonism.

Mr. HARRIS. I understand that. There is not any antagonism, sir, from either of us.

Senator REED. This charge of so-called socialism, of which our friend spoke with the same temperance of expression that some people use when they call bankers scalawags and pickpockets and things of that sort, is not true, and let me say to you and all other bankers that abuse of the character that Mr. Hepburn indulges in very seldom convinces a man.

Mr. HARRIS. If I get the sentiment of the bankers correctly, the only hope the bankers have is in this committee, and if I did not believe that this committee was going to do what I think they are going to do after they have had information from all parts of the country, I would not take my time and pay my expenses to come down here and talk to you. I think the only hope is in this committee.

Senator POMERENE. You have spoken here of the position of the bankers generally. Have you not been impressed with the idea that the bankers themselves can not agree among themselves as to what ought to be done?

Mr. HARRIS. No; I have not been so impressed. You have a splendid example that they are agreed by the action that was taken at the Chicago conference.

Senator POMERENE. Have you kept in touch with the hearings before this committee? We had such men as Mr. Vanderlip and Mr. Cannon, who both said the bankers could not agree among themselves as to what should be done.

Mr. HARRIS. We have that with the tariff and with every other matter of large importance, and some men come here representing interests of one kind or another, and some with a selfish idea. I do not think that means anything because the real thing you want to get is not what Mr. Vanderlip or Mr. Cannon or I may tell you, but what you get from a conference like the Chicago conference,

which comes down to specific recommendations from all sections and from all classes of bankers.

Senator SHAFROTH. What do you think of the action of the State Bankers' Association of Virginia, which indorsed this bill the other day, passing resolutions indorsing it, and then two or three weeks afterwards condemned it?

Mr. HARRIS. I was present at the Virginia bankers' convention, and addressed that convention, and Senator Owen made the first public address that was made after the bill was introduced into the House. The Virginia bankers' convention was held before the bill was passed. It was held at the time the bill was introduced by the House committee.

Senator SHAFROTH. That was the first convention?

Mr. HARRIS. The Virginia bankers have only had one convention this year that I know anything about.

Senator SHAFROTH. Was there a reversal of former action?

Mr. HARRIS. Probably, and very properly so, I should say, for the reason that the bill had just been introduced, and the convention had had no opportunity to consider it aside from comments made to them by Senator Owen. Senator Owen made his talk before the bankers and it was made plain that Senator Owen was a Virginian, and that Congressman Glass was a Virginian, and President Wilson was a Virginian.

Senator WEEKS. That the authors of the bill were Virginians?

Mr. HARRIS. Yes; that Congressman Glass, Senator Owen, and President Wilson were all Virginians, and it would therefore be a very proper compliment to indorse the action because originating from Virginians.

Senator SHAFROTH. The present bill is very much more favorable to the bankers than the first one.

Senator REED. Do you think that the fact which you mentioned a while ago in reference to the nativity of the gentlemen you named carried the day—that sentiment?

Mr. HARRIS. Yes. I tell you, Senator, you can go into a large gathering of people, where everything goes along smoothly and nicely and in good spirit, and you can get resolutions of that sort passed.

Senator REED. That is what I think about your convention in Boston. I think that is the way it was run.

Mr. HARRIS. No; the banker went there, having in mind the discussion of the bill and having looked into and studied the provisions of the bill and the effects of the bill. The bankers at the Virginia convention knew nothing about the bill until they received knowledge at first hand and for the first time, as Senator Owen presented it, and his address created a favorable impression.

Senator POMERENE. Did he misrepresent anything?

Mr. HARRIS. Not that I know of. I told the Senator that I had heard a good many progressive talks, but that he had made the most progressive talk I had heard, because he referred to the initiative, referendum, and recall and other progressive principles, and that it was a first-class progressive talk, and he impressed his audience.

Senator POMERENE. I am referring to his discussion of the banking and currency matter. Did any of them take issue with any of his proposals, so far as the banking question was concerned?

Mr. HARRIS. It was not much of an argument; they were trying to get information. I suppose an hour and a half was used in interrogating him.

Senator REED. After all that they passed a resolution favoring the bill, and about three weeks afterwards they took it all back.

Mr. HARRIS. That would not be wrong. Do you not sometimes change your mind?

Senator REED. That is why I have been suggesting these things to you, because I believe you will change your mind; that this bill, while it may have some imperfections, which we are trying to discover, was not passed upon as a final proposition by this convention, in which one of the prominent men characterized Congress as a pack of Socialists.

Mr. HARRIS. Do not put it that way. I do not think Mr. Hepburn's statement permits that conclusion.

Senator HITCHCOCK. I think what Mr. Hepburn said, Senator Reed, was that the bill was socialistic, and gave as a reason for that statement that it took 10 per cent of the capital away from some banks and put it under the control of others, and if they could take 10 per cent they could take 30 per cent or 40 per cent or take it all, and that, therefore, it amounted to a socialistic measure. I do not think he referred to Members of Congress as being socialistic, but to the measure as being directed toward socialism.

Mr. HARRIS. I think you should read Mr. Hepburn's statement in justice to yourself and Mr. Hepburn, and the worst impression that you may get from reading an account of the proceedings, I think, would be more from what Mr. Hill, of Connecticut, said. He did not represent anybody, simply speaking individually. He offered a resolution, which was voted on, and that was an entirely separate matter.

Senator REED. Is that Mr. James J. Hill, of the Great Northern Railroad?

Mr. HARRIS. No; Mr. Hill, of Connecticut, a former Member of the House, who was on the Banking and Currency Committee of the House for many years.

Senator REED. I just wanted to get you convinced that the Members of Congress were not such a bad lot. That sort of talk about Congress is exactly on a par with the talk of the man who says the bankers are the enemies of the public and all that sort of stuff. We are trying to act on a different basis from that.

Mr. HARRIS. I am satisfied of that.

Senator POMERENE. After that Chicago meeting the papers announced that it was the sense at least of some of the bankers that this bill should be so amended as that the action of the reserve board would be subject to a veto by the bankers. Did you see that?

Mr. HARRIS. No; I did not see that.

Senator POMERENE. You saw a statement in the papers?

Mr. HARRIS. Oh, yes. There was so much in the papers——

Senator POMERENE (interposing). Did it occur?

Mr. HARRIS. No; it did not. Mr. Reynolds had made a suggestion and, I think, he has made it to your committee, that there should be an advisory committee. I think that has been passed up. I do not think that is necessary, taking the seven men and giving them the power you have given them now, but make a change as suggested, in the selection of the seven men.

Senator POMERENE. Does that feeling prevail that there should be a power of veto for the bankers?

Mr. HARRIS. I do not think so.

Senator POMERENE. I should hope not, in this Republic.

Mr. HARRIS. I do not believe it. I belong to the banking fraternity, but, more than that, I belong to the agricultural fraternity. Eighty per cent of my worldly goods is in agriculture, and I have been devoting my time to this agricultural work among the bankers, getting the bankers interested in these welfare matters. I think the bankers are just as selfish and just as unselfish as any other class of men, it's not a question of the business, but of human nature.

Senator NELSON. I would like to hear the substance of the resolution that was adopted.

Senator HITCHCOCK. Yes; I think that would be desirable. Could you not give us the substance of the resolutions of the Boston conference?

Mr. HARRIS. The Boston conference simply indorsed the action of the Chicago conference. Mr. Hepburn in his report told the story of his committees, and made this reference to socialism. This was simply his report.

Senator POMERENE. Was that all?

Mr. HARRIS. That was all there was to it. Mr. Hill had an individual resolution of his own.

Senator NELSON. What I was after, if you will allow, Mr. Chairman, I want to know what the country bankers' resolution was.

Mr. HARRIS. Senator Reed has the resolutions there. You will have the whole committee here on Monday.

Senator O'GORMAN. Mr. Harris, I am going to ask you a question—

Mr. HARRIS (interposing). Mr. Crampton reminds me that the American Bankers' Association is not going to send a committee down here. They simply indorsed the action of the Chicago conference.

Senator O'GORMAN. As I understand, you have been a banker in Illinois?

Mr. HARRIS. Yes.

Senator O'GORMAN. And you have been a banker for some years?

Mr. HARRIS. Yes, sir.

Senator O'GORMAN. You have been active in a movement to encourage the development of agriculture?

Mr. HARRIS. And roads and education, and so forth.

Senator O'GORMAN. It has been stated from time to time that the attitude of the country bankers regarding the pending legislation have been dictated by the so-called money power of New York and Chicago and St. Louis. I would like to know whether that is true or not.

Mr. HARRIS. Well, I resent that personally, and I resent it on the part of the country bankers. I think that any suggestion toward dictation by the city bankers would be resented even if what they stated had some merit. I think it is entirely unfounded. There are so many large city banks competing for country bank business that the country banker has many opportunities to do the dictating himself.

Senator O'GORMAN. You state that claim is entirely unfounded and groundless, and based on invention and ignorance?

Mr. HARRIS. Without any question, and the two meetings at Boston, the meeting of the country bankers and then the general meeting, where every voice indorsed the Chicago conference, would refute that.

Senator O'GORMAN. A witness came before us about a week ago, who was the president of the bankers' association of the State of Wisconsin, and he stated, in substance, that everything done at the Chicago conference was the result of a program enforced upon the conference by influential bankers from the large cities.

Mr. HARRIS. I could not find terms strong enough to resent that.

Senator NELSON. Was not that man present at Boston?

Mr. HARRIS. Yes; he was one of those present at Boston. I heard him at Chicago and at Boston. I believe it was Mr. Moehlenpah. Mr. Moehlenpah does not know what he is talking about. Mr. Frame, in his own State of Wisconsin, is the only person I know of who conducted a canvass of the situation, and only found three or four bankers in the State who would come in under the House bill.

Senator O'GORMAN. That is not an answer to my question. My inquiry is why those who like to indulge in inflated speech say that this agitation by the bankers who are anxious to see salutary and wise banking and currency measures adopted is the result of a conspiracy, and every time the word "conspiracy" is used by these gentlemen you can imagine it is in large capitals. What have you to say in regard to that?

Mr. HARRIS. If I am not misunderstood, I have to say to that charge that it seems to me that when any interest—and every interest has a right to have its day—

Senator O'GORMAN (interposing). Undoubtedly.

Mr. HARRIS. When any interest takes action or comes down here we get the "Stop thief" or the "Wolf" cry. I read in the Post yesterday a statement credited to the chairman of this committee, in which he said:

I think this Boston meeting had for its obvious purpose to work up opposition to this bill and either to force the bankers' views or to delay or to defeat this bill.

That is not so, for one moment. The bankers, better than anybody else, know the urgent need, more important than any other legislation that can take place, for legislation on the matter of currency. They are willing to make many personal sacrifices, both financial and in principle, to get some workable bill on the books before this Congress adjourns, if possible.

Senator O'GORMAN. But they tremble at the prospect of a dangerous and unscientific system being imposed upon the people of the country?

Mr. HARRIS. They do.

Senator O'GORMAN. That is all I care to ask.

Senator WEEKS. You stated you were present at both the Boston and Chicago meetings?

Mr. HARRIS. I was not present during the last half day at Chicago. There was a two-day session there. There has been a strong attempt on the part of some bankers—bankers like Mr. Reynolds—to go to the

extreme to prevent pronounced opposition to this bill wherever they could, and yet, as citizens, maintain their property rights, at the same time leaving out of the question the fact that they were bankers.

Mr. AISTHORPE. I attended that Chicago conference and I can assure you there was not anything there at all in the shape of the influence of the large bankers. Everybody had a right to discuss the sections as they were taken up, and to discuss them fully. I want to disabuse the minds of the members of this committee of the idea that there was any preconcerted program to get certain resolutions passed.

Senator REED. Could you tell us why it was that all the leading members of that committee happened to be men who believed in the central banks, privately owned and controlled, issuing the currency of the country. How did it happen that the leading spirits on that committee were men of that class?

Mr. AISTHORPE. I do not understand that was the way. Probably they were put on there because they are prominent bankers of the United States.

Senator REED. Bankers generally are not committed to that theory, are they?

Mr. AISTHORPE. The general attendance there was not of that class of bankers.

Senator REED. I say bankers generally are not committed to the theory of a central bank privately controlled and owned.

Mr. HARRIS. Not at all. That was not even discussed.

Senator HITCHCOCK. Who is your next witness, Mr. Montgomery?

Mr. MONTGOMERY. Mr. Sexton will be our next witness.

STATEMENT OF HENRY D. SEXTON, PRESIDENT SOUTHERN ILLINOIS NATIONAL BANK, EAST ST. LOUIS, ILL.

Senator HITCHCOCK. Will you state your name and banking connections?

Mr. SEXTON. Henry D. Sexton, president of the Southern Illinois National Bank, at East St. Louis, Ill.

Senator HITCHCOCK. What is the population of East St. Louis?

Mr. SEXTON. About 75,000 population, a very large and growing city in that State, largely built up through industrial developments. I believe the way the town is growing we are satisfied it is going to be one of the industrial centers of the country. It is the second city now in the State of Illinois in population.

I have discussed the question, and I want to make a statement as to the position of country bankers on that question.

Under the national bank law in recent years we have had a great number of very small country banks established, particularly in southern Illinois. Now, a large part of their revenue is derived from the exchange from their checks which they give to their customers and forward to St. Louis and Chicago in payment of their bills. If they would draw their personal checks their customers in Cincinnati or Chicago will not take them and charge for the collection of that check, and they prefer to make the payment that way instead of to the merchant in the other city. In addition to that, because they get their accommodations there, a lot of them feel that your proposed method of collection or payment through the regional reserve bank is going to affect their own power.

Senator POMERENE. You mean that is general throughout the section?

Mr. SEXTON. The majority of those I have spoken to feel that way about it.

Senator POMERENE. I mean general; that they send exchange rather than send individual checks?

Mr. SEXTON. Naturally so, because the bank is after that little fee, and naturally they serve the man who favors them.

Senator O'GORMAN. Do they appreciate the benefits that will come to them under this system?

Mr. SEXTON. The banker feels that the local fellow can send his check to the merchant in the other city; he deposits it in the reserve bank, and the reserve bank pays it without cost, and he avoids that cost, and in that way he will not go to his local banker and get his exchange.

Senator POMERENE. At the same time, the other man goes and buys his exchange?

Mr. SEXTON. He won't do that, then.

Senator POMERENE. You say he does it now?

Mr. SEXTON. He does it now; yes.

Senator POMERENE. And the bank is out that deposit?

Mr. SEXTON. We are out that fee.

Senator POMERENE. And the deposit also?

Mr. SEXTON. We will always be out the deposit.

Senator POMERENE. If a check is sent from East St. Louis to Cincinnati, it takes one day to go and another day to come back, and the bank has not the use of that money.

Mr. SEXTON. It would be the same with a draft. A draft is drawn upon a Cincinnati bank, and the Cincinnati bank is paying him interest until they pay it.

Senator NELSON. Say I have an account with this gentleman here, in his bank, and I want to remit to New York, and give my check to him for \$1,000, on my account, and he draws a draft on New York and forwards it and charges me a moderate fee for that draft. That is the *modus operandi*, is it not?

Mr. SEXTON. Yes, sir.

Senator NELSON. And that charge varies according to the state of exchange?

Mr. SEXTON. That is right.

Senator O'GORMAN. Apart from the inconvenience that the country bank may experience, do you not think this proposed change is an improvement on the existing practice?

Mr. SEXTON. It is, to the larger fellows.

Senator O'GORMAN. Will it not be a benefit to the people who support the bank?

Mr. SEXTON. Not if the little fellow can not make money enough to allow him to continue in his business at a profit, if that profit is necessary for him to continue in business—

Senator O'GORMAN (interposing). As a matter of fact, do you not think that when a banker is vitally dependent upon the income derived from this practice, that there is little excuse for this bank being in business at all?

Mr. SEXTON. I would not go into business if I could the day after, but there are a lot of men in such places who will.

Senator HITCHCOCK. What places?

Mr. SEXTON. Banks of \$25,000 capital.

Senator HITCHCOCK. I mean the size of the town.

Mr. SEXTON. The smaller towns.

Senator HITCHCOCK. Of about what population?

Mr. SEXTON. About 1,000 people and under.

Senator HITCHCOCK. They need banking facilities of some kind?

Mr. SEXTON. I do not think so, because personally I am selfish enough to think the less country banks there are of that kind the more in the larger cities. We do not get active accounts, we get inactive accounts in many of those localities.

Senator HITCHCOCK. Where would the people in such a town go if they had no bank? Would they just keep their cash and have no place of safety for it?

Mr. SEXTON. Yes; if they had no bank.

Senator HITCHCOCK. They would have to keep it in stockings?

Mr. SEXTON. Yes; I guess they would.

Senator HITCHCOCK. That is the practice in Europe, and that is one reason why I justify the country bank in making these charges.

Mr. SEXTON. That does not apply to my bank. My bank has a capital of \$150,000, and we have about \$2,000,000 deposits. We are practically a suburban bank in a big city, because East St. Louis is, I might say, the manufacturing district of the city of St. Louis.

Senator POMERENE. Right across the river?

Mr. SEXTON. Yes.

Senator NELSON. I think, as a rule, if a merchant keeps an account of any consequence with a local bank, and has occasion to buy a moderate-sized draft, they never charge him anything.

Mr. SEXTON. That is practically the case in these places where there is only one bank.

Senator NELSON. Where they have a monopoly?

Mr. SEXTON. Where a man does not interfere with another man's profits. You will find it to be the case in a great many towns. I simply made that statement because you are endeavoring under this bill to ask these gentlemen to come in and become members of those regional reserve banks, and that is one of the objections that they are making at this time. I submit it for your consideration, as a member of this committee, and as representing those men. That is the reason for my statement.

Senator NELSON. Here is one thing I want to suggest. As Senator O'Gorman has said, this would be a great saving to the public at large. Is there not anything we could do for those banks to compensate them for this in some way, and give them some advantage that they have not now?

Mr. SEXTON. I am not prepared to answer that now.

Senator HITCHCOCK. If they remain under the State banking system they can still continue to make their charges.

Mr. SEXTON. They can make any charges they want.

Senator SHAFROTH. State banks would lose their customers when the national banks would clear free?

Mr. SEXTON. Not in all instances. You are taking away the earning power, and it is up to you gentlemen to determine whether or not it is going to induce these men to come in. There are twice as many State banks in our section as national banks.

Senator HITCHCOCK. Do you recommend that the provision be changed?

Mr. SEXTON. No; I do not do that. I am not prepared to say that. I do think it ought to be modified in some way so as not to destroy these little banks or to prevent them from becoming members of the regional bank.

Senator HITCHCOCK. What is the charge for a Chicago draft?

Mr. MONTGOMERY. It depends upon what territory a man is located in. The average in Illinois is between 75 cents and \$1 a thousand. Some make a practice of charging 10 cents an item on small items, but the average in Illinois will be from 75 cents to \$1 a thousand. As it gets to the more southern points the rate is higher.

Senator O'GORMAN. Has not this practice led to some exactions on a draft coming through banks that have exposed the system to severe criticism?

Mr. MONTGOMERY. Here and there there are banks that do make excessive charges, but it is not general, and those bad features are being reached now to some extent, so that the inordinate charges do not prevail so much as they did even three or four years ago.

Senator REED. You understand that this system will lead to the absolute taking away of the profits from exchange?

Mr. MONTGOMERY. I am not clear as to the exact meaning of that clause.

Senator REED. Would there not be still a considerable amount of local exchange; I mean local in the sense that it would not go to one of these large regional reserve banks, but would go directly from one bank to another, or within a radius of 100 miles?

Mr. MONTGOMERY. The practice is—

Senator HITCHCOCK (interposing). Do you always sell on Chicago? You have been a banker for a number of years. Are you not a banker?

Mr. MONTGOMERY. No; I am not a banker.

Senator HITCHCOCK. If I wanted a draft, of course, I might say I wanted Chicago or New York exchange, but are there not a lot of checks passing from bank to bank that would not necessarily go through the regional bank, upon which these banks would still be enabled to make a collection? That is what I am trying to get at.

Mr. SEXTON. Every bank is going to shoot it into a reserve bank unless you make a clearing house out of it, so that you get that credit. Take our bank. Our bank will have to keep a good deal of money in the regional bank to take care of the checks that will flow in there that now go to the St. Louis clearing house, which we check up before 2 o'clock every day.

Senator REED. You mean to say, then, that in the case of the notes you have this system will just simply absorb all the exchange business, by which I mean the checks. What I had in mind was whether there would not be a source of income still on checks that would be gathered in by these smaller banks, checks that would not go through this method of clearing and out of which they could still get a revenue under this bill?

Mr. SEXTON. I do not see how. Suppose the customer has a check and the regional bank does not pay it, it would go back to the bank and the bank would send it to the other fellow to make a collection.

If you send it to the other fellow he makes you a charge, which you must charge your customer.

Senator REED. Take this sort of a case, and I am asking the question because there have been a number of bankers before us who have said that if this bill passes they will lose the money they make on exchange, and the question with me is whether they would lose. I am not very familiar with the actual workings of a bank. Suppose a man in a small town, say 50 or 100 miles from your city, having a bank in his own town, was to send a check to a merchant in your town to pay a bill, and he would bring that down and deposit it in your bank. Do you think under this bill you would invariably send this check to the regional bank?

Mr. SEXTON. Yes, certainly; because we get a credit there and that takes care of the checks that come in against me.

Senator REED. You could not do that as against a nonmember bank?

Mr. SEXTON. That is just the question I was going to ask this committee. I am not clear, after reading that section—and bankers I have talked with are not clear upon it—whether or not I could send a check through them on a nonmember bank.

Senator REED. If the nonmember bank was not entitled to this benefit there would still remain to the country bank a profit on that business?

Mr. SEXTON. Sure.

Senator REED. The tendency, then, would be to turn all that kind of business he possibly could into the nonmember banks?

Mr. SEXTON. I think it would. We would send them—

Senator REED (interposing). I wish some practical banker like yourself would think about that with reference to this bill. I would like to know if there is not a source of profit left.

Senator SHAFROTH. Let me ask you a question. Suppose there was a regional bank in Chicago and St. Louis, and the check was drawn on some bank in St. Louis. You would not send that to Chicago through the reserve bank, would you? You would have it cleared by the clearing house?

Mr. SEXTON. The clearing house?

Senator SHAFROTH. In St. Louis.

Mr. SEXTON. No.

Senator SHAFROTH. What would you do?

Mr. SEXTON. I would send it to Chicago, because that is where my checks are going to come against my account.

Senator SHAFROTH. Notwithstanding St. Louis is just across the river, you would send it to Chicago?

Mr. SEXTON. I would have to, because I have a balance there and my checks would go there. Because there is no charge on them, all the other banks would forward them there to get a credit and avoid the charge.

Senator SHAFROTH. Would that dissolve the clearing houses?

Mr. SEXTON. It looks that to me, to a large extent.

Senator REED. You now clear through St. Louis?

Mr. SEXTON. We have to, in order to protect our customers. We are not members of the St. Louis clearing house; we can not be under their present rules, because we are outside the State, but they permit

their members to clear them through banks located as we are, and we have made a clearing arrangement with the St. Louis clearing house by which we can clear our checks.

Senator REED. I think Senator Shafroth must be right in regard to local clearings. I can not imagine banks in Kansas City, which now meet and in two hours settle their balances for the day through their clearing house, sending those checks to St. Louis to be cleared.

Senator O'GORMAN. Except for the reason suggested by the witness, that the local bank will find it necessary to keep money in the reserve bank to meet checks coming in.

Senator REED. I know; but they can not afford to hold off their daily settlements to adjust them.

Mr. SEXTON. They will not do that.

Mr. WHITE. May I interpose a word there? I do not think this would interfere at all with the local clearing houses.

Senator REED. I do not, either.

Mr. WHITE. The checks between Kansas City banks would be cleared between the Kansas City banks.

Senator SHAFROTH. Oh, yes. But how about the Wichita and Topeka banks?

Mr. WHITE. Those drafts and checks would go outside. I want to make this statement in reference to the number of regional reserve banks. I gather from my talks with other bankers in our neighborhood that they feel that the less regional reserve banks you have the better, realizing that there must be five or six, or something like that, covering the entire country, for this reason: That it will leave this rediscounting between the regional banks; one will not rediscount for the other. That seems to be an objection on the part of a great many, which will be removed to a great extent.

Senator REED. I want to spend a minute on that. Let us see about that. Most bankers have said that 1 central bank would be an ideal thing—just 1 bank instead of 12. That is a combination of all these powers and all this capital into one place. Then they say if you are going to divide it, do it as little as possible; have 4 and not over 5. If you have 12, they say you have got too many, and you have weakened yourself, and yet the way we propose to tie those 12 banks together and make each mutually of help to the other is practically welding them into one system under one central control; but they object. I can not see the logic of that. It seems to me, if it is right to have a central bank with innumerable branches in the way which has been spoken of, or to have 12 regional banks, and yet to have a means by which each must aid the other, you are illogical when you say that the one central bank when it is all under one power, that is a good thing, but if you have 12 banks, each mutually helpful to the other, that is a bad thing.

Mr. SEXTON. My statement is—I want to say my opinion is, you lessen the need of aid with fewer banks. You have got to take care of certain territory, because the people in the different territory need aid at different times.

Senator REED. That is very true. Suppose you had a central bank with 12 branches in the country.

Senator NELSON. Or 24.

Senator REED. Yes; or 24. Here is the heart and center—the central bank. It has a branch out here in St. Paul. If St. Paul wants

money, St. Paul, through its branch, calls on the central bank for some aid. And if you have one in New Orleans, New Orleans calls for some aid.

Mr. SEXTON. Yes; I say that would be an ideal system.

Senator REED. Now, suppose you had 12 banks with 12 separate organizations and an arrangement by which a central board could direct funds to be sent from one point to another. Has not that in it the same elements as the central bank?

Mr. SEXTON. The branches are different from these regional banks, in my opinion. They would not have the same power as a central bank. It is simply to receive applications, make examinations of securities, and things of that kind. You are dividing up this power into 12 different places. My opinion is now you will need in the neighborhood of 5. And in addition to that, I want to say this: You are going to lessen the expense of it; you are going to minimize—

Senator REED (interposing). I do not know whether you are or not.

Mr. SEXTON. That is my opinion about it.

Senator REED. The power, after all, to direct where the money goes is the same power. If you have a central bank with innumerable branches, these seven men sitting there as the board of directors say where the money shall go. If you have 12 regional banks and those regional banks have rather broad powers themselves, but this central board can direct the money to be sent from one to the other, they are doing exactly the same thing there as they would if they had a branch-bank system. Now, it seems to me that brings us down to the question whether the organization of a regional bank is a sound one, and not the question of numbers; and yet there has been constant talk about the numbers.

Senator POMERENE. This thought was presented here the other day, that there ought not to be more than a night's distance from any member bank to the regional bank in that region, because if they did need accommodations they would need them. Ought not that to be considered when you are determining the number of regional banks?

Mr. SEXTON. No; for this reason: When this act goes into effect, my opinion is, it is going to restore financial confidence in this country; it is going to wipe out just that very thing you are speaking of. It is going to establish confidence in the financial situation in this country.

Senator POMERENE. I am glad to hear you say that.

Mr. SEXTON. I make that at a person statement. I do not think you are going to have the need of all these regional banks; and, in addition to that, for the very same reason I want to say to you that I believe that 5 per cent paid in with 5 per cent on call is going to give your regional reserve board all the money they will need.

Senator REED. You think the central idea of this bill is all right, but you want to suggest changes in the way of working it out?

Mr. SEXTON. I want to say this to you now. This is personal. I am, like every other banker, in favor of this currency proposition—what I might call this asset currency. But this banking system, starting with clearing houses, collecting checks, and all that sort of thing—I think the banks could arrange that among the groups much

better, and they ought to do it. There is not any question that that ought to be done. It ought to be done without any law to compel them to do it. But you are establishing banks of discount, and things of that kind.

Senator POMERENE. Are you in love with the present system of reserves we have in this country?

Mr. SEXTON. Absolutely not.

Senator SHAFROTH. Don't you think this opportunity to go to a central bank and cash your paper in case of a run would be of inestimable advantage to every member bank?

Mr. SEXTON. Not to every member bank. I will say this: You will find that unless they change a great number of their present loans, they won't have that kind of paper. They can get enough, however.

Senator REED. Let us see how that works out—

Mr. SEXTON (interposing). That can be taken care of. You can exchange paper with any bank that has it.

Senator REED. Suppose your bank has \$100,000 of absolutely good paper—

Mr. SEXTON (interposing). I have good bonds—

Senator REED (interposing). And as long as the bank over in St. Louis with which you do business has paper of the kind required, and it can go down to the regional bank and get all the money it needs, it will take care of you, won't it?

Mr. SEXTON. Surely, there is no question about that.

There is one other thing I should like to say a few words about, and that is the question of savings banks. The question of savings in this bill is not understood at all. As the clause in the present bill refers to bankers, it is not well understood by the bankers. You see, they are conducting a business to-day so entirely different from that, I do not know what is going to happen to them. It is going to disturb their investments and everything of that kind. The majority of those investments are too old; they are not the kind mentioned in the bill. I would much prefer to see that eliminated from the bill. It does not, however, apply to me.

Senator REED. Suppose the bill gave you the right to establish a savings bank upon broad and generous lines, and you were given the option to exercise it or not. You would not object to that? You are a national bank?

Mr. SEXTON. Yes; sir; and I am also connected with a savings bank, which is a State bank.

Senator REED. You do not object to the savings-bank proposition being incorporated if it is optional with you to have it or not to have it as a national bank?

Mr. SEXTON. No; because it does not affect me; but how is it going to affect the man who has a savings department in his bank now?

Senator REED. If there were broad principles laid down, as broad as they can safely be made, he would not have any objection, would he?

Mr. SEXTON. Speaking of an amendment?

Senator REED. That is what we are here for, to see whether it needs amendment.

Mr. SEXTON. In my opinion it does.

Senator REED. Is there anybody here that can give us complete information about what is necessary to put into this bill in order to make the savings-bank feature workable and safe?

Mr. SEXTON. I think Judge Montgomery, the president of our State association, who is president of the largest savings bank in our State, outside of Chicago, is eminently qualified. Whether or not he is prepared to do that I do not know.

FURTHER STATEMENT OF S. B. MONTGOMERY.

Senator HITCHCOCK. Judge Montgomery, have you already been on the stand?

Mr. MONTGOMERY. Yes, sir.

Senator HITCHCOCK. Senator Reed wanted to ask some questions about how the law should be amended in order to make the bill acceptable. Did you refer to that in your statement?

Mr. MONTGOMERY. I did not make a statement at all; I handed a written statement to the chairman of the committee. I just said with reference to that that a great many small country banks have some savings. They attempt to get deposits, and they do get them, but they do not get enough to justify the segregation. I think I said that in my paper; I have forgotten now.

Senator POMERENE. Did you in your paper suggest what changes you thought should be made?

Mr. MONTGOMERY. I suggested that the savings-bank section be left out altogether.

Senator HITCHCOCK. Where would that leave the national banks that now have savings departments?

Senator NELSON. It would leave them just as they are.

Mr. MONTGOMERY. I was just about to answer that. They have been taking savings right along.

Senator HITCHCOCK. How do they invest them?

Mr. MONTGOMERY. As they please.

Senator HITCHCOCK. There is no limit?

Mr. MONTGOMERY. No, sir.

Senator POMERENE. The most of them carry the same reserves against their savings accounts now as they do against others.

Senator REED. Are they not proceeding in violation of law now?

Mr. MONTGOMERY. Ours is a State bank. There is nothing against it in our law. I have always felt that it was simply winked at.

Senator REED. Nothing ought to be winked at in a great financial system.

Mr. MONTGOMERY. I do not know; I may be wrong—

Senator REED (interposing). Now let us assume that we are going to try to create a system here that will invite into it your State bank. You have a State bank, you say?

Mr. MONTGOMERY. Yes, sir.

Senator REED. And you have a trust department?

Mr. MONTGOMERY. Yes, sir.

Senator REED. And a savings department?

Mr. MONTGOMERY. Yes, sir.

Senator REED. Now, if we were to try and make this bill so that your bank could come in, and all similar banks in the State of Illinois,

and so that you could legitimately carry on this business under this system and a national bank could have the same privileges, what would be necessary to write into this bill to accomplish that?

Mr. MONTGOMERY. That is a pretty hard question.

Senator REED. That is the question we have to solve, and you people are here to help us.

Mr. MONTGOMERY. You mean you are going to solve the problem of how to make this law so satisfactory that a State bank will come into the system?

Senator REED. We want to make it so that all banks can come in that desire to come in.

Mr. MONTGOMERY. That brings up all the objections that are mentioned. I mentioned, I think, seven in my paper.

Senator REED. You mentioned objections to this bill. What I want is suggestions as to what ought to go into the bill.

Mr. MONTGOMERY. We have a capital of \$1,000,000. If we have to put up 10 per cent and subscribe another 10 per cent to this organization, it will take \$100,000 from us, in the first place, and I have not yet seen anything in the bill that tells how we will ever get it back. We subscribe another 10 per cent, and I do not know whether we would have to pay that or not. We have not much regulation in our State with reference to reserves. We carry a good reserve always, and we carry a great many demand loans, so as to keep ourselves safe. But we are not now under anything like as rigid laws as we would be under this system.

Senator REED. And therefore you would hesitate to come in?

Mr. MONTGOMERY. We are running as we please, very much.

Senator REED. You do not think that is a wise thing to do in a banking system? You do not think that a banker ought to be allowed to do just as he pleases?

Mr. MONTGOMERY. I do not think I should say we are running as we please; that is too broad.

Senator HITCHCOCK. You are running according to your judgment?

Mr. MONTGOMERY. We are running according to our judgment and according to the law of the State of Illinois.

Senator REED. But that law is—

Mr. MONTGOMERY (interposing). That is a very liberal law.

Senator REED. I do not speak for anybody but myself, but I should like to know what suggestions the State bankers have to make by way of amendment to this bill which would enable them to come into the system with all their various departments and continue to prosper and at the same time have the system safe. Now, some of you practical gentlemen ought to be able to tell us, and if you are not prepared to do it now, Judge, I wish you would write it out in the form of suggested amendments and send it to us within the next 8 or 10 days at least.

Mr. MONTGOMERY. Well, I should be glad to write anything I can that will help. I am as anxious to see this law made satisfactory and adopted as anybody.

Senator SHAFROTH. Mr. Montgomery, this amount that is called for here is identically the same as that provided by the Aldrich bill, which seemed to be very satisfactory to the bankers, was it not—10 per cent in cash on a subscription of 20 per cent?

Mr. MONTGOMERY. I confess I do not remember. I am afraid we are trespassing on your time. Mr. White wanted to say something, I think.

STATEMENT OF WILLIAM C. WHITE, PRESIDENT ILLINOIS NATIONAL BANK, PEORIA, ILL.

Senator HITCHCOCK. Where do you live, Mr. White?

Mr. WHITE. Peoria.

Senator HITCHCOCK. Your bank?

Mr. WHITE. The Illinois National Bank.

Senator HITCHCOCK. What is your capital?

Mr. WHITE. \$200,000.

Senator POMERENE. Will you give the surplus and your deposits?

Mr. WHITE. We have a surplus and undivided profits of \$130,000 and deposits of about \$2,000,000.

I just want to say a word in regard to this matter of a savings department. We have about \$400,000 of savings in our savings department. We are a commercial bank. Our funds are largely loaned out to local business houses, jobbers, and manufacturers.

I think there is a matter of principle involved there that possibly you gentlemen have not thought of. I think the logical place for a man to keep his savings deposits is in a bank that furnishes money to the concern by which he is employed.

Senator HITCHCOCK. You do it by time certificates of deposit?

Mr. WHITE. We have savings books and certificates of deposit both.

Senator HITCHCOCK. Are the savings deposits withdrawable on demand?

Mr. WHITE. Yes.

Senator HITCHCOCK. Does the State law permit you to require that a notice shall be given?

Mr. WHITE. We are a national bank. I do not know just what the State law is. We have followed the regular savings bank's books, that we can give a notice—

Senator HITCHCOCK (interposing). That is by individual arrangement with the depositor?

Mr. WHITE. Yes. The idea I mean to convey is this: Say there were a thousand men working for one of the Peoria manufacturers. If we are restricted to their deposits we have to loan those possibly on real estate or some investment designated by this bill. We might possibly find it hard to take care of the manufacturer that employs these men. I think there ought to be a good deal of latitude and room for discretion on the part of the bank officers in loaning those funds and not just be restricted to some narrow investment.

Senator REED. There ought to be some restriction, ought there not, to insure safety?

Mr. WHITE. Possibly some restriction, but I would not know what percentage to say, or anything of that sort.

Senator REED. You recognize the fact that there are two things every banker has to consider, I take it; one is, he wants to make money, and the other is that his bank must be regarded as sound and be kept sound in order for him to be successful in making money.

Mr. WHITE. That is very essential.

Senator REED. And the whole system, as a system, must be protected so that the confidence of the people will not be shaken in the system and thus a run produced.

Mr. WHITE. It is largely a matter of confidence.

Senator REED. Taking these two things into consideration, what suggestions have you to make as to amendments to this bill which will make it a better bill along those lines?

Mr. WHITE. Well, I really think the matter of investment of savings funds ought to be left largely to the executive officers of the banks.

Senator HITCHCOCK. What do you mean by "largely"?

Mr. WHITE. Altogether, in fact.

Senator HITCHCOCK. Altogether. What reserve do you think ought to be kept against those deposits?

Senator NELSON. Now, Mr. Chairman [Senator Hitchcock], if you will allow me, I want to see the witness on that point. I think I can clear the matter up. As a matter of fact, these national banks are not doing a savings-bank business in the full sense of the term. The only part of the savings-bank business they do is to pay interest on time deposits of their depositors, either by book or by certificate of deposit. When it comes to the matter of reserves and the investment of this money it is not segregated from the other moneys of the bank, but is subject to all the conditions of the national-bank law. They can no more invest those savings deposits in other securities than they can their commercial deposits. It is only to that extent the national banks have been doing a savings business. It has grown up of itself. Depositors come in and say, "We want to deposit this and we want to get interest on it." This interest is paid either on certificates of deposit or upon books, as you say. After the money comes in it is kept with the other money of the bank, and is invested in just the same manner as its other money. It is only to that extent they are doing a savings business. Is not that correct?

Mr. WHITE. That is right.

Senator REED. I understand, Senator, that this bill proposes to legalize that form of business, and, secondly, to enlarge it and to make it a true savings-bank department, and give it the power to take the money not only on time deposits but give them whatever other advantages there are.

Senator NELSON. The point here is, Senator Reed, that the bill proposes to create a full-fledged savings bank, and the limitations under that are distinguished from the other. In the first place, they only require a reserve of 5 per cent. In the next place, they can invest the money they get in almost any kind of security—in stocks and bonds, real-estate mortgages, and permanent investments—instead of using it for commercial and trade purposes. That is the trouble. You can see in the small country town how difficult it is to keep up such an institution as a part of a national bank.

Senator HITCHCOCK. Now, I would like to ask the witness this question: Suppose they have the alternative—suppose the law permitted you to have a savings-bank department on a reserve of only 5 per cent, but limited your investment strictly to savings-bank business. Suppose it also permitted you to do a savings-bank business on the present commercial basis that you are now doing it on, provided you kept the legal reserve.

Which alternative would you take?

Mr. WHITE. I would take the one allowing us to make the investments in a commercial way.

Senator HITCHCOCK. Then what you object to is being compelled to go into the savings investment, practically?

Mr. WHITE. Yes; to segregate it as a separate fund.

Senator HITCHCOCK. Rather than do that, you would prefer to keep a larger reserve?

Mr. WHITE. To keep a larger reserve; yes.

Senator POMERENE. That is due, I take it, to the fact that it is what your community requires?

Mr. WHITE. That is the commercial business generally which the banks are doing.

Senator REED. Then you would be content if this bill provided, in express terms, that any national bank could receive time deposits and pay interest thereon, provided further it may, if it so desires, establish a savings-bank department, in which event it shall have certain rights and privileges but shall not have to keep its funds segregated.

Mr. WHITE. Yes; without having to segregate its funds.

Senator REED. And you would go on as you now are. But if you undertake to establish a separate department and have an opportunity to do all of the savings-bank business, then you recognize the justice of the savings-department provision?

Mr. WHITE. Oh, yes.

Senator REED. So, if it were left optional, and you had all the rights you have been heretofore exercising and had it legalized, you would be content?

Mr. WHITE. We would be content.

Senator NELSON. You would prefer that system?

Mr. WHITE. Yes; if you do not segregate the funds.

Senator HITCHCOCK. Do you call it a savings department?

Mr. WHITE. A savings department of the national bank.

Senator HITCHCOCK. Is there any value to you in calling it a savings department?

Mr. WHITE. Yes.

Senator HITCHCOCK. Would you still want that privilege and maintain a commercial reserve?

Mr. WHITE. Yes.

Senator POMERENE. It attracts the small depositor?

Mr. WHITE. Yes.

Senator BRISTOW. Do you not think it would be desirable to have permission to lend a certain percentage of those funds on real estate, if you desired?

Mr. WHITE. I think it would be a good provision for national banks. That is what we have been waiting for all these years, to have some provision for making loans on real estate.

Senator NELSON. And measured by the percentage that the time deposits run to the percentage of commercial, would not that be fairer?

Mr. WHITE. Yes; that would be fairer. I think it ought to be left largely in the discretion of the bank officials.

Mr. HARRIS. Mr. Chairman, may I say just a word on that question? It seems to me that the purposed permitting of these savings

departments is another thing that helps to defeat the purpose you want to accomplish. In other words, the whole purpose is to mobilize everything you can. The minute you begin to segregate, then you help to defeat the purpose you have in mind.

Another thought is this, that this is a currency measure, and the provision for making 12 months' farm loans represents a savings-bank feature.

Would it not be expedient to consider leaving both of these features out of the bill and then go ahead and modify the national-bank act, and, as I understand you will perhaps do, later give the banks all the powers you think they ought to have? But let this bill stand purely as a currency measure without the savings measure or anything of that kind. The national-bank act must be modernized, because we will not have any national banks in this country unless it is, aside from this bill, one way or the other.

Senator REED. In view of the national banks saying they do not want to come into this system, anyway, what some of us have in mind is trying to make a bill that will take care of the national banks, the State banks, and the loan and trust companies, and the idea now is to create a system which will. I do not much like the idea of dividing the load, because sometimes it is hard to get the load through Congress even if you take it there at once and have everybody pushing.

Mr. HARRIS. The fact that most of the national banks have a feeling that they will have to segregate their savings capital might be another reason why they would not want to come in.

Senator REED. That is just why I suggested leaving that in the alternative in the bill.

Senator NELSON. I want to add just one word, and that is this: The deposits of these small country banks of \$25,000, etc., in farming communities—practically one-half to two-thirds of their deposits are time deposits paying interest. They are practically savings deposits. Now, I live in a town where we have three banks, one of \$60,000, one of \$100,000 capital, both national banks, and a State bank with \$50,000 capital. The average amount of deposits of those three banks is about \$1,000,000, and one-half to two-thirds of the deposits in both the National and State banks are time deposits—deposits of the farmers, on which they get interest. They are practically savings deposits. But when the moneys come into the bank they are treated like all the other funds of the bank and used for the same purposes. Is not that practically true?

Mr. WHITE. That is the condition.

Senator NELSON. And if you segregate those savings deposits in the little country banks the commercial end of it will be the small end, and there will not be anything left of it.

Mr. MONTGOMERY. There is a provision here that the capital thus set apart for uses of the savings department aforesaid shall in no case be less than \$15,000, or than a sum equal to 20 per cent of the paid-up capital and surplus of the said national bank. Now, I do not know exactly what that means. Does it mean 20 per cent of the capital of \$25,000 banks?

Senator HITCHCOCK. Capital and surplus, it says.

Mr. MONTGOMERY. Assume it has no surplus, for the sake of the argument.

Senator REED. That language is very vague and ought to be changed.

Mr. WHITE. It is very vague, and I do not know what it means. I do not know whether it means \$5,000 or \$15,000.

Senator HITCHCOCK. Have you any others who desire to make statements?

Mr. MONTGOMERY. Mr. Crebs is the only other speaker.

Senator HITCHCOCK. Please state your name and place of business.

STATEMENT OF JOHN N. CREBS, OF CARMI, ILL.

The CHAIRMAN. How large is Carmi?

Mr. CREBS. It is a town of 3,000 inhabitants.

Senator HITCHCOCK. What bank are you connected with?

Mr. CREBS. The national bank.

Senator HITCHCOCK. And what is the size of your bank?

Mr. CREBS. \$40,000 capital.

Senator HITCHCOCK. Is it the only national bank there?

Mr. CREBS. No; there is the First National.

Senator SHAFROTH. What are the deposits and surplus?

Mr. CREBS. Surplus \$10,000 and deposits now about \$200,000.

Senator HITCHCOCK. Proceed.

Mr. CREBS. Judge Montgomery asked me to say a word about the amount that the national banks were expected to contribute toward the capital stock of the reserve banks. I told him I believed I was better able to speak on that than any other subject, possibly because it is the smallest part of the whole matter.

I have heard, in talking with those I have met in our section, more on this point than any other, and I am convinced, in my own mind, that it would be better for the banks—I do not want to put it that we are only interested in what is better for the banks, but I can not help but believe you would get more banks interested if the amount required was 10 per cent instead of 20.

Senator NELSON. The subscription?

Mr. CREBS. Yes; the subscription.

Senator NELSON. Five cash and five subject to call?

Mr. CREBS. Yes.

Senator HITCHCOCK. I want to ask you a question there: Suppose the small country banks were permitted to pay their part of the capital in 2 per cent United States bonds instead of cash, and retire their currency to that extent?

Mr. CREBS. On first thought, it seems to me, as that now stands under the present arrangement, they might fall over themselves to get in. [Laughter.]

Senator NELSON. I guess they would.

Senator REED. Now, let me ask you a question. Suppose the bill was amended so that the forced retirement of national-bank notes was stricken out and suppose the tax upon the national-bank circulation was cut down, then you would want to hang on to those bonds, would you not?

Mr. CREBS. Well, I can not answer that, because I am not familiar enough with the situation. It is not a big enough matter with us.

Senator HITCHCOCK. How many United States bonds have you for circulation purposes?

Mr. CREBS. \$40,000.

Senator HITCHCOCK. The full amount of your capital?

Mr. CREBS. Yes.

Senator HITCHCOCK. You issue the full amount of your currency, then, I suppose?

Mr. CREBS. Yes.

Senator REED. How much tax did you pay on those last year; do you remember?

Mr. CREBS. No, sir; I do not remember.

Senator SHAFROTH. \$200.

Mr. CREBS. I presume it would be.

Senator HITCHCOCK. You think, then, that more banks would want to come in if they were permitted to subscribe 10 per cent of their capital?

Mr. CREBS. I think so, for the reason the small banks think it is taking too much of their capital away from them to enable them to feel satisfied in coming into the regional bank.

Senator POMERENE. How old is your bank?

Mr. CREBS. About 15 years.

Senator POMERENE. What advantages do you have now in being a national bank from what you would have if you surrendered your charter and reincorporated under the State laws?

Mr. CREBS. The main advantage I see is the fact of being a national bank—the name.

Senator NELSON. And the circulation privilege at present?

Mr. CREBS. I can not feel myself that there is for the individual bank an advantage in that. It is an advantage in a general way to the many banks collectively, but to the individual small bank I do not see where it is an advantage, except raising the total amount of the figures of the bank for advertising purposes.

Senator BRISTOW. You think you do not make much money on your circulation?

Mr. CREBS. I do not know how we do.

Senator NELSON. What rate of interest do you get where you are?

Mr. CREBS. Six per cent is the prevailing rate.

Senator NELSON. You would have more advantages under the State law, then—that is, if you became a State bank?

Mr. CREBS. The stronger the bank the more the advantage it would be. Senator, because of the privilege of loaning as a State bank that you do not enjoy as a national bank.

Senator BRISTOW. Do you have all your funds in demand there that you can supply?

Mr. CREBS. Indeed we do, always.

Senator NELSON. What class of people are your borrowers?

Mr. CREBS. Farmers, altogether. It is an agricultural district.

Senator NELSON. Your loans are on farm paper?

Mr. CREBS. Yes; altogether.

Senator BRISTOW. What time do you usually make your notes?

Mr. CREBS. We try to make them on short time—90 days; but with us it makes no difference. When we loan our money we have to wait until the farmer gets ready to pay it back.

Senator BRISTOW. You renew your loans?

Mr. CREBS. Yes.

Senator REED. How would Mr. Farmer like it for you to take his note and discount it with another bank, and when he comes in to settle for you to say it is in another bank?

Mr. CREBS. I presume you have reference to the reserve bank. Conditions are changing so rapidly that it would make no difference whatever.

Senator REED. Provided you took care of his loan when he wanted to renew it?

Mr. CREBS. Yes.

Senator REED. What dividend did you make last year—what do you generally make?

Mr. CREBS. We generally make about 10 per cent.

Senator REED. Are you laying aside any surplus?

Mr. CREBS. We organized our bank for \$25,000, and have accumulated \$10,000 and had an extra \$15,000 surplus earnings.

Senator HITCHCOCK. In how many years?

Mr. CREBS. Just since the act enabling banks to organize at \$25,000.

Senator REED. You have \$25,000 capital now?

Mr. CREBS. No; \$40,000.

Senator REED. And you made the extra \$15,000 out of earnings, did you?

Mr. CREBS. Yes. I do not think we should take this bank of mine as a general rule, however, because it was a family affair. We have made good earnings and paid a good deal out for clerk hire.

Senator REED. You pay pretty liberal salaries to yourselves?

Mr. CREBS. Well; no, sir—

Senator REED (interposing). There is no objection to that. I am just trying to get at the facts. It being a sort of a family affair, you in that respect have not gotten down to cold business, but have a family consideration introduced into it.

Mr. CREBS. That is true.

Senator REED. So that your bank has done pretty well?

Mr. CREBS. It has, yes; and will continue to do well, too, we expect.

Senator REED. Did you suspend payments in 1907 for the time being—limit the payments?

Mr. CREBS. No, sir.

Senator REED. You went right along?

Mr. CREBS. Yes.

Senator REED. I find a great many of the smaller banks did that. They did in my county. The big fellow is the man you are afraid of, are you not, in this equation?

Mr. CREBS. I am not afraid of him. I think it is all right.

Senator NELSON. You do not want to assume, Senator Reed, that we little fellows in the country are afraid of the big fellows of the city?

Senator REED. I mean afraid he will make the disturbance, make the trouble. I do not mean afraid of them personally.

Mr. CREBS. No; I am not afraid of them.

Senator REED. But really, seriously speaking, you recognize there is a danger from our banking system at present that ought to be obviated, coming from various causes and culminating in a shortage of currency at times through business fear?

Mr. CREBS. Yes.

Senator REED. And feel that that ought to be obviated?

Mr. CREBS. Indeed, I do. I gladly welcome the prospect we have before us.

Senator NELSON. Could you get your reserve in 1907? Could you draw on other banks freely?

Mr. CREBS. We were advised we could in the event we needed it.

Senator REED. You deposit principally in Chicago, I suppose?

Mr. CREBS. Chicago and St. Louis.

Senator HITCHCOCK. If there are no further questions, you may be excused.

Mr. MONTGOMERY. Gentlemen, we want to thank you for our treatment here.

Senator NELSON. We want to thank you for coming; you have helped the committee.

Senator HITCHCOCK. The committee will now stand adjourned until Monday morning at 11 o'clock.

(Thereupon, at 1 o'clock p m., the committee adjourned until Monday, October 13, 1913, at 11 o'clock a m.)

MONDAY, OCTOBER 13, 1913.

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

The committee assembled at 11 o'clock a. m.

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

The CHAIRMAN. Mr. Scudder, we will give you an opportunity to appear now.

STATEMENT OF S. D. SCUDDER, VICE PRESIDENT RICHMOND
TRUST & SAVINGS CO., RICHMOND, VA.

Mr. SCUDDER. Mr. Chairman and Senators, I had the pleasure and privilege of attending the country bankers' conference on Monday at Boston, and I believe that their action was most sane and safe.

Senator REED. Just a moment, Mr. Scudder.

Senator O'GORMAN. Will you state your residence, occupation, and the bank with which you are connected?

Mr. SCUDDER. My name is S. D. Scudder, vice president Richmond Trust & Savings Co., Richmond, Va.

Senator O'GORMAN. Have you been connected with that bank for many years?

Mr. SCUDDER. I have been in the banking business about 20 years.

Senator O'GORMAN. What is the capital of your bank?

Mr. SCUDDER. \$1,000,000.

Senator O'GORMAN. And surplus?

Mr. SCUDDER. We have only recently established. We have about \$50,000 surplus. We established the bank about eight months ago.

Senator WEEKS. You were selected as chairman of this delegation?

Mr. SCUDDER. No, sir. Senator Owen simply asked me to come before you, having been the only one who stood up and voted "no" in the convention at Boston on the resolutions of the committee.

Senator WEEKS. You are not representing the——

Mr. SCUDDER (interposing). No; I am not representing the country bankers. The rule established at the country bankers' conference on Monday excluded any participation on my part, because the capital of our bank is \$1,000,000, and the rule established or promulgated by the chairman of that conference was that no bank having over \$250,000 should have any say before the country bankers' conference.

Senator REED. How long have you been in the banking business yourself?

Mr. SCUDDER. Between 20 and 25 years.

Senator REED. Before you became connected with this bank what class of bank were you with?

Mr. SCUDDER. My first job was in the Bank of Montreal. Although an American, I had the privilege of being in the Bank of Montreal, Canada, and from there I went to Minnesota and established a little bank.

Senator NELSON. At what place?

Mr. SCUDDER. At Sleepy Eye, Minn.—the State Bank at Sleepy Eye.

Senator REED. I didn't suppose there was any such town in Minnesota.

Mr. SCUDDER. Yes; a good, vigorous town.

Senator NELSON. It is a good, lively town.

The CHAIRMAN. I think we had better come to the point.

Mr. SCUDDER. I was simply answering the question.

The CHAIRMAN. I know that; I was admonishing the committee as well as the witness.

Senator O'GORMAN. I do not think it is fair to say, Mr. Chairman; that time is being wasted. The Senator from Missouri asked a question that I think is very pertinent and enables us to place an appropriate value on the views of this witness. I think it is well for us to allow him to continue his experience in Sleepy Eye.

Senator WEEKS. It seems to me anything that would dispel an illusion as to the character of Sleepy Eye had better be given. [Laughter.]

Senator NELSON. It is a good, lively town of 2,500 people.

Senator O'GORMAN. What were your activities after you left that place?

Mr. SCUDDER. My health became poor and I had to go to Texas. I was given up by the doctors. I went to Texas and became a rough rider. I got in the mortgage-banking business, representing the Scottish-American Mortgage Co., of Edinburgh, for the State of Texas. I loaned a great deal of money throughout Texas on ranches and farms for the Scottish-American Mortgage Co. I also got in the insurance business, and was appointed sole agent of the Scottish-American Mortgage Co. and the manager for Texas of the Germania Fire Insurance Co., of New York. In a few years they added other territory, so that I finally became their manager for the Southern States, with headquarters at New Orleans. After that they moved me to New York and I managed the Southern States for the Germania Fire Insurance Co. from New York. An offer then came to me from the Trust Co. of America, then the North American Trust Co., to become its treasurer.

Senator O'GORMAN. When was that?

Mr. SCUDDER. In 1900. The North American Trust Co.

Senator NELSON. Of New York?

Mr. SCUDDER. Of New York.

In 1904, I think it was, the Trust Co. of America amalgamated with the North American Trust Co. and I was elected the treasurer of the amalgamated company. I served as treasurer for the Trust Co. of America something like five or six years, and then became interested in a little bank called the Jefferson Bank of New York. That was merged with the Century Bank. While vice president of the Century Bank I was called to Richmond and undertook the formation and management of the Richmond Trust Co.

Senator O'GORMAN. You were connected with the Century Bank at One hundred and fourth Street and Broadway?

Mr. SCUDDER. Yes, sir; I was vice president of that bank.

It was at the general convention of the Boston bankers that I became the insurgent. I will read you a short synopsis of the reason for my vote there.

I am in sympathy with some of the suggestions made by the association's currency commission and believe they would be adopted by the administration if presented in the spirit of fairness and real helpfulness. But I was not willing to lend myself to any action that will cut the very heart out of the bill now before Congress and thus destroy the honest efforts which are being made in Washington to reform our financial system. I refer particularly to the entire change asked for by the bankers' committee as to the proposed note issue. When all is said and done, the whole question now really resolves itself into whether this Government shall issue and control the currency or whether the banks shall do it. Please forget for a moment the question as to whether it shall be a Federal reserve bank, with a main institution located at Washington, on the idea that this "headquarters institution" shall serve only the 5, 7, or 12 "artery Federal banks" throughout the country, and not have any direct dealings whatever with the local banks or the general public, or whether it will be the establishment of 5, 7, or 12 Federal banks, without any "headquarters bank," but with simply a controlling "Federal board" in Washington. There really is very little difference between these two plans, although I am inclined to believe the former would prove the more practical.

A condition and not a theory confronts us, and we as bankers are blind if we do not reckon with it. The same condition here as it is carried on in Canada and European countries makes it also impossible to seriously consider any permanent currency issue by our banks unless such issue is practically guaranteed and entirely controlled by our Government, as is the case at present. In Canada seven or eight large banks do all the business, each having its branches scattered all over that country. Is there any community, large or small, in the United States which would support such a system? You know very well that any "branch" of the largest bank in New York city would find itself outwitted by competition at every turn by an independent local banker or bank in any given spot in the United States. If you omit that part of the committee's report referring to the note issue, which the committee desires the banks to undertake instead of

the Government, you will stand a good chance to be heard at Washington regarding the other recommendations submitted by the committee; but if you leave it in the administration—and remember the people are back of this administration—will understand that the gage of battle has been cast and your action may result in producing a more drastic measure than should be passed.

“Come, let us reason together” should be the slogan of this convention, and not “Come on and fight.” We are partners in the great business of this country, and the only way any partnership can ever permanently succeed is when both sides are conciliatory and willing to give and take. In adopting the entire report of the bankers’ currency committee we will place ourselves in the same category as the man who wanted to argue religion, but who started out with the hypothesis that there was no God. There can be no arguing with such a man and there will be no arguing with us if you demand what the people have said they will not have. The people of this country have, through their representatives, settled the two fundamental principles of currency reform. In no uncertain voice have they stated, first, that they shall be no central bank in the United States governed by the bankers themselves, and, second, that the Government shall make the note issue. Even if you do not agree with my argument that we can not do as Canada and other foreign countries do in respect to our note issues, wouldn’t it be wise to take our cue from what we know to be the sentiment of the people of the United States and act diplomatically at this time? Why should we commit an unfriendly act against the people? To do so just at this psychological moment will put us out of the line of consideration. We bankers represent the investors of bank stocks; but the Government at Washington represents the people of this country who have created the investor. If the people want their Government to issue the currency, the investor should bow to this decision and cooperate to the end that the past friendly relations may continue and redound to mutual advantage.

I shall be glad to answer any questions, Senator.

Senator HITCHCOCK. You think the Government should issue currency. Why should not that currency be issued direct to individual banks entitled to it rather than create this great machinery which is going to revolutionize our banking system?

Mr. SCUDDER. Because I believe, Senator, that if the banks issued the currency, even though the Government controlled it through a Federal board, that a condition is more likely conceivable—an adverse condition—against that currency than if the Government issued it. I for one would rather have the obligation of all of the people than have the obligation of part of the people. And if the banks issued the currency it would be an obligation of part of the people, no matter how strong the bank may be nor by whom controlled.

Senator HITCHCOCK. I think you misunderstood me. I say if the Government of the United States issued the currency—

Mr. SCUDDER (interposing). As its own obligation?

Senator HITCHCOCK. Yes. Why should it not issue it direct to individual banks where they need it and when they need it instead of creating all this machinery which is going to revolutionize our banking system?

Mr. SCUDDER. I have no objection to your plan if it is the Government's obligation.

Senator HITCHCOCK. Now, then, I understand you advocate Government obligation?

Mr. SCUDDER. I do.

Senator HITCHCOCK. If the Government under any system is to issue its obligations so as to wipe out \$700,000,000 of national-bank notes, and had in addition some elastic currency, the total of which may amount to a billion dollars—

Mr. SCUDDER (interposing). Emergency currency?

Senator HITCHCOCK. Yes. Do you think it is safe for the Government to do that without providing a reserve fund in the Treasury to meet any possible demand?

Mr. SCUDDER. No; I should say a reserve fund is absolutely necessary.

Senator HITCHCOCK. There is no reserve fund provided for in this bill.

Mr. SCUDDER. I think there ought to be a reserve fund.

Senator HITCHCOCK. Then, you criticize it on that account?

Mr. SCUDDER. Yes, sir.

Senator NELSON. Suppose the Government were to issue this currency as suggested by Senator Hitchcock, what would become of all these bank reserves? How would they be gathered together and utilized for the benefit of the system? Could that be done under the Government?

Mr. SCUDDER. Yes, sir; that is all provided for in the bill.

Senator NELSON. It is? I don't so understand it. It is the banks that are to do this—

Mr. SCUDDER (interposing). No; but it is the banks—as I understand the Senator's question, the Government working through the banks under this system.

Senator HITCHCOCK. No.

Senator NELSON. No. The Senator's question was to do away with the banks; have the Government issue the currency direct without the intervention of the banks.

Mr. SCUDDER. And without having the system of Federal bank reserves?

Senator HITCHCOCK. Without all that machinery.

Mr. SCUDDER. I misunderstood you, then.

Senator HITCHCOCK. Will you state why you think that is not desirable or possible?

Mr. SCUDDER. You have to have a banking system; you have to have a method through which you can reach all the people in all the sections of the country.

Senator HITCHCOCK. Well, could you not do that much better by 50 subtreasuries than you can possibly do it by 12 or 3 or 5 regional banks?

Mr. SCUDDER. The question had not occurred to me. I had not given it a thought. You mean abolish entirely the system of reserve banks?

Senator HITCHCOCK. Don't abolish anything; you haven't created it yet.

Mr. SCUDDER. I mean the principle.

Senator HITCHCOCK. Drop that revolutionary idea and extend the operations of the Treasury through 40 additional subtreasuries at which the individual bank could apply for a limited amount of currency when it needs it, upon the deposit of security, giving the Government also a first lien upon all of the assets of the individual bank.

Mr. SCUDDER. Well, that is a new thought to me.

Senator HITCHCOCK. That allows the banks to have all their reserves; it takes no capital away from any of them, and gives them this Treasury facility in addition——

Mr. SCUDDER. With a proper reserve?

Senator HITCHCOCK. With the Government providing a reserve procured by the sale of bonds, the banks to pay a rate of interest which will much more than pay the interest on the bonds, and in addition will pile up a fund for, possibly, the protection against losses, or possibly for the guarantee of bank deposits.

Mr. SCUDDER. I would not care to offhand give an opinion upon that. I am reminded of what Jefferson said. Jefferson believed that the people would always take the obligations of the Government. You remember he makes the remark that in times of great distress or great national disaster it will be found that the simple Treasury notes will be accepted by the people on faith.

Senator O'GORMAN. That is part of the plan suggested by Senator Hitchcock. You are asked now your judgment on it, and I understand you have not any opinion to express?

Mr. SCUDDER. I have not, except the general opinion that the people would accept such an issue. I have not had time enough to think about the general working of such a plan.

Senator NELSON. What are the fundamental and radical things that are sought to be accomplished by this legislation? Have you any idea what they are?

Mr. SCUDDER. I think the mobilization of the reserves of the country and the utilization of those reserves, especially in times of panic, and, secondly—well, I should say general currency reform would cover what is in that.

Senator NELSON. How could the Government of the United States, unless it went into the banking business to some extent, gather together the reserves and utilize them in the manner you indicate?

Mr. SCUDDER. In the manner that Senator Hitchcock indicated?

Senator NELSON. No; in the outline proposed in the bill.

Mr. SCUDDER. I consider that the present bill before Congress covers entirely the question of the mobilization of the reserves of the country.

Senator NELSON. Could the Government do that business without, to some extent, going into the banking business?

Mr. SCUDDER. I should not say so.

Senator NELSON. Then, if you leave this matter to the Government, it would only leave it with the naked power to issue currency and then supply gold reserves?

Mr. SCUDDER. That is Senator Hitchcock's suggestion.

Senator REED. Let me suggest to you this thought—and I do not know that you are prepared to speak upon it now. I have heard a good deal here about the mobilization of reserves. It is one of these phrases that sound well, and it implies that there is no use now made

of the reserves of the bank. This bill provides for a bank holding in its own vaults a certain portion of its reserves, the balance ultimately to go into the reserve bank. Of course, every bank under any system will have some reserve that it does not invade. Now, is it not a fact that these reserves which are now redeposited in other banks are utilized every day by the banks almost to the same extent that they would utilize their ordinary balances deposited with other banks?

Mr. SCUDDER. The great trouble with the reserves of this country is that when they are needed they are not available, because they are pyramided; they are piled up.

Senator REED. I understand, but are they not now utilized day by day by the banks in this way: You are required, we will say, to have a reserve of \$200,000, and you have \$100,000 in your vaults and \$100,000 deposited in New York. As a matter of fact, if you were not required to keep any reserve at all you would have to keep about that same \$100,000 in New York for the purpose of doing business, would you not?

Mr. SCUDDER. Perhaps not to the extent that is now required. I think the requirements now are much too high.

Senator REED. Would not the banks be required to keep substantially as much in New York if there were no reserve requirement as they do now?

Mr. SCUDDER. I should not think as much; no. I think our institution keeps more in New York than it would keep if it were not required to keep these large reserves.

Senator REED. But you are a State bank. The Federal law does not make you keep anything in New York.

Mr. SCUDDER. No; except only the general feeling—

Senator REED (interposing). And the State law does not require you to keep anything in New York?

Mr. SCUDDER. No; it does not.

Senator REED. Then it is entirely voluntary on your part?

Mr. SCUDDER. I know it is, but it is regulated by the feeling of others and what others do. Naturally, I can not publish a statement of my institution and be below the others in my reserve. I should be discredited at once if I should do so.

I say that more than is necessary is required now under the present reserve system of the country, considering the system we have. Considering the system we have, I think we have a proper reserve requirement, but I believe there is where this bill is going to bring more relief to this country.

Senator REED. By cutting down this reserve?

Mr. SCUDDER. By cutting down the reserve and making it possible to utilize it.

Senator REED. I am just raising the question whether you do not utilize it. Now, there have been one or two bankers here who have frankly stated that they kept their reserves in New York, Chicago, and St. Louis, and that they maintained that reserve, and yet they use it day by day, turning it over every few days.

Senator WEEKS. As frequently as every 48 hours.

Senator REED. I just suggest that to you.

Senator WEEKS. Mr. Scudder, you are treating this question of the issuing of circulation as a practical proposition rather than an economic proposition, are you not?

Mr. SCUDDER. No; I am trying to look at it from the economic standpoint as well.

Senator WEEKS. Then you believe that as an economic proposition the Government should issue circulation, do you?

Mr. SCUDDER. Under this bill; yes, sir.

Senator WEEKS. You seem to criticize the convention in Boston for having advocated something else. What this committee wants is for the convention in Boston and all the witnesses to state their criticisms or approbation just exactly as they feel, and if the convention in Boston believed that it was economically sound and wise to issue bank notes instead of Government notes it followed exactly the right course in saying so. It is for this committee to decide whether that course is practical and wise.

Mr. SCUDDER. Surely.

Senator WEEKS. But we need the opinion of everybody, and all kinds of opinions, and then we will take that up and try to get it into shape in the form of a practicable bill. So I do not think the convention in Boston is to be criticized because it seemed to pass resolutions which are opposed to what some one wants—the administration or anybody else.

Mr. SCUDDER. Oh, no; I was simply explaining my vote——

Senator WEEKS. Your views?

Mr. SCUDDER. And my views.

The CHAIRMAN. The Chair wishes to remind the committee that we have a large number of gentlemen who expect to be heard to-day.

Senator WEEKS. Mr. Chairman, if the committee did not expect to ask this witness questions, he ought not to have been put on, because frequently we get a great deal more out of the questions we ask than from the statements of the witness himself.

The CHAIRMAN. The Chair has discharged his duty to the committee when he reminds the committee of the facts.

Senator HITCHCOCK. Are the members of this committee able to stay over until to-morrow?

Senator WEEKS. This gentleman is not a member of the committee. Here are a large number of gentlemen who have come here as a committee to appear before the Senate committee. They were put down to be heard this morning.

The CHAIRMAN. The gentleman was allotted 10 minutes, he having said he could finish in 10 minutes, and now he has used a half hour. I merely remind the committee of the facts.

Senator WEEKS. You know, Mr. Chairman, perfectly well that no witness can get through until the members of the committee get through asking questions.

The CHAIRMAN. And they will not get through until they are reminded of the exigencies of the situation, which the Chair is trying to do.

Senator BRISTOW. I should like to know whether I understand the witness correctly or not. I understood you, Mr. Scudder, in your written statement to say that if we had a central bank governed by the same rules that these regional banks are to be governed by, with money issued by the Government and the bank controlled by the Government, as it will be under this bill, and if that Government bank had branches, that would be a better system than to have the various heads, such as the regional bank——

Mr. SCUDDER (interposing). I said that in following out the practical workings of the bill now before Congress instead of having a simple board at Washington if the Federal board were a part of the system it would be more practicable.

Senator BRISTOW. If this Federal board were in control of a bank located here, and these 12 branches of the bank, it would be a more practicable system?

Mr. SCUDDER. I do not know that you would call them branches. They would all be on an equal footing, only that the headquarters at Washington would be the controlling interest. It would have the controlling board located at Washington.

Senator BRISTOW. Of course, they could not be on an equal footing with the controlling board at Washington any more than the controlling board of a regional bank could be on an equal footing with them. Of course, that would not be practicable, and the controlling board at Washington would not have authority over it. The impression I got from your statement was that if we could have a central board in control of the central bank here, and let the reserves be mobilized under the control of that one institution and then scattered through the country when required, through its agencies it would be a more practicable system.

Mr. SCUDDER. I am inclined to believe it would.

Senator SHAFROTH. The three benefits, that I understand you believe this bill will confer on banks, will be the lowering of the reserve requirement; the mobilization of the reserves in some bank which is close to the individual banks that join the system; and, third, the right to take 30, 60, and 90 day paper to this bank and have currency issued upon the same?

Mr. SCUDDER. Yes, sir.

Senator O'GORMAN. I did not understand the witness to allude to that before.

Senator SHAFROTH. He did; yes.

Senator WEEKS. Are you in favor of the bill as it passed the House?

Mr. SCUDDER. Yes, sir; with certain amendments that would not destroy the underlying principle.

Senator WEEKS. What amendments do you suggest?

Mr. SCUDDER. Well, I should say I believe the capitalization required from the different banks is a little high. I believe that 6 per cent of the capital and surplus would be a better plan than 20 per cent of the capital.

Senator O'GORMAN. Do you think it would be possible to get the required capital from each regional bank if you had the stock requirement fixed at 6 per cent instead of 20?

Mr. SCUDDER. I have not figured it out by districts. That is a matter to be figured. It figures out in the whole United States, I believe, all right. But you have to take each district, and you do not know where the districts are.

Senator O'GORMAN. You have not made that calculation?

Mr. SCUDDER. No; it is impossible, because you do not know where the districts are.

I believe that 6 per cent of the earnings would be small enough instead of 5. I think it is reasonable, and I think the people would support such a proposition.

I think in the clause which reads:

The manager of the Federal reserve board, subject to the supervision of the Secretary of the Treasury and Federal reserve board, shall be the active executive officer of the Federal reserve board.

I suppose that would probably mean the comptroller in the Secretary's department.

The CHAIRMAN. The suggestion has been made to the Chair that the majority of these gentlemen desire to leave this afternoon. Does the committee wish to continue with this witness?

Senator O'GORMAN. I think we ought to let this witness take as much time as we need to ascertain what his views are regarding this legislation, and when he gets through we will hear some representative of the visiting bankers from Boston and ascertain what their program is. Personally I should have preferred to have listened to a representative of the visiting bankers from Boston first.

Mr. SCUDDER. May I make a suggestion, Mr. Chairman? I am perfectly willing to come back to the committee later if they wish.

Senator O'GORMAN. I move that we conclude the examination of the witness now before the committee.

(The motion was agreed to.)

The CHAIRMAN. The witness will proceed.

Senator NELSON. You had better go on and state the other curative propositions which you have. In what other respects would you improve the bill?

Mr. SCUDDER. In regard to the exchange proposition, it seems to me that the country bankers have asked a reasonable consideration of this proposition and that there ought to be some method by which at least the items which are long in transit and difficult to collect—that the bankers should be reimbursed for them, perhaps on the basis of a time calculation, at 6 per cent interest on their money. If a simple clause were put in, that the Federal board is authorized to promulgate equitable rates and rules, that would cover the point.

Senator REED. In other words, you would amend this bill so that, as to the collection of exchange and the regulation of exchange charges, the Federal reserve board should be empowered to make such rules and regulations as in its judgment would be equitable and just?

Mr. SCUDDER. Yes, sir.

Senator REED. Leaving the details, not to the bill, but to the board?

Mr. SCUDDER. To the board. I think that could be very safely done, because it is a detail of the management of the business.

Senator REED. Will you draw an amendment of that kind and hand it to the committee, that would state your views?

Mr. SCUDDER. I shall be very glad to do so. That is all, gentlemen.

Senator O'GORMAN. I should like to ask one question. Your bank is a State bank?

Mr. SCUDDER. Yes, sir; a trust company.

Senator O'GORMAN. You are not compelled to enter this system?

Mr. SCUDDER. No, sir.

Senator O'GORMAN. Will you enter the system?

Mr. SCUDDER. Well, I think that is a matter I would leave to my stockholders. Personally I should be inclined to enter the system if there were reasonable amendments to the bill.

Senator O'GORMAN. You believe there are amendments necessary to satisfy you as to the wisdom of passing this bill?

Mr. SCUDDER. I think so.

Senator O'GORMAN. Do you think a State institution ought to be permitted to enter into this system and enjoy those advantages—

Mr. SCUDDER (interposing). I certainly do.

Senator O'GORMAN. One moment [continuing]. And yet possess opportunities for the development of their business beyond those opportunities possessed by the national banks?

Mr. SCUDDER. No, sir; I do not. I believe that all should be put on an equal footing, except as to fiduciary business.

Senator O'GORMAN. Do you believe that the State banks and the State trust companies should have their State functions curtailed, and be restricted to the business that the Congress permits national banks to engage in?

Mr. SCUDDER. No; I do not. But, as I understood it, the national banks are given privileges which they had not before.

Senator O'GORMAN. Oh, yes; and they have other privileges, but the question is—

Mr. SCUDDER (interposing). I am in favor of doing that rather than curtailing any rights given us by our own State.

Senator O'GORMAN. You can take it as a fair assumption that the Congress will not confer upon national banks all the powers now possessed by State banks, and it has been suggested that if the State banks are permitted to come into this system their powers ought to be more or less uniform with the powers exercised by the national banks, and there should be a curtailment with respect to the functions of State banks, and at the same time some gradual enlargement perhaps of the functions of the national banks. I am asking your view with respect to that proposal.

Mr. SCUDDER. My view is rather an inclination toward your latter statement, that the national banks should be given other functions.

Senator O'GORMAN. Yes; and the State banks' functions reduced so as to conform to the enlarged functions bestowed upon the national banks?

Mr. SCUDDER. In what way reduced, for instance? What is in your mind, Senator?

Senator O'GORMAN. You know that your State banks and State trust companies can now do much banking business that a national bank can not do?

Mr. SCUDDER. Yes; we can loan on real estate. Take that one point. I believe in an enlargement of the national banking system.

Senator O'GORMAN. And you would act as trustee and executor?

Mr. SCUDDER. That I am not so sure about; I do not know that they will want it.

Senator O'GORMAN. I do not know whether you have that power or not.

Mr. SCUDDER. I know we have that power.

Senator O'GORMAN. But the national banks do not possess it?

Mr. SCUDDER. The national banks do not possess it and I do not think they want it, but I have not studied it from the national bank's standpoint.

Senator O'GORMAN. Would you be willing to have your trust company in Richmond enter this system if the operations of the trust company were confined to the business that national banks are permitted to engage in?

Mr. SCUDDER. If we were to come in under any such condition as that I would proceed to organize something that would take care of the business that now is taken care of, which would under those conditions be curtailed. I would not like to see it done.

Senator O'GORMAN. Do you know whether or not the restrictions that are contained in the proposed bill regarding the character of paper that might be rediscounted in the regional reserve banks will be likely to confer any substantial benefit upon the country banker?

Mr. SCUDDER. In other countries—

Senator NELSON (interposing). No; confine yourself to America.

Mr. SCUDDER. Yes; I will. In other countries the initiator of the transaction draws on his customer for the purchase price of his goods, and that becomes at once a commercial transaction, just like a check. I would like to see that occur in this country, the system of two-name paper. That would help the country banker immensely, because all the grain sold, all the cotton sold, could be turned into a country-bank transaction.

Senator O'GORMAN. Have you heard the objections urged by country bankers with respect to the character of the paper to which they would be confined for the purpose of rediscounting at the regional reserve bank?

Mr. SCUDDER. Yes; but country banks in Minnesota loan a great deal on real estate, and under the provisions of the bill we could not use that paper in rediscounting.

Senator O'GORMAN. Can you tell us to what extent, if at all, the country bank would be benefited by going into this system?

Senator NELSON. Small country banks, like the bank at Sleepy Eye, for instance.

Mr. SCUDDER. I do not know that a country bank, under the present wording of the bill, would have very much paper to offer for rediscount.

Senator O'GORMAN. The country bank, as well as all other banks, would be restricted to 90 days' paper?

Mr. SCUDDER. Yes.

Senator O'GORMAN. For rediscount?

Mr. SCUDDER. Yes.

Senator O'GORMAN. Do you think that should be increased?

Mr. SCUDDER. I think some provision should be made.

Senator O'GORMAN. To what extent?

Senator NELSON. Six or nine months' paper?

Mr. SCUDDER. I think, in order to carry over the crop, nine months' time is necessary.

Senator O'GORMAN. Would you object to having it increased so that it would mature in a year?

Mr. SCUDDER. No, sir; I would not, up to a certain limit.

Senator O'GORMAN. What would be the limit you would suggest on that?

Mr. SCUDDER. I had not thought that over, but there ought to be some reasonable limit on that class of paper.

Senator O'GORMAN. Does it occur to you that if we had paper extending nine months it would affect the elasticity of the currency?

Mr. SCUDDER. Yes; in case of the existing volume it would.

Senator O'GORMAN. Then you would permit it, but you would reduce the volume?

Mr. SCUDDER. Oh, yes; restrict the volume.

Senator O'GORMAN. To what extent would you reduce it?

Mr. SCUDDER. I am not prepared to say.

Senator O'GORMAN. Have you considered the subject?

Mr. SCUDDER. I have not, from the standpoint that you mention.

Senator O'GORMAN. In a word, you think this bill contains some commendable features?

Mr. SCUDDER. Some very commendable features.

Senator O'GORMAN. But you think the bill as pending before us requires some change?

Mr. SCUDDER. I think it is a little raw; yes, sir.

Senator O'GORMAN. A little raw?

Mr. SCUDDER. Yes, sir.

Senator NELSON. That is the opinion of a good many bankers, I believe.

Senator BRISTOW. I understand you to say that national banks should be permitted to loan on real estate?

Mr. SCUDDER. Yes, sir; some provision should be made for that.

Senator BRISTOW. To what extent?

Mr. SCUDDER. That is a proposition, as I told Senator O'Gorman, which I have not considered, and I am not prepared to say.

Senator BRISTOW. As to how much?

Mr. SCUDDER. I am not prepared to say about that.

Senator BRISTOW. Do you think a good real-estate mortgage, conservatively made, would be as good a security for rediscount as a commercial note?

Mr. SCUDDER. I do, sir.

Senator O'GORMAN. As I understand, you say you were a delegate at this Boston convention?

Mr. SCUDDER. Yes, sir.

Senator O'GORMAN. How many attended?

Mr. SCUDDER. I should think about 3,500 or 4,000.

Senator O'GORMAN. They came from all parts of the country?

Mr. SCUDDER. Yes, sir.

Senator O'GORMAN. Did you know, personally, a number of those who were present?

Mr. SCUDDER. Yes, sir.

Senator O'GORMAN. Do you know the general reason why they assembled?

Mr. SCUDDER. Yes, sir.

Senator O'GORMAN. What was it?

Mr. SCUDDER. It was to proceed with our annual business. We have an annual meeting, and have had one for 25 or 30 years. I have attended them for nearly 20 years.

Senator O'GORMAN. Do you know why they took up the consideration of the pending currency legislation?

Mr. SCUDDER. Yes. A committee was appointed some time ago—a committee of bankers—to consider this question and to report to this convention.

Senator O'GORMAN. As I understand it, you were perhaps the only delegate who voted "no" on some proposition regarding this bill?

Mr. SCUDDER. Yes, sir; on the general proposition to adopt the entire report of the committee, I seemed to be the only one who stood up and was counted. I know there were others who spoke against it.

Senator O'GORMAN. Did you see any evidence of a conspiracy at this convention?

Mr. SCUDDER. No; no conspiracy.

Senator O'GORMAN. To defeat or control this legislation?

Mr. SCUDDER. I felt that during the morning session there was a very friendly feeling to anybody who wanted to speak on the subject, but that there was considerable pandemonium there. Those who endeavored to speak in favor of the committee's report were listened to, but when they came to the opposition, there were interruptions and catcalls and great confusion, and the temper of the meeting in the morning, anyway, was—and I think everyone who was there will bear me out in the statement—that the temper of the meeting was very hostile to any suggestion that did not include the adoption of the committee's report. I rather left in disgust, at lunch time.

Senator O'GORMAN. Notwithstanding the fact that you represented the minority element there—and perhaps a very small minority—did you see anything to create a doubt in your mind as to the earnestness or patriotism that was animating the membership of the convention?

Mr. SCUDDER. No; I got the impression that the leaders were rather trying to rush things through.

Senator O'GORMAN. That is not so objectionable, sometimes.

Mr. SCUDDER. And to override anybody who would dare to get upon his feet.

Senator NELSON. Did you get the impression that they were not acting in good faith?

Mr. SCUDDER. Oh, no; I think not. I think there was good faith. They simply were anxious to get the committee report adopted.

Senator NELSON. Did you see any signs of conspiracy on the part of the money power?

Mr. SCUDDER. I think there was no conspiracy.

Senator WEEKS. Did it occur to you that possibly the leaders in the convention were following the leaders in very high authority in trying to rush things through?

Mr. SCUDDER. Perhaps so.

Senator WEEKS. Senator O'Gorman has just suggested a question to me. If my recollection does not fail me, I have seen in the press a statement that the Virginia Bankers' Association—do you belong to it?

Mr. SCUDDER. Yes, sir.

Senator WEEKS. That the Virginia Bankers' Association had at two different meetings passed resolutions which seemed to be antagonistic. At first there were resolutions passed which advocated the general principles of this bill, and at a second meeting resolutions indorsing the currency report adopted at the Chicago conference. Do

you know the reason for taking that action, or action which seems to be unfriendly to the first resolution?

Mr. SCUDDER. Well, I think that a large number of the Virginia bankers were for more conservative action, but somehow the radical element got into the saddle and carried the point. I myself did not get a notice to attend the Virginia bankers' convention, although I understand my failure to get a notice was a mistake, an omission. I do not know whether anybody else was omitted, but I did not get a notice to go to the meeting.

Senator WEEKS. Are you representing the Virginia Bankers' Association here to-day?

Mr. SCUDDER. No, sir; I am not.

Mr. GEORGE W. ROGERS. Mr. Chairman, are you ready to hear the country bankers now?

Senator HITCHCOCK. How many representatives have you who desire to speak?

Mr. ROGERS. Four or five.

Senator HITCHCOCK. Have you any estimate as to the length of time you will require?

Mr. ROGERS. Probably about 15 minutes each.

Senator HITCHCOCK. The Senate has a session at 12 o'clock to-day, and it is almost 12 o'clock now, and I do not know whether it is worth while to go on now to hear your representatives. We can adjourn now to go to the Senate and hear you later.

Mr. ROGERS. Senator Hitchcock, we have an appointment with the President at half past 2 o'clock. Our time up to the time when it would be necessary for us to leave here in order to get to the White House at half past 2 o'clock is in the hands of the committee, but we feel that inasmuch as the President said he would receive us at half past 2 o'clock we should be there.

Senator HITCHCOCK. You could come back here at 3 o'clock?

Mr. ROGERS. Probably so; yes, sir.

Senator WEEKS. I move that the committee take a recess now and reconvene 30 minutes after the Senate adjourns, with the hope that these gentlemen will be here at that time.

Senator HITCHCOCK. I think we might adjourn until half past 1 o'clock and hear some of these gentlemen, and then if they do not get through they could go to the White House and we could go on with somebody else and hear these gentlemen when they return.

Senator O'GORMAN. I desire to express the hope that all the visiting bankers from the Boston convention will remain here, even though it may inconvenience them a little. I hope they will all stay until they are heard, even though they may have to stay over until to-morrow.

Senator NELSON. I feel that way too.

Senator HITCHCOCK. We want to hear all the gentlemen who are here to be heard.

(Thereupon, at 11.45 o'clock a. m., the committee took a recess until 1.30 o'clock p. m.)

AFTER RECESS.

Senator HITCHCOCK. Gentlemen, in view of the fact that the Senate is in session and some of the members of the committee are engaged there, and in view of the further fact that the members of

the delegation representing the country bankers have an engagement at the White House at 2.30, the committee will take a further recess until 3.30 o'clock this afternoon.

(Thereupon, at 1.40 o'clock p. m., the committee took a recess until 3.30 o'clock p. m.)

The committee reassembled pursuant to the taking of recess.

Senator O'GORMAN. Gentlemen, we will now resume the hearing. Who is the first speaker?

**STATEMENT OF GEORGE W. ROGERS, OF THE BANK OF COMMERCE,
LITTLE ROCK, ARK.**

Mr. ROGERS. I am the first speaker, if you please, Senator.

I appear as the chairman of the committee of country bankers. There has been so much discussion in regard to this meeting of the country bankers at Boston that I believe it only fair to the country bankers and to the members of this committee to make a statement in regard to how this meeting was organized, the purposes of the meeting, and what it tried to accomplish. It has been questioned that the members of the conference were sincere; that the so-called country bankers were acting on their own initiative and in their own interests. I wish to assure the members of the committee that we have not been instructed or directed by anybody except ourselves.

The movement was started by Mr. Foote in Mississippi and Mr. Tilton in Alabama and myself in Arkansas to try to arouse the sentiment of southern bankers as to how this bill would affect their interests, and for some time we were quite active. We wrote a number of letters and sent many letters and a great many telegrams. We had agreed on a meeting in Boston, which had been called by Mr. Tilton. About that time I received a letter from Mr. Gordon Jones, of Denver, Colo., suggesting a meeting of the western bankers and asking if I would join in that meeting. I wired him I would be glad to do so. We met in Boston on Sunday and agreed that it would not be practicable to have two meetings of country bankers. On Sunday night we met at dinner, and we discussed this matter from about 7 until 11 o'clock. We wanted to arrive at some common ground that we all could agree upon. I believe that we did. I believe everyone at that meeting was in hearty accord with the resolutions that were offered. Mr. Tilton and myself drew a copy of the resolution which was offered at the meeting on Monday.

That was the largest meeting of bankers I had ever attended at that time. It was held in the ballroom of the Copley Plaza Hotel. We did not attempt to have chairs, because the crowd was so great that we could not sit them in that way. About a third of the room was occupied by chairs, and the balance of the gentlemen stood.

The meeting was called to order by Mr. Gordon Jones, of Denver. We thought it very proper that Mr. Jones should call this meeting to order on account of the active interest he had taken. Mr. Gordon Jones is president of the United States National Bank of Denver, situated in a reserve city, and he is also president of seven or eight country banks in Colorado; but I understand his interests in the country banks are much larger than his interests in the city banks.

Mr. Jones is the only gentleman connected with the movement who had any connection whatsoever with a reserve or central reserve bank.

The meeting, after being called to order, elected ex-Gov. Bailey, of Kansas, as its chairman. After a little discussion Mr. McRae, of Arkansas, offered a motion to approve the great fundamental principles of the bill as it passed the House and spoke upon that at some length. He said that the object of the meeting was not to go into details. The Senate committee did not want details, did not want suggestions in regard to the details of the bill, he said, but the meeting should, in his opinion, approve the great fundamental principles of the bill and let the Senate committee work out the details.

Unfortunately I could not agree with Mr. McRae, and I told the meeting that if we approved the great fundamental principles of the bill we would not do anything, and we might as well not have a meeting; that anything to us was fundamental which materially affected our business.

I offered the following resolutions:

A banking and currency bill is now pending in the Congress. Its speedy passage into law is desirable. Any new financial system adequate to the needs of the Nation must be one that country bankers, National and State, can support with justice to themselves as bodies corporate, and with justice to their customers.

Country banks, as distinguished from the banks in the fiscal centers, represent in number about 75 per cent of all the banks in the United States. They bear the burden of national prosperity in proportion to their numbers—legislation hostile to the welfare of American citizens, whether farmers, wage earners, or business men. A satisfactory banking system has long been needed by the people. Legislation upon this subject has already been too long delayed. The efforts of administration leaders at Washington to pass this statute at a special session is to be commended. Recognizing these facts, and having had no opportunity to go on record concerning this legislation, a large number of country bankers present at Boston, attending the convention of the American Bankers' Association, held a meeting on the 6th day of October, 1913, and the following resolutions were presented and adopted:

First. That Government bonds have been purchased by country bankers at a price that would be unjustified except for circulation and depository privileges that attach to them. These bonds are now selling under par. The good faith of the Nation and its credit must remain unimpaired. If national bank notes are to be retired there should be exchanged for these bonds a new security that will sell upon its own merits at 100 cents on the dollar in the markets of the world, and banks desiring to liquidate their circulation should be given the right to have their bonds retired at not less than their face value.

Senator REED. Let me interrupt you a moment. "Banks desiring to liquidate their circulation should be given the right to have their bonds retired at not less than their face value" is the concluding sentence?

Mr. ROGERS. Yes, sir.

Senator REED. You mean by that that if a national bank decides to refuse to come into this system then special provision should be made in order to let it out without any loss?

Mr. ROGERS. Yes, sir.

Senator REED. That is the meaning of that phrase?

Mr. ROGERS. Yes, sir; that was the understanding of the committee; that was their intention in wording it that way.

Senator REED. In other words, if Congress now, making an honest endeavor to take out of our currency and banking system the great elements of danger which at times have imperiled the entire banking

system, and national banks thereupon desire to withdraw, we ought to make it as easy for them as possible?

Mr. ROGERS. Senator, I am not a national banker.

Senator REED. That is the thought?

Mr. ROGERS. Just a minute; if you will allow me to answer in my own way I will answer your question. I am not a national banker; I have no bonds to make a profit or a loss on, and I believe that inasmuch as the Government has existed for more than 100 years, and its promises to pay have always been worth 100 cents on a dollar, they should always be worth 100 cents on the dollar.

Senator REED. So do I, and so does every member of this committee. I want to put the proposition to you and to everybody else who is here.

There is a sort of contract between the Government and the national bank?

Mr. ROGERS. Yes, sir.

Senator REED. The Government says, Take these bonds and we will allow you to issue currency upon them. The banks took them. If the Government now was to repeal the circulation privilege, it would seem, if they decided that was what ought to be done, undoubtedly the Government ought to take care of these bonds.

But there was another part of that contract, and that was that this national bank—and speaking broadly this national-banking system—should perform the functions of banks, keep their doors open, receive deposits, and pay out to depositors. We found out, either from the imperfections of the system or the way the banks have operated under it, that the system several times has broken down, and notably in 1907, at a time when the country was in an exceedingly prosperous condition, substantially all of the national banks of the cities, and indeed all the banks of large cities and nearly all the rest, practically closed their doors to their customers; that is to say, they stopped paying out on demand.

Mr. ROGERS. Paying cash; paying current money.

Senator REED. Paying cash. When they issued anything else but cash they violated the spirit if not the letter of the statute. So that it has been found that the banks are unable to carry out their part of this contract.

Now comes the Government, undertaking to modify this system so that the banks can carry out their part of the contract. Do you think the same reason applies for aiding them to defeat the purposes of the Government that would, in the first illustration that I gave, where the Government was simply going to take away their circulation privilege?

Mr. ROGERS. No, sir; but if the Government writes into this contract something that the banks can live under——

Senator REED (interposing). Oh, yes; certainly.

Mr. ROGERS. They should take care of the bonds.

Senator REED. Yes; certainly, if we write something into this contract that the banker can live under, the national——

Mr. ROGERS (interposing). No, sir; if you write into this contract something that the individual banks can not exist under, the Government ought to take care of that proposition.

Senator REED. As long as the Government allows the banks to keep this money in circulation it has given the banks all it originally agreed to, hasn't it?

Mr. ROGERS. No, sir.

Senator REED. Let me state it differently. The bonds were taken by the banks with the understanding that they would be used as a basis for circulation. As long as the Government does not interfere with that right the Government has kept its part of the obligation, has it not?

Mr. ROGERS. I do not think so. If the Government writes something else into the national banking act which makes it unprofitable or impossible for the banks to continue in successful operation, I think they should fulfill their part of the contract and not penalize these banks.

Senator REED. That is true. We will agree to that. Then your complaint is not—you have no complaint under this first subdivision, provided this plan is so worked out that a bank can live and make a reasonable profit?

Mr. ROGERS. None whatever; no, sir.

Senator REED. This, then, is dependent—

Mr. ROGERS (interposing). Upon the other provisions of the bill.

Senator REED. Very well. I have interrupted you too long.

Mr. ROGERS. The second paragraph of the resolutions is in relation to the segregation of the savings-bank deposits.

Second. That any unnecessary restrictions placed upon the acceptance and investment of savings deposits is unwise. The prosperity of the people depends much upon the profitable use of their earnings. Country banks have always encouraged thrift on the part of their customers and others resident in their respective localities. Many millions of savings deposits have thus been created. In rural communities there is no need for separate savings banks. Banks doing a commercial business are now satisfactorily caring for this business. These deposits are safely loaned out at home. There is rarely any local market for bonds of any character. To require country banks to invest savings deposits in any one class of securities, to forbid their use for local farming and business needs, to divert this money from local to foreign purposes, will seriously cripple the credit of their customers and result in the very disaster which it is the aim of this legislation to prevent. Segregation of savings deposits, the setting aside of separate capital, the creation of two banks under the same management and under one roof, will place a burden upon country banks which they can not bear, and will deny to their patrons facilities which they require and now enjoy.

Senator REED. Do you apply that to national banks, or do you mean to apply that to State banks which may desire to come in?

Mr. ROGERS. Both.

Senator REED. The national bank at present has no right to have a savings-bank business, has it?

Mr. ROGERS. But they have.

Senator REED. They are doing it in violation of law, are they not?

Mr. ROGERS. That is a question for the comptroller, I believe, and not for me to answer. But they do do a savings-bank business right now.

Senator REED. Do you mean by that—when you say they do a savings-bank business—do you mean that they receive money upon time deposits, paying interest upon them, or do you mean that they go farther than that and do a regular savings-bank business?

Mr. ROGERS. I am speaking of the one I am familiar with in my home town. They do a regular savings-bank business. They issue

a pass book, and in that pass book they require a notice of withdrawal. They do not segregate their capital or their funds; they mingle them.

Senator REED. If they are doing that all illegally now, they would not have any just complaint if they were given, in this bill, a limited right to do that which they now do without any right whatever, would they?

Mr. ROGERS. Well, if it required them to invest in securities that were not local. We think that this money owned at home should be used at home.

Senator REED. Undoubtedly, but if a bank is proceeding, ultra vires, in violation of law, and has no right to maintain a savings-bank department at all, this bill gives them a right and limits that right; if the bill does that, it is at least a step in the direction of what the bankers want, although it may not go as far as you think it ought.

Mr. ROGERS. We would prefer a law that could be lived up to and would not have to be winked at.

Senator REED. I am inclined to give it to you, and I was just asking you the question.

Mr. ROGERS. I say the gentlemen who will follow me will speak on these four different subjects which were mentioned in these resolutions, and each one of them has prepared himself to discuss his own special subject.

Senator POMERENE. Will you mention their names?

Mr. ROGERS. Mr. Gordon Jones, of Denver, will speak on the first paragraph, Mr. McLane Tilton, jr., of Alabama, will speak on the segregation of deposits, and Mr. George Woodruff, of Joliet, Ill., will speak on the third section, and Mr. David Barry, of Pennsylvania, will speak on the fourth section in regard to the reserves.

I want to say for Mr. Woodruff that he is thoroughly competent to deal with the subject which has been assigned to him. He comes here with a long experience, and with actual facts and figures. He does a very large business of this nature, which last year amounted to more than \$90,000,000. He has with him the exact figures taken from his books.

I made a statement when I was before the committee on a previous occasion that the overhead cost, if the country clearing-house system was put into effect, would eat up all the profits of the bill. I believe, from the figures which Mr. Woodruff will present to you that you will agree with me.

Section 3 of the resolutions is in regard to the matter of exchange.

That section 17 of the bill should be so amended in so far as it refers to matters pertaining to exchange. We suggest that section 17, page 33, be amended by eliminating the last word on line 15, the first five words on line 16, the balance of the section after the eighteenth line, leaving the last paragraph of section 17 to read as follows:

"It shall be the duty of every Federal reserve bank to receive on deposit at par and without charge for exchange or collections checks and drafts drawn by any of its depositors upon any other depositor and checks and drafts drawn by any depositor in any other Federal reserve bank upon funds to the credit of said depositor in said reserve bank last mentioned."

Senator SHAFROTH. Do you strike out the word "other" in line 18?

Senator HITCHCOCK. What is the first word stricken out?

Mr. ROGERS. The word "upon," in line 15, and then the five words, and then everything after line 19.

Senator SHAFROTH. You omitted to read the word "other," and I thought you left the word "other" in.

Mr. ROGERS. The remainder of section 3 is:

Exchange profits represent a large part of the total net earnings of country banks. It is a proper charge for a fair service rendered. The bill as now drawn will decrease the net earnings of the average country bank by not less than 25 per cent and many of them much more. This gain will not go into the pockets of the business men of America, but will be enjoyed solely by the banks of the collection centers which are now making satisfactory profits. The result of this section will be to take income from banks that can least afford the loss and give this money to banks that are already earning satisfactory profits.

In addition to the above the bill provides a radical change in the method of handling country items. It provides that they shall be cleared and not collected. To accomplish this it would require that the small country banks keep in the Federal reserve banks an amount in excess of their legal reserve sufficient to care for their clearings from two to six days, depending entirely upon the distance and time they are from the bank acting as such clearing house.

Senator REED. You say there is one man who is going to discuss that section?

Mr. ROGERS. Yes, sir. I would like to make the statement that it was the contention of the committee that the member banks could issue their checks on another member bank, and those would be cleared at par by a similar process and charged to the account; that it would eliminate entirely the enormous volume of individual checks on various banks. These checks so cleared would undoubtedly be good; if they were not good, the reserve, the first lien on the assets, and other things would protect the Federal reserve bank. Mr. Woodruff will speak at length with regard to the amount of returned items, etc.

Section 4 of the resolutions says:

That whatever percentage of reserves is agreed upon should carry with it the right to keep not less than one-third of such reserve with approved reserve agents in fiscal centers. The reduction of reserve from 15 to 12 per cent is no real advantage to the country bank. Very few country banks can do business without having a larger amount of funds either in vault or with near-by connections. These connections must be maintained after the passage of this law. The money so held by them should be counted as a part of country-bank reserve.

(5) That the above matters include only those features that country bankers are especially concerned with. There are others of equal importance which concern the larger banks in the fiscal centers. With these subjects we do not propose to express an opinion, but we believe that unless this bill is amended so as to meet the objections and recommendations made herein that very few country banks, either State or National, can afford to become members of the new Federal system. This means that the great majority of country national banks must surrender their charters or retire from business.

The exchange and savings sections of the bill so reduce our earnings that most country banks will show net operating losses instead of the reasonable profits we now enjoy. We desire to do our full duty to the country, but our duty to stockholders and customers must not be disregarded. We desire to become members of the Federal system and assist in making it the success it ought to be and can be made. We earnestly call upon the Congress to consider this resolution as a formal expression of opinion on the part of country bankers who realize the seriousness of the situation that now confronts them. And, finally, we ask for the committee that will present these resolutions to the Hon. Robert L. Owen, chairman, and the Committee on Banking and Currency of the United States Senate for an opportunity to be fully heard in the premises.

We discussed quite freely the attitude of the gentlemen who would speak, in the event that they were questioned in regard to matters not in the resolutions proper, and it was the consensus of opinion that they should answer any questions to the fullest extent of their ability. But when they give an opinion on any matter that is not covered by the resolutions they ask that it be considered as their individual and personal opinion and not as their opinion as the representative of the committee. We feel that we have no right, as members of the committee, to exceed the authority given us by the meeting in Boston.

Senator REED. You think that if the things that are recommended in those resolutions are done, with the exception of the first proposition in regard to bonds, and if that was made by framing this bill so that all banks could properly come in and not be dragged to ruin or injured seriously that the country banks represented by this committee, some 2,000 in number, would then be content?

Mr. ROGERS. I believe so.

Senator REED. Generally speaking, they favor a bill drawn along the lines of this bill, but they object to certain details?

Mr. ROGERS. Yes, sir. Those details they consider vital. If the suggestions made here meet with the approval of this committee and finally become a law, I believe that a very large number, a majority, of the country banks, both State and National, that are large enough to come into the system would do so.

Senator HITCHCOCK. Mr. Rogers, country banks generally rediscount paper at certain seasons of the year now?

Mr. ROGERS. In my section; yes, sir.

Senator HITCHCOCK. Does that not take place all over the country, from information which you have?

Mr. ROGERS. I believe so. I am only thoroughly familiar with my part of the country. I know that is the fact in some parts of the country. Practically every bank in my part of the country discounts at those times.

Senator HITCHCOCK. Will you explain your idea of the advantage it is to a country bank to come into this new system, when the country bank already has the rediscount privilege by using its city correspondents?

Mr. ROGERS. Well, at other times—as the Senator from Missouri says, the big city banks run out, and the little fellows want to feel that the big banks to which they go—the retailer wants to feel that the wholesaler can carry him, if necessary.

Senator HITCHCOCK. Now, would not that be provided for if the big fellow in the cities joined the association and the country banker stays out?

Mr. ROGERS. I believe so.

Senator HITCHCOCK. So that it is not necessary for the country banker to come in in order to get rediscounts?

Mr. ROGERS. No, sir; it is not now, but my personal opinion is that a bill should be framed not only for times of panic but for times of prosperity, to take care of the banks in both times.

Senator HITCHCOCK. Do you think that the country banks would rediscount more under such a system as we propose than they do at the present time?

Mr. ROGERS. No; I do not.

Senator HITCHCOCK. Do you think they would get lower rates of interest on the discounts?

Mr. ROGERS. No; I do not; only to a very small extent. The difference in the rate of interest would be very small.

Senator POMERENE. Where do you do your rediscounting?

Mr. ROGERS. New York and St. Louis.

Senator REED. Have you filed a copy of those resolutions?

Mr. ROGERS. Yes, sir.

Senator POMERENE. Did you have any trouble in 1907?

Mr. ROGERS. No, sir; in 1907 I borrowed all the money I wanted to. Fortunately I was paying off discounts instead of borrowing at the time. But I received from the banks of New York that I did business with cash at par to an amount three times the amount of my balance at the time they put the lid on. That is the only time I ever shipped any money out of New York. I only shipped money to New York twice in the 25 years that I have been in the banking business. Once was in 1903, when I had the money, and they had been so good to me. I thought they needed it, and I sent what I had to them. And once, afterwards, I got hold of a lot of \$10,000 bills, and I shipped them there, because I needed exchange.

Senator HITCHCOCK. A lot of \$10,000 bills? [Laughter.]

Mr. ROGERS. Well, it was a lot for me. I had 25 or 30, and it was a lot of them for me.

Senator HITCHCOCK. It would be for most any of us.

Mr. ROGERS. Yes, sir.

Senator SHAFROTH. Mr. Rogers, one of the objects of this bill in establishing 12 regional banks is to have a reserve bank close to a given territory in which it is included. Do you not think that the right of the bank to keep these reserves there in a place which is rather close to it, together with the power to get money from that bank in times of stress, would relieve the country bank from keeping large reserves?

Mr. ROGERS. No, sir.

Senator SHAFROTH. It would not keep large reserves if it could get plenty of money at any time, would it?

Mr. ROGERS. Banking business is a little peculiar business, and it has been expressed in an Irish way, "that the bank only made its money by loaning it, and that a bank that loaned all its money never made any money; the bank that always had plenty of money on hand always made plenty of money." That is on the theory that the public knows what is going on inside of the bank. I do not know how, but they do. And when they know a bank runs along and keeps plenty of cash one hand, and can take care of its customers under any circumstances, the customers go to them.

Senator SHAFROTH. Don't you think the customers knowing the country bank had joined this department and knowing this reserve bank could give this country bank money at any time would make such a confidence in them that it would make money for them?

Mr. ROGERS. No, sir; Senator, I do not for this reason: If the bank kept continually going there and continually borrowing their limit, it would be an invitation for parties to work the country bank by making it borrow and borrow and reborrow so that they could use the funds in their various interests. Instead of using a bank for the

handling of a commercial transaction, it would be used more to supply fixed capital for business. That I do not think is a good thing.

Senator SHAFROTH. That would bring more income to the bank, would it not. It would have more money out, more money at interest, if they used the bank for that purpose; and it would increase the earnings of the bank, would it not, by having that much more interest?

Mr. ROGERS. Senator, if you will just pardon me, and the stenographer will not listen for a minute, I will tell you. Once upon a time there was a bullfrog, and it was out in the field, and he met coming back another frog who said he saw such a great big thing he came away. The bullfrog said, "What was it?" and the other frog said, "It was a bull." The bullfrog said, "Was it bigger than I am?" The other frog said, "Yes; it was heap bigger than you," and the bullfrog commenced to swell up, and he said, "Bigger than that?" And the other frog said, "Yes; bigger than that." The bullfrog swelled up some more, and he said, "Bigger than that?" "Yes; bigger than that;" and the bullfrog swelled up four or five times, and finally he busted.

Now, that is the way with a bank that is trying to borrow itself rich. [Laughter.]

Senator SHAFROTH. As a matter of fact, the inspections which are made by the department are intended to remedy that, are they not?

Mr. ROGERS. They can not; I do not believe it is possible.

Senator SHAFROTH. You do not think regulation can prevent bank failures?

Mr. ROGERS. Yes; I do believe that it does.

Senator O'GORMAN. We will now hear Mr. Jones.

Senator BRISTOW. I would just like to ask one question.

Senator O'GORMAN. Senator Bristow would like to ask you a question.

Senator BRISTOW. Mr. Rogers, unfortunately, I could not be present when you were here before, because I was detained in the Senate, and I would like to inquire how you use these reserves. I understood you to say you would have to carry the reserves anyway, that you have now, in order to handle the business properly, even if this new association were formed. You now have your reserves where?

Mr. ROGERS. New York, Chicago, St. Louis, Kansas City, New Orleans, and Memphis.

Senator BRISTOW. You have them in those five places?

Mr. ROGERS. Yes.

Senator BRISTOW. How much do you keep in those reserve cities?

Mr. ROGERS. That fluctuates very widely, according to the seasons of the year and the character of the business that is moving at that time. In the active cotton-moving season, we try to keep the larger part of our money in St. Louis. We sell them our domestic cotton bills, and we ship them money against it. If we have a draft of Massachusetts drawn on three days' sight, it would take us about nine days—from seven to nine days—to turn that into money and get it to our credit in New York. Instead of that we sell that in St. Louis and it makes that fund immediately available there. That is part of it. Then, again, we have a good many cotton concerns doing business with us that draw their drafts against the St. Louis office

and we discount that exchange and give them the money on it, and allow them to use it.

Senator BRISTOW. About how much do you have in your reserves as a rule? What would be your legal requirements?

Mr. ROGERS. In our State at the present time the banks are organized under the general incorporation act. They have to make a statement to the county court once each year. There is no provision in regard to reserves and no limitation on loans. Fortunately our new banking law will go into effect on the 1st of January, and I think we will then have an excellent law. That will provide 15 per cent reserve for country banks, and a minimum of 20 per cent reserve for any bank that desires to act as reserve agent for another bank. Our reserve runs anywhere from 25 to 45 per cent.

Senator BRISTOW. You have been carrying a reserve without the law requiring you to?

Mr. ROGERS. Yes.

Senator BRISTOW. Simply as a matter of business?

Mr. ROGERS. Yes.

Senator BRISTOW. From 25 to 45 per cent?

Mr. ROGERS. Yes, sir.

Senator REED. Senator, won't you ask if he had this reserve bank at New Orleans if he could not do the same thing with them, or if he had it at St. Louis?

Senator BRISTOW. Senator Reed has suggested if you had a reserve bank at New Orleans or St. Louis, that is contemplated in this bill, what exchange would that provide for you so as to relieve you from carrying this amount of reserve elsewhere?

Mr. ROGERS. We would have to have some account elsewhere to handle these cotton bills, for instance. They have now in the bill a provision which would enable these Federal reserve banks to handle the individual checks. They do not provide for handling domestic bills of exchange, which is the very much larger portion of our business at certain seasons of the year.

Senator HITCHCOCK. Does it not provide that reserve banks can buy those bills of exchange?

Mr. ROGERS. Foreign, not domestic.

Senator HITCHCOCK. They can buy of member banks, can they not?

Mr. ROGERS. That would put them into the collection business, and I did not understand that was there. I do not think so.

Senator REED. Would it be, then, an advantage to your bank, if it became a member of this system, if it could take these bills of exchange for cotton to this bank and gets its money?

Mr. ROGERS. No; because they are presented immediately on receipt by the central reserve city bank, or the bank we send them to, and collected that day.

Senator REED. From you?

Mr. ROGERS. No; from the drawee.

Senator REED. Now, let me understand. You advance \$100,000 to a cotton dealer.

Mr. ROGERS. Senator, if you will just permit me——

Senator REED (interposing). Yes; just explain it to us.

Mr. ROGERS. I had one account I made no loans to whatever. I allowed them to check during the day, and prior to the close of busi-

ness they deposited their drafts in round sums on the St. Louis office. Those drafts ran all the way from \$10,000, which was the minimum in one month, to \$163,000, which was the maximum. They were discounting the drafts; that is, paying the money out the day the drafts were deposited with us. We had already advanced the funds. We forwarded those to our St. Louis correspondent and he collected them that day and put the money to our credit. We made a charge for that service of \$1 a thousand. For that \$1 a thousand we had to keep in shape at all times to take care of that business. It costs from 27 to 30 cents a thousand to ship that money from St. Louis to Little Rock. This cotton concern figured for a long time whether it would be more profitable to ship the money down at 27 cents a thousand than to pay us \$1 a thousand. But when they went into the proposition they found they would lose a large amount of money by doing so. They would have to advance the money at least one day in advance of its payment, whereas they paid it in the St. Louis office the day after the payment. At 6 per cent interest that two days was 33½ cents, which, added to the 27 cents, made 60 cents right there. Then they would have the disadvantage of the mail being late sometimes or the draft coming on Saturday, and they would have to hold it over until Monday, and they figured that was 65 to 70 cents a thousand. So, if they could not tell each day what the requirements were, they would have to carry a large amount of cash on hand themselves, and they figured that while the cost of the transportation of money was only 27 cents a thousand, it was much cheaper to them to pay us \$1 a thousand exchange.

Senator REED. I still do not understand why you could not do that business, why you could not have those bills of exchange paid right into the reserve bank, instead of, as you are doing now, paying them into the bank of your correspondent.

Mr. ROGERS. Senator, I believe I can tell you in straight English what is way down deep in the heart of the country banks and what makes them afraid of this.

Senator REED. That is what we want to know.

Mr. ROGERS. Yes. They are afraid of being dependent only upon this one concern they would have to go to for their money. This man—and he has got to be human; he has got to be able to exercise some judgment as to whether this collateral there is good or not good—if for any reason whatsoever he should have a grouch against the bank, or any reason—if he does not feel well, or for any other reason you don't get the money, the bank that goes to him is busted. Now, if one bank does not let you have it, presupposing that you are good, you can go across the street or go over on the other corner and say, "Here is my average balance; here is my security; here is what I want," and if the average balance justifies the loan asked for and the security is good, if one man does not take it others will. But, to get back to this proposition, you are absolutely dependent for the existence of your concern on the judgment or approval of one man.

Senator REED. But you still could take your bill of exchange and go to an outside bank. This is not going to wipe out the banks of St. Louis; they will still be there.

Mr. ROGERS. But you are switching the question.

Senator REED. I am trying not to.

Mr. ROGERS. I am talking about loan deposits. That is my understanding of the question you were asking. If you can not keep a balance with the bank that will justify them in giving you accommodations, they are under no obligations to you whatever; but if you do keep an account with the bank, you have a right to call on them to take care of you when you need the accommodation. And all well-managed banks recognize that right and live up to it.

Senator POMERENE. Let me suggest right there: Under this bill the country banks would have to keep in the regional banks 5 per cent. The other 2 it can place where it chooses. Now, you said, as I recall your testimony, that you kept reserves, perhaps, from 30 to 45 per cent?

Mr. ROGERS. At times, yes. Down as low as 20, up as high as 45.

Senator POMERENE. If you are only pledged under the terms of this bill to keep 5 per cent in the regional bank, you still have a very substantial amount of reserve which you heretofore kept, and you would be free to place it wherever you chose. You could still have the same banking connections outside of the regional-reserve bank that you would have had heretofore, under those circumstances.

Mr. ROGERS. That is as far as I am concerned; but all the banks in our country do not carry that large reserve. I am speaking for the bank that carries approximately the legal reserve carried by national banks. The 2 per cent of their deposits would not be large enough if kept in a reserve bank to pay for the trouble of handling the account. The account would be unprofitable to the city bank. Therefore they can not keep them.

Senator BRISTOW. Mr. Rogers, if a system could be devised here, whereby we could have the Federal reserve bank stock owned by the public, and that should be a bank of discount and a bank of issue and a bank of reserve, and it should establish branches wherever they were needed, something like the reserve cities now, and under the law any banking institution in the country that was creditable, that presented proper securities could get its discounts at this reserve bank, do you think that would relieve the situation so far as currency and bank business is concerned?

Mr. ROGERS. You are asking me a mighty big question. All I have testified to so far was about something I was familiar with. You are now getting a proposition that is too big for me. I would rather you would not ask me to answer that question, as what I have spoken of so far was where I knew what I was talking about.

Senator REED. Let me ask you: You say you have not told us anything but what you knew about. What about that frog story? Do you vouch for that, of your own personal knowledge?

Mr. ROGERS. Yes; I was there the day it happened. [Laughter.] I think, Senator, if in the wisdom of this Congress they should see their way clear to divide the reserve, allowing approximately a minimum of one-third cash, a minimum of one-third with the Federal reserve bank and the balance with approved reserve agents, that it would meet the wishes of a great many, and it would eliminate some harsh features, and would produce a great amount of good.

Senator O'GORMAN. If we make provision for regional banks, will there be any need for other reserve agents?

Mr. ROGERS. That is another question. I am just answering from my particular end of the business, and the friends of mine where I

am familiar with their business. There might not be a thing for the reserve agents to the extent that it is going to borrow, but it will enable them to transact their business in the usual, ordinary, and customary way and to handle the general line of business and carry a portion of those items that, of necessity, would go to a privately owned bank as their reserve.

Senator O'GORMAN. These regional banks are intended to perform every function now discharged by central reserve and reserve city banks.

Mr. ROGERS. I think it is a mistake.

Senator O'GORMAN. Why can't you continue the deposit system? All the Government deposits will be in the regional banks instead of the central reserve banks, as at the present time.

Mr. ROGERS. Yes; but the Government deposits are a very small part of the business of these great central reserve and reserve city banks.

Senator O'GORMAN. We will hear from Mr. Jones now.

Senator HITCHCOCK. One question, if you please, Mr. Chairman [Senator O'Gorman].

Mr. Rogers, if you should go to a regional reserve bank and ask for a discount of some paper, and the reserve bank should decline, for any reason, good or bad, to discount it for you, you would like to have another harbor of refuge, would you not?

Mr. ROGERS. I certainly would. That is what I have been trying to explain.

Senator HITCHCOCK. And a bank in which you keep a line of deposits, should you ask them for an accommodation, would feel under obligations to give consideration to your wishes?

Mr. ROGERS. They would be under obligations, because if they did not grant the accommodations they would know I had something to take away from them to offer as an inducement to another bank.

Senator HITCHCOCK. That is all.

Senator O'GORMAN. Mr. Jones we will hear you now. Please state your full name, residence, and banking connections, and how long you have been in the banking business.

STATEMENT OF GORDON JONES, PRESIDENT OF THE UNITED STATES NATIONAL BANK, OF DENVER, COLO.

Mr. JONES. My name is Gordon Jones; my residence is Denver, Colo. I have been in the banking business since 1887, and as to my present banking connections I am president of the United States National Bank of Denver; president of five country national banks of Colorado, one of which has a capital of \$50,000 and the other four a capital of \$25,000 each, and of two small State banks of Colorado.

Senator O'GORMAN. Now, will you state your views in regard to the pending bill or that part of it to which you care to address yourself?

Mr. JONES. I am glad that our chairman, Mr. Rogers, explained away that I was no Jonah on this committee, by reason of being connected with a reserve city bank and my participation in this call of conference, which was absolutely voluntary on account of the country banking interests which I hold. This call was brought about

by correspondence with country banks scattered through some 18 States of the West and South.

Senator SHAFROTH. I would like to have you also say, Mr. Jones, that you attended the conference over in Europe last summer where the question of country deposits and country banking was discussed.

Mr. JONES. Yes; I was a member of the American commission that visited Europe this last summer representing our State of Colorado, and I was honored with the position of vice chairman of the finance committee, which was the largest and most important committee of the European commission.

Senator HITCHCOCK. That was investigating the question of rural credits?

Mr. JONES. Rural credits; yes, sir. I am to undertake particularly to present to you the views of the country bankers upon section 1 of their Boston resolutions and I have been delegated by them to do so. First, I will present the contention of the country banks regarding the needed good faith of the Government on its own behalf and in order to protect the small banks. At the outset it might be well to ask, who is the country banker? One of the banks in which I am interested is a bank in which the most active officer has no stock. He has none because sickness and distress of a financial nature has caused him to invest most of his means in the recovery of his own health and to protect a small growing family. He is recognized as being a most careful and conservative banker.

Now, in speaking of the country bank, in speaking of the officers of that bank, he would naturally be referred to as the country banker. But the country bank is not only the man who sits behind the counter; it is the stockholders and directors. And the stockholders and directors of the country banks are the local farmers, the merchants, women, and often widows of some farmer who has died, or children of the deceased stockholders. Now, any legislation that affects the country banks, or the one we are pleased to term "the country banker" because he is holding his office, affects the stockholder, who is the farmer, the merchant, or the widow, or minors.

Any measure that is enacted, we feel, of itself should be sufficiently attractive to induce banks to join, just as was the enactment of the national banking act in the early sixties, which offered sufficient inducements to banks to come into the national system.

I will lay down another proposition: Any measure that, intentionally or otherwise, requires the meeting of additional requirements other than originally provided at the time of granting charters, which would prove oppressive to the small banks, would not be attractive, so far as the small bank is concerned. We are impressed with the fact that you desire to give us a fair, just, and workable measure.

In 1900 the Government refunded its 3, 4, and 5 per cent bonds with 2 per cents. In order to establish a market for such bonds, it granted national banks the full circulation privilege and reduced the tax on such circulation from 1 per cent to one-half per cent, provided they were secured by 2 per cent bonds. The banks furnished the market. This was as near a contract as can be entered into between a sovereignty and the people. Although the people can not enforce it, we do not feel the Government can honorably evade it. The country banks now find themselves the owners of several hundred

millions of dollars of these bonds which are declining in market value on account of the threatened removal of the circulation privilege and the placing of the twos on an investment basis. We commend that portion of the bill which provides for retiring the twos at a fixed date, or giving the national banks the privilege of exchanging them for threes in installments, if they elect so to do. We do not feel this will keep faith, however, with the bank that prefers to surrender its charter, or those whose charters expire before the maturity of the bonds, or the date set for their redemption. In this connection I will touch on reasons why some banks would feel obliged to surrender their charters of necessity, which would necessitate the sale of their bonds. There are some small banks to whom to belong to the Federal reserve bank would be no real benefit to them or their communities, but might prove a detriment to both for the reason they would be required to take from their community a portion of their loanable funds and invest it in the stock of a large Federal bank located in some fiscal center and, at the same time, redeposit 5 per cent of its own deposits in that Federal bank, neither being available for use except in the liquidation of the country bank. While the 5 per cent deposit to be carried with the Federal reserve bank is termed a reserve, in fact it is but an investment without interest. This point as to reserve, however, will be elaborated upon by another speaker who will follow me.

Now, the only real benefit the small bank may have is the privilege of borrowing from the Federal reserve bank. There are many small country banks that do not have the character of assets that will be available, but the membership of such banks is not necessary to the success of this act. That is a fact I should like to impress upon you, that the success of this measure does not depend at all on the membership of these small banks that do not feel they can afford to do so.

For such banks we submit there should be some provision for returning to the banks 100 cents on the dollar, which the Government originally received for their 2 per cent bonds. In fact, the Government received a premium, and the banks have already suffered the loss of this premium, though with some banks it has been compensated for by profits on their circulation by reason of the length of time they have been operating, but with others it has not been compensated for.

Some such banks hold these Government twos, securing their Government deposits as well. In any plan that contemplates the withdrawal of these deposits provision should be made for redeeming such 2 per cent bonds in cash or exchanging a security for them that is worth 100 cents on the dollar in the markets of the world, in order that the banks surrendering the deposits may do so without reducing their available loanable funds needed at home and suffer no financial loss in the transaction. Unless these provisions are made, what will be the effect on the banks and on the Government? Such banks as feel obliged to liquidate will have to market the 2 per cent bonds in order to get the cash with which to retire their circulation, for the small bank can not afford to hold a 2 per cent investment. Such banks as feel they can not afford to join the Federal reserve bank therefore stand to lose the difference between what they paid for the bonds and what they will sell for on an investment basis, and

such banks as hold Government deposits secured by twos stand to lose an additional amount.

This is serious, and already some of our stockholders are figuring this out; and I know of cases where stock is being offered for sale on account of this threatened depreciation. Just before I left Colorado one banker had been offered stock in his bank at \$50 a share less—on account of this possible depreciation—than he had paid for some of the stock last January, and he would not buy it because he did not know what he would be buying, owing to this uncertainty.

We beg of you, therefore, to make proper provision for refunding such twos outstanding as are surrendered by member banks in order to give up their Government deposits, and by such banks as do not feel they can afford to join and who therefore must not only surrender their Government deposits where held but must retire their circulation as well. I believe it will be well for us to keep in mind that in the refunding of the 3, 4, and 5 per cent bonds in 1900 the Government found a market for its 2 per cent bonds with the national banks, and that the Government made about \$16,000,000 by the transaction, and has profited by a material reduction in the rate of interest since. The effect on the Government—unless it protected these bonds from liquidating banks that do not feel they could afford to join—would be to see its good credit impaired; its bonds, long selling at par and better, would soon be on the toboggan slide. What figure they will reach, unless we have an early indication of what will be done in the disposition of these bonds, no one can tell. In this connection, we might call to mind that $2\frac{1}{2}$ per cent English consols are selling at 72 on an investment basis. Should our 2 per cents decline to 60 on an investment basis, a small bank with \$25,000 of these bonds would lose \$10,000. Other banks in proportion. That money is the money of local stockholders—farmers, country merchants, women, trustee-ships, and minors.

Therefore we urge an amendment to the bill, as speedily as possible, that will assure us and the nations of the world that this Government will keep faith with the purchaser of its securities, in order that the uneasiness now being felt will subside and that the market on such bonds may be restored to par or better. And we believe if you can devise some plan to protect these bonds on a par basis they will immediately go back to par and the Government will continue its good credit. If this is not done and the bonds continue to decline, will we be required, as bankers, to charge down the book value of such bonds, or will we be required to put up additional security in order that the solvency and liquidity of our present national-bank notes may be maintained?

In brief, gentlemen, we are asking that the Government keep faith and maintain its credit. If that is done, our small national banks, whose stockholders would prefer to liquidate, can do so without impairment of their investment, and will only have to meet the additional expenses incident to conversion under a State system.

In other words, we beg, for the small banker who accepts the death penalty, that you enact no law that will render his estate insolvent. At the same time I would not imply that I believe there would be any considerable number of national banks to go into liquidation rather than join the association, but we do feel that if there is only one small bank that can not afford to join provision should be made for

that one. With an attractive measure, a great many banks will ultimately grow to proportions to justify their joining.

Here is another aspect of this optional feature of the bill that we would like you to consider. A bank that to-day may not feel it can afford to join may in a few years, if it may continue its national charter, grow to such proportions that it will want to join and can afford to join. The larger the bank the greater the need for the facilities to be afforded by the Federal reserve bank and the more apt the bank is to have the class of securities that are to be accepted by the reserve bank; and there are few of our country banks in the West that to-day have the character of securities described and required in obtaining accommodations from the Federal reserve bank, more particularly on account of the time limit. Therefore many banks that at the outset could not afford to join would undoubtedly ultimately want to do so before their charters expired.

In talking upon the disposal of the Government 2 per cent bonds, I have been obliged to elaborate somewhat, and I thank you for your patience and your courtesy.

In conclusion I would add that it has occurred to us that there are two or three ways to accomplish what we are asking regarding the disposal of the bonds. The first is the optional feature removing the tax or reducing the tax further on the circulating of such banks as come in under the system, raising the tax, if necessary, on the banks that do not come into the system if they continue their circulation. In other words, let us find something that invites the banks to come in, and make it as attractive as I suggested at the beginning, as the national bank act made it for banks to join the present national banking system.

If the optional feature be not considered permit the member banks to continue circulation and the Government pay par for the bonds from liquidating banks not joining; or, third, require the Federal reserve bank in the locality of the bank liquidating to take over the 2 per cent bonds on a par basis from the bank liquidating, and assume the circulating privilege. There would then pass from the small bank that can not afford to continue under the national bank system the circulation privilege, and give its advantages to the combined banks in the locality that can afford to go in the Federal reserve system.

I thank you, gentlemen.

Senator SHAFROTH. Mr. Jones, what do you think of the provision in the bill for the substitution of 3 per cents for 2 per cents?

Mr. JONES. If I understand the provision correctly—and before committing myself I would like to know that I do understand it correctly—it now provides, does it not, Mr. Chairman, that at the expiration of 20 years all national banks are to be paid par for the 2 per cent bonds, or the 2 per cent bonds are to be redeemed at par?

Senator HITCHCOCK. That is the provision.

Mr. JONES. And the bank does not have to accept the exchange in 3 per cent bonds meanwhile unless it so elects?

Senator HITCHCOCK. That is right.

Mr. JONES. We have no objection to find to that. We should like to know that the 3 per cent bond, however, would be marketable at par. Now, there may be large city banks that can afford to accept

the exchange, but you won't find a country bank that would exercise that privilege unless it could immediately sell its 3 per cent bonds on a par basis; and if it can sell its 3 per cent bonds on a par basis, why should the Government ask small banks to market their bonds for it? In other words, each small bank accepting 5 per cent of its circulation each year will have to turn around and market this small amount of bonds.

Senator SHAFROTH. You would prefer that the Government pay these bonds at par to the banks instead of issuing the 3 per cents, would you?

Mr. JONES. I think it would be keeping better faith.

Senator SHAFROTH. These bonds, I understand, do not mature until 1930, and then they do not mature as against the Government at that time, but, nevertheless, the Government can pay them after that time. Consequently, the bonds not maturing, the Government could not force the banks to take cash for their 2 per cent bonds without their consent. Now, do you think that if the Government were to offer to pay these bonds in cash the banks would be willing to take it?

Mr. JONES. I can only answer for myself and those whom I have heard express themselves. I believe, gentlemen, we would be glad to-day to surrender our bonds and get cash for them and withdraw our circulation. I believe that would be pretty nearly the consensus of opinion, but I am not stating that as a fact. However, we should like to continue the circulation privilege, because there is a little benefit in it, but we do not know what we may be up against later.

Senator REED. Let me say a word to you. I am only speaking for one member of this committee, but I believe I know this committee and I do not think this committee has the slightest idea of doing anything to break faith with any man that has an honest contract with the Government or to repudiate any obligation at all.

Mr. JONES. I assure you there is not any such impression in the minds of our committee to-day.

Senator REED. I know you are not impugning our motive, but I am speaking with reference to this constant impression that something is about to be done to ruin these 2 per cent bonds and leave you, to use an expression that my friend from Arkansas will understand, "holding the sack" on the bonds. I do not think you need waste much time with the committee on that, except to suggest a means by which we could work the problem out.

Senator NELSON. There was one suggestion you made there, the last of the three plans you suggested, that the regional banks take over the 2 per cent bonds and issue circulation on them. There is something in that idea. That was a part of your theory, was it not?

Mr. JONES. Yes; and to explain that—

Senator NELSON (interposing). Could they not do that gradually?

Mr. JONES. Yes; but what about the bank going out of business?

Senator NELSON. If they would take them off your hands at par gradually and, as they took them off, issue circulation on them, you would still be allowed to remain with the balance of your bonds and gradually work them off—

Mr. JONES (interposing). Why would it be necessary to take them gradually?

Senator NELSON. We would not want to change our whole credit at one leap.

Mr. JONES. The regional bank would be out nothing. They buy these bonds. If they amount to \$200,000,000 they buy them for \$200,000,000 and issue the currency immediately for \$200,000,000.

Senator NELSON. We would get just the same kind of credit in effect that we have to-day, so far as that is concerned?

Mr. JONES. Yes, sir.

Senator NELSON. The theory of this bill is that the banks will gradually retire their own bonds and circulation, giving them 20 years for it, and consequently this new currency will take the place of the retired national-bank currency. That is the theory on which the bill is based; do you not so understand it?

Mr. JONES. Yes; but would it not work out just the same if the Federal reserve bank carried the circulation?

Senator NELSON. No; if you shifted it bodily over from one to the other you would get the same condition you have now, only you would have it grouped in these regional banks instead of the little banks.

Mr. JONES. I predict that every member bank will continue its circulation rather than accept 3 per cent bonds. What is the difference whether they continue their circulation or the Federal reserve bank continues a like amount? For the sake of argument say that all the banks will come in. Would the condition be any different whatever if the regional bank takes over the circulation?

Senator NELSON. The regional bank could discount paper and issue currency on it, and that is what the little banks could not do. There is the difference.

Senator POMERENE. Your position seems to be that you want all these banks to have the privilege of going in or staying out as they see fit?

Mr. JONES. That is one of the alternatives we have put up to you.

Senator POMERENE. But that does not answer my question directly. You want the privilege of staying out or going in as you see fit?

Mr. JONES. Yes, sir.

Senator REED. Then, you would like to have the Government fix a place where you could go and get money whenever you wanted to, and not have to contribute much to it and just have it voluntary?

Mr. JONES. We are talking for the country banker. I do not think the country bank would have to apply to the regional reserve bank for money.

Senator REED. Well, he is in the banking business, is he not? And when we have the conditions as they are now he is liable to suffer by reason of a general financial stringency or a panic. That is a danger that hovers over you all the time.

Mr. JONES. Quite true.

Senator REED. Now, do you not think it is worth your while to help obviate that?

Mr. JONES. You will find sufficient banks that will, with needed modifications, voluntarily join to make it a success, without requiring the little bank that could not afford to do so to come in. That is the fellow we are appealing for. I can analyze the statements of many small country banks and show you that they can not afford to come join.

Senator HITCHCOCK. How many national banks have you in Colorado, Mr. Jones?

Mr. JONES. I am very poor at remembering figures. Senator Shafroth, do you recall? We have discussed that often among ourselves.

Senator SHAFROTH. No; I do not remember.

Senator HITCHCOCK. What per cent do you think would come into the new system, if they could stay out without serious loss on their bonds?

Mr. JONES. I do not believe I could undertake to answer that. I think all of our large banks will come in. I would say, gentlemen, that our Denver bank stands ready to come in under that measure with proper modifications. But I do not think some of the little country banks can afford to come in.

Senator REED. Suppose we were to make a third classification. We already have the provision for the reserve city banks maintaining a certain reserve, and then a less reserve for what is called country banks. Suppose there were a third classification made of the country bank or trust company with only \$25,000 of capital and a smaller reserve required from them. Would that be of any help?

Senator NELSON. And a smaller subscription to the capital stock.

Mr. JONES. You mean, to graduate the requirements?

Senator REED. Yes; we now have two steps, and my suggestion is to make a third step.

Mr. JONES. You are asking my individual opinion?

Senator REED. Yes.

Mr. JONES. I think every concession you can make that makes it easier and more inviting for the banks to join without feeling that they have to come in to save their charters, the more they will come in and cooperate to the fullest extent.

Senator SHAFROTH. Mr. Jones, the report of the Comptroller of the Currency for 1912 gives the number of national banks in Colorado as 126. There are probably six or eight more now.

Senator HITCHCOCK. Can you tell the number of State banks in Colorado, approximately?

Mr. JONES. We had more national banks than State banks up to a short time ago, but Gov. Shafroth assisted to get a mighty good bill through which united State bank organizations under a safer system, and the State banks are growing in numbers.

Senator NELSON. What proportion of your national banks do you think are the small banks of \$25,000 capital? Are there as many of them as of the banks of great capital?

Mr. JONES. There are a great many. In a growing country they start with small capital.

Senator NELSON. I want to follow up the suggestion of Senator Reed; I think he was on the right track. Suppose we had these little banks, and, instead of requiring them to subscribe and pay in 10 per cent of their capital, require them to pay only 5 per cent, and only pay in 3 per cent of their deposits instead of 5. Would not that help a great deal?

Mr. JONES. You would have more members.

Senator NELSON. And that would make it much easier. They would only have to contribute one-half of their capital stock; all the other big banks have to. They would only contribute three-fifths, or you might make it $2\frac{1}{2}$ per cent, say. That would put them on

"easy street" as compared to this. Instead of paying in 10 per cent of their capital they would pay in 5 per cent, and instead of 5 per cent of their deposits, say 3 per cent. That would make a big difference?

Mr. JONES. Quite a difference.

Senator REED. They must ultimately put in 12 per cent of their deposits, or else hold it in their own vaults.

Senator NELSON. They can hold the balance in their own vaults.

Senator REED. The Senator has gone more into detail. I should like to know what you think about that.

Senator NELSON. Would not that be a great help to them?

Mr. JONES. Undoubtedly.

Senator REED. Now, suppose we just draw this bill in this form, gentlemen: We require the reserves that are now provided in this bill from banks that go in, perhaps adopting the suggestion that Senator Nelson and I have been suggesting as to smaller banks, but as to banks that do not go in we require them to keep the same amount of reserves as they have now.

Mr. JONES. You are getting at something that is fairer.

Senator REED. And maybe stop them pyramiding by putting it in other banks.

Mr. JONES. If you mean to make it more inviting to those that come in, that is along my idea.

Senator REED. You banks have got to get in a safe position. I do not mean you gentlemen individually, but the banking system must be gotten in a safe position, if we can put it there. Congress owes that duty to the country and owes that duty to the banks. Now, there is a system here outlined; we are trying to perfect it. The first thing it does, it reduces materially the amount of reserves that banks are now required to carry. And there may be a further reduction——

Mr. JONES (interposing). In theory; we do not believe it will in practice.

Senator REED. I mean it reduces it as far as putting it into these banks is concerned. As far as the amount they are required to keep in their own vaults is concerned, there is a reduction. You may have to keep it some place else. There may be further possible reductions.

Now, suppose we enact this law as favorable as we can make it, and then were to provide that as to any national bank not coming into the system it should maintain the same reserves which it is now required under the law to maintain, and that when a reserve was deposited in some other bank that other bank could not redeposit it but would be obliged to hold it so as to stop pyramiding. How would that strike you?

Mr. JONES. Do you think it would be possible to follow the deposit?

Senator REED. Oh; very easy. You simply specify in the bill that the bank puts \$100,000 into another bank and counts it as reserve, and that other bank has to hold that money and can not redeposit it, counting it again.

Mr. JONES. Senator Reed, I spent a few years as State bank examiner in your State, and I do not believe I could follow that deposit and find out whether the bank was living up to the requirement or not.

Senator REED. I think that is a very small matter of bookkeeping, if I understand it.

Mr. JONES. I do not think it would be. I do not believe you would ever be able to find out where that specific deposit went.

Senator REED. Let me give you an example. I do not want to take up your time and the time of the committee in arguing it. Let us say there are 100 country banks depositing their balances with the First National Bank in Denver. The bank examiner and the comptroller know what their aggregate deposits are and everybody knows the amount of reserves which they must have on hand in their own vault or in the vault of the First National Bank of Denver. They know the amount of deposits that the First National Bank of Denver has received from this bank and the amounts received from other banks. It seems to me it would be very easy, then, to ascertain whether the First National Bank of Denver had taken these moneys and deposited them some place else, only holding a reserve and treating them as an ordinary deposit.

Mr. JONES. In other words, the bank may not loan it at all.

Senator REED. No, sir; it must have it in cash.

Mr. JONES. The bank would not receive the deposit, then?

Senator REED. Exactly; that is what I am talking about. Of course I think I state this rather dully. I can see it better than I can say it. Of course we all understand that if I put a million dollars in your bank and the law requires you to hold as a reserve 25 per cent of it $12\frac{1}{2}$ per cent in your own vaults that that cash has got to be actually in your vaults and $12\frac{1}{2}$ per cent in the vaults of another bank. If that other bank then takes that other $12\frac{1}{2}$ per cent and proceeds to loan it out or to redeposit it, it is, in fact, no longer a cash reserve. It has ceased to be a cash reserve, and hence we have what we call the pyramiding of reserves. Since that can be stopped—and you do not question but what that can be stopped?

Mr. JONES. I do not question but what you can stop almost any bank practice by law.

Senator REED. The bank would rather keep the entire 25 per cent in its own vaults?

Mr. JONES. Undoubtedly.

Senator BRISTOW. Why so, if they have this money? Suppose there was a bank which had \$20,000,000 deposits and it keeps \$4,000,000 or \$5,000,000 there; of course that would be within the law.

Senator REED. You do not seem to catch my thought, Senator. The bank—that is, the second bank—is required to hold $12\frac{1}{2}$ per cent of the other's deposits in its own vaults.

Senator NELSON. Less 5 per cent of circulation.

Senator REED. Well, I am leaving that out for the present. It thereupon treats that money as an ordinary deposit, holding its own reserve against it.

Now, we could very easily provide by law that when a bank deposited with another bank a part of its reserve that that reserve should no more be used in that other bank than if it held it in its own vault. I was asking the question how a bank would like to have this pyramiding stopped and be allowed to stay in or out, as they pleased, because I think you all agree that pyramiding is a dangerous thing.

Mr. JONES. Would you allow the first bank receiving the deposits from the country bank the use of it at all, or prohibit them from using it?

Senator REED. I do not see how you allow them to use it, because if they loan it out it would no longer be a cash reserve.

Senator HITCHCOCK. Senator Reed, would you allow them to keep a reserve of 25 per cent in cash to get that, the way some banks can now? You would not have them keep all the cash there.

Senator REED. I simply say it is—I was going to say—a farce; it is nearly a farce to talk about a reserve of 25 per cent—cash reserve, for instance—when you take 12½ per cent and put it in another bank and that bank loans it out or redeposits it. It may be redeposited half a dozen times, so that in the end if trouble comes that 12½ per cent has been passed from bank to bank and ceases to really be a reserve within the meaning of the law.

Senator SHAFROTH. I think Mr. Jones is in error—

Senator HITCHCOCK (interposing). I think Senator Reed has misstated his own proposition.

Senator REED. Perhaps.

Senator HITCHCOCK. I think what you meant was to stop the bank from sending to New York a part of the deposits which it had received from the country bank, and you would permit that bank to keep them all in cash, but loan out a safe proportion of them to its customers.

Senator REED. That would be a modification and could be adopted under particular circumstances.

Senator HITCHCOCK. In this bill you allow a Federal reserve bank to loan 66⅔ per cent and keep 33⅓ per cent reserve.

Senator REED. I am talking about a plan by which these banks can come in or stay out, if we provide what we think is a safe system. That is what we are trying to do.

Mr. JONES. Make it what I have said. Make it attractive for the banks to come in, but do not penalize the banks who do not come in.

Senator NELSON. Suppose we cut the tax of a half of 1 per cent in two? Would that not help the bonds a little? Suppose we made it a quarter of 1 per cent, just nominal; would that not relieve the banks of a good deal of a burden?

Mr. JONES. We beg of you to let it be known definitely, as quickly as you can reach a conclusion, what you decide to do about these bonds in order to prevent their further decline.

Senator NELSON. We are trying to do that, but you can see how difficult it is. They want us to go at railroad speed, but we are using deliberation and trying to get a good bill, and we are constantly prodded because we are not rapid enough.

Mr. JONES. We are not very large bankers, but we want to give you the benefit of what experience we have.

Senator NELSON. You do not want us to go at railroad speed and give you a bad bill?

Mr. JONES. No; we do not.

Senator REED. If we had accepted some advice that has been given us this bill would have been out of the way some time ago, and you gentlemen would not have had half a chance; you would not have been here to-day.

Mr. JONES. Senators, anything else in regard to reserves it might be well to take up with the gentleman to whom has been especially designated this subject who is to follow me, but anything bearing on the protection of the bonds I will be very glad to answer.

Senator BRISTOW. You referred to one matter about which I desire to ask you some questions. You said that the small banks, the country banks proper, could not afford to come into this; that the country banker could not afford the loss on his bonds, etc.; but that it was somewhat different with the banks in the cities like Denver—these reserve cities.

Senator NELSON. Big banks.

Senator BRISTOW. The big banks. What advantage, under the proposed system, has the big bank over the little bank?

Mr. JONES. The large bank feels more keenly the need of relying upon such a system as you are providing. The small banks have not the security, in the first place, to a great extent, so that they can come to the regional bank under the definition as it stands now and get help upon that security. They can get it from our city banks. We hold live-stock loans as collateral in our bank which represent money loaned by country banks over the West, which have a year to mature. It sometimes takes a year or more to mature live stock from the time the farmer begins the process. Sometimes he has to carry the loan over for another year. Such are liquid at the expiration of the time, for the live stock is marketable. Such country bank will always live in the hope that there will be no need of calling upon the Federal reserve bank for 9 months after it makes a 12-months' loan, in order to get them within the 90-day period.

When the little banks send such paper to us we make them a 90-day loan collateralized by this paper, but the 90-day paper is in turn secured by the longer term paper. We can discount that 90-day paper with the reserve bank. The small country banker is the man we are pleading for. He is the man who is likely to suffer.

Senator BRISTOW. I agree with you. I am not an expert, but I think the heaviest burden in this arrangement falls on the small man. Unfortunately that is his lot in life in most things, and this is no exception to that, and he is the fellow who is here asking for a hearing and for justice, and it is not any malign influence which is operating upon us. I want that to be distinctly understood. I think every member of this committee is trying to devise some way of relieving the banking situation of the defects that we all admit it has, and we are trying to do it in a way to help the country most.

Now, why should we retire the 2 per cent bonds anyway? Why not let the general banking circulation go on just as it has before and provide for elasticity outside of that?

Mr. JONES. I would ask why.

Senator BRISTOW. That would not disturb the whole situation nearly so much as this proposition would—this proposition to get rid of the national-bank circulation.

Mr. JONES. That does not take care of the bonds of the banks retiring from business.

Senator BRISTOW. Of course, that is true, but if you maintain the circulation as it is and let the banks run on just as they are now and not change materially this implied contract that we have with them, and then provide means by which banks can rediscount when

they desire and get additional currency on their assets somewhat similar to this, would not that relieve the entire situation? That is, if your bank in Denver, when there was stress, could take your assets to the subtreasury and get money on them and relieve whatever pressing necessity might exist, if there was any call, usual or unusual, and let them be quickly retired under certain provisions, would not that—

Mr. JONES (interposing). Without enacting this Federal reserve act?

Senator BRISTOW. Without creating this complicated machinery and disturbing the entire banking system, which has grown up here in half a century.

Mr. JONES. That injects an entirely new thought which is outside the Federal reserve act. That means the Government issuing money direct to the banks.

Senator BRISTOW. The Government does it now, except it is creating an agency here for the purpose of issuing this money through that agency. Why not utilize the agency that now exists and issue it upon the same kind of collateral and the same security? What is the use of this complicated machinery in order to accomplish that purpose?

Senator NELSON. In other words, what the Senator means is that instead of walking up to Uncle Sam's counter with Government bonds, you walk up with your commercial paper and say you want notes for it.

Mr. JONES. I understand what he means. His proposition is foreign to the matter which this committee has had under consideration, and foreign to the proposed system which I have studied.

Senator BRISTOW. It is an additional facility to that which now exists to provide a means by which a bank when it needs help can surely get it if it has proper assets.

Mr. JONES. I think it is worthy of consideration. It has been suggested before. I heard the suggestion several years ago.

Senator BRISTOW. That is not my idea. It is Senator Hitchcock's idea. He has been bringing it out here for almost a month.

Then there is another suggestion on which I would like your view. There has been a suggestion made by Senator O'Gorman that we create one Federal reserve bank instead of 12.

Senator NELSON. Under the control of the Government.

Senator BRISTOW. Under the control of the Government, managed by a board appointed by the President, similar to the present provision in this bill, and have it a bank of discount, a bank of issue, and a bank of reserve.

Senator HITCHCOCK. The hour of 6 has arrived.

Senator NELSON. Mr. Chairman, before we adjourn I should like to submit a matter to the committee. I have received a letter from Minnesota stating that a delegation of country bankers want to come down here and asking if they can get a hearing. I want to know what to say to them.

Senator HITCHCOCK. If they arrive between the 22d and the 25th they can be heard.

Senator NELSON. Very well; then I can write them to come between the 22d and the 25th.

Senator HITCHCOCK. I think we ought to know pretty soon when they expect to be here so we can put the date down.

Senator NELSON. I will wire them in the morning. I ask the consent of the committee to invite them to come.

Senator REED. I make a motion to that effect.

(The motion was duly agreed to.)

Senator SHAFROTH. I think you had better make the invitation for the 22d.

Senator HITCHCOCK. The 22d is full.

Senator NELSON. Very well; I will make it for the 23d.

Senator BRISTOW. Will Mr. Jones be here to-morrow? There are some more questions I should like to ask him.

Senator HITCHCOCK. This delegation will be heard further to-morrow morning if desired; and they will be followed by two gentlemen from New York, Mr. Perkins, of Albany, and Mr. Treman, of Ithaca; and there are several Kansas bankers here.

Mr. JONES. At what hour shall I be here to-morrow?

Senator HITCHCOCK. At 10.30, please.

(Thereupon at 6.03 o'clock p. m. the committee stood adjourned to meet to-morrow, Tuesday, October 14, 1913, at 10.30 o'clock a. m.)

TUESDAY, OCTOBER 14, 1913.

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

The committee assembled at 10.30 o'clock a. m.

Present: Senators Reed (presiding), Hitchcock, O'Gorman, Pomereene, Shafroth, Hollis, Nelson, Bristow, and Weeks.

STATEMENT OF GORDON JONES—Resumed.

Senator REED. Is there any member of the committee who desires to ask Mr. Jones further questions?

Senator BRISTOW. I was asking Mr. Jones last night when we adjourned about the advisability of having one central reserve bank, governed by a board similar to that created in this bill, which should be a bank of discount, a bank of issue, and a bank of reserve.

Senator NELSON. A bank run by the Government under absolute Government control.

Senator BRISTOW. Yes; under Government control.

Senator NELSON. And a central bank—

Senator BRISTOW. With branches to take care of the different localities of the country. What would you think of that kind of a system?

Mr. JONES. A Government bank without the banks owning the stock?

Senator BRISTOW. Two suggestions have been made: One would be by popular subscription, like the Bank of France, and another only the banks to subscribe.

Mr. JONES. That is a matter that would entirely change the scope and plan of the present measure. I did not feel competent to talk upon the present measure until after about a month's study of the

bill. I would not feel like giving an offhand reply to another plan unless I had gone into it carefully.

Senator BRISTOW. Suppose the same stock provisions that are provided for in this bill should be provided for in a bank such as I have indicated, a central reserve bank controlled by the Government, and the stock owned by the banks, just as under this bill.

Mr. JONES. Ownership without representation?

Senator BRISTOW. Yes; just exactly as this is.

Mr. JONES. I do not think any plan for a bank as proposed without proper representation from the ownership of the bank would be feasible or would work out satisfactorily either to Government or the people.

Senator BRISTOW. If the Government should establish a central reserve bank with branches, and the subscriptions to the stock be voluntary by any citizen who desired to subscribe, and the Government, through that bank, would perform all the functions that are desired for the relief of the banking institutions of the country—let them have money, discount their paper, etc.—

Senator NELSON. Issue bills.

Senator BRISTOW. And issue bills, and let it be voluntary with the banks as to whether they subscribe to the stock or not; and whether they did subscribe or not, if they had good paper and were reputable banking institutions, they would have the facilities which the bank afforded—what would you think of a plan of that kind?

Mr. JONES. That would mean an entire reconstruction of the bill, would it not?

Senator BRISTOW. Yes.

Senator NELSON. Not in its fundamentals.

Senator BRISTOW. Not in the principles of the mobilizing of reserves and making the currency elastic, which are the only things which have been asked for.

Mr. JONES. Requiring the banks to maintain balances with it?

Senator BRISTOW. Yes; any bank that desires help would, of course, maintain a balance. It would be a bank of reserve.

Mr. JONES. A plan might be worked out along that line that would be feasible. It is very easy, theoretically, to devise something that would not be practicable.

Senator BRISTOW. Are you familiar with the Bank of France?

Senator REED. I would like to interrupt for a moment to call the attention of the committee to a matter which I think ought to be settled, because I think an answer should be given one way or the other. I have a letter here, which was just handed to me by Senator Owen's clerk, from the Chamber of Commerce of the United States, Riggs Building, Washington, D. C., dated October 14, 1913, and addressed to Hon. Robert L. Owen, etc. It states that the report of the chamber's committee on banking and currency has been approved by a large majority of the constituent members by referendum vote, and requests that the chamber be given an opportunity to be heard by the committee. The letter is signed by Elliott H. Goodwin, general secretary.

The question, of course, is whether we will hear them; and if so, when can we hear them.

Senator HITCHCOCK. I move that we put them down for Thursday.

Senator REED. If there is no objection to hearing these gentleman on that date, that will be the arrangement of the day.

Senator BRISTOW. Now, Mr. Jones, I want to inquire a little further of you. What are the deposits of your Denver bank?

Mr. JONES. My bank in Denver?

Senator BRISTOW. Yes.

Mr. JONES. \$6,000,000 deposits.

Senator BRISTOW. And what is the amount of your stock?

Mr. JONES. \$400,000, with surplus and undivided profits of a like amount.

Senator BRISTOW. In the panic of 1907 did you use clearing-house certificates in Denver or did you pay out the money?

Mr. JONES. Some of the banks put out certificates and others did not.

Senator BRISTOW. Did you use certificates?

Mr. JONES. No.

Senator BRISTOW. Did you limit your payments or did you pay your depositors whatever they called for? Was there a limit on the amount?

Mr. JONES. There was a limit.

Senator BRISTOW. There was a limit?

Mr. JONES. A limit as to the cash payments for 10 days.

Senator BRISTOW. Yes. How much of cash would you have had to have not put any limit—just to have paid out whatever anyone wanted? How much additional money would you have needed, in your opinion?

Mr. JONES. I can not answer that, because I do not know if we had not put on the lid what would have been demanded of us. But I do not believe any bank in Denver would have had to have had any additional amount to have met all the demands on them. In other words, I am sure the putting on of the lid was unnecessary.

Senator BRISTOW. If the banks of Denver could have gone to a sub-treasury and secured the amount of their capital stock in cash at any time they wanted it, would there have been any uneasiness on the part of the banks as to their ability to have met their demands?

Mr. JONES. None whatever.

Senator BRISTOW. None whatever?

Mr. JONES. Or of the people, either.

Senator BRISTOW. Would not that be a very simple way, then, to meet an emergency?

Mr. JONES. It would be a very delightful way, if we could go to the Treasury and get cash as fast as we want it.

Senator BRISTOW. Of course that takes for granted you would give security to get it?

Mr. JONES. Yes; and we would have it.

Senator BRISTOW. You would have it?

Mr. JONES. Provided the Government machinery would not be too cumbersome and could give it to us as readily and conveniently as our correspondents do when we have need.

Senator BRISTOW. Can you see any dangers in a system of that kind?

Mr. JONES. Offhand I can not see but what something could not be devised along that line; but it would mean an entire reconstruction, would it not, of the present bill?

Senator BRISTOW. It would require some quite radical amendments to it, yes; but there seems to be an impression on the part of some of the gentlemen who come before us that it won't do to suggest anything that would be a very radical departure from the bill. I think I voice at least the views of some of the members of the committee when I say we would like suggestions of all kinds that might be of use to us, regardless of whether they are in conflict with the bill or in harmony with it.

Mr. JONES. May I offer a suggestion right there, then——

Senator BRISTOW. Yes; I will be glad to have it.

Mr. JONES (continuing). Which your questioning has led up to. I think the present bill is entirely too cumbersome. I think the machinery is too elaborate to make it workable, especially for the small bank, in whose interests we are here to-day. In other words, it may require borrowing on behalf of the banks to keep it going. You have such a large machinery, requiring immense office buildings, absorption of exchange, salaries, and other expenses to operate the regional bank that to make it a success the banks might be compelled to borrow. That would be contrary to the ideas of conservative banking. We have all been educated that banks should borrow for emergency only or to meet temporary demands. This bill contemplates a large amount of deposits will be carried by banks called reserves. These will not be reserves in fact, but merely permanent investments; as I said yesterday afternoon, without interest. We can not draw it out except in case of liquidation. The banks and the Government deposit large amounts, and in order to keep the machinery going it may become necessary to reloan to the banks. The banks do not want to borrow except for emergencies.

Senator BRISTOW. If you retire the national-bank currency, the banks have got to borrow or there will be a stringency in the currency, because the currency would depend on the borrowing of the banks.

Mr. JONES. The banks would not have to borrow if they could sell their bonds and retire their note circulation.

Senator BRISTOW. But, then, would not that result in a contraction of the currency if they took \$750,000,000 of the national-bank notes out of circulation?

Mr. JONES. Would it be necessary for the banks to borrow from the Federal reserve banks in order to take out currency?

Senator BRISTOW. There is not any other way to get currency out.

Mr. JONES. We could build up our balances with them and demand it in currency, couldn't we?

Senator BRISTOW. No; the basis of the currency is 90-day paper; that is the only basis for currency that this bill contemplates.

Mr. JONES. Could the Federal reserve banks under section 15 make loans to commercial interests?

Senator NELSON. No; only to banks.

Mr. JONES. I think you will find——

Senator BRISTOW. It can discount paper.

Mr. JONES. I think you will find this section would permit them to do so.

Senator BRISTOW. That is one of the controverted questions, as to whether these regional banks are going into the open market.

Senator HITCHCOCK. It is agreed, I think, that the only purpose for which a regional bank can go into the market and buy paper is to establish the rate of discount which it has made—to force the other banks to loan money at the rate it has established.

Mr. JONES. How is that, Senator?

Senator HITCHCOCK. I say the only purpose for which the reserve bank can go into the market and make loans or buy commercial paper is to establish the interest rate which it has created; that is, to force the other banks to loan at the rate which it establishes.

Mr. JONES. If it does do that, then it can issue currency against that paper?

Senator HITCHCOCK. Yes.

Mr. JONES. Then it will not be necessary for banks to borrow in order for the Federal reserve banks to have assets against which currency can be issued?

Senator REED. No; this is what the Senator from Kansas means: That if the \$700,000,000 of national-bank notes are retired there would then be a shortage in currency, and the banks, in order to get money, would have to deposit their 90-day paper and call upon the Government to issue currency against it. That was the suggestion of the Senator from Kansas.

Senator BRISTOW. There is no other way of getting currency. But Mr. Jones suggests that these Federal reserve banks could buy commercial paper and issue currency for it.

Mr. JONES. Yes; in order to meet the withdrawal of deposits that may be built up, in excess of the 5 per cent reserve fund, for the express purpose of demanding the currency. There would be no other way to credit deposits.

Senator REED. I should think that would be a very bad sort of deal.

Mr. JONES. I am expressing myself in a personal way. We were not delegated to talk about that, however, as representatives of the country banks.

Senator HITCHCOCK. They all agreed it should not be allowed to go into the market and buy paper except possibly to establish the interest rate.

Mr. JONES. Your bill does not say so; if they could buy it they would come in competition with the banks.

Senator WEEKS. Mr. Jones, this is not our bill; it is a bill that has been sent to us which we are investigating.

Mr. JONES. That is the reason we are appealing to you to get it in shape so it may be workable.

Senator BRISTOW. Mr. Jones, how much balance do you carry in your reserve cities and in what cities do you have your reserve in fact?

Mr. JONES. The United States National Bank of Denver keeps about 20 per cent of its deposits in New York, St. Louis, and Chicago, divided between the three central reserve cities.

Senator REED. How much in your bank as a reserve?

Mr. JONES. Usually nearly 15 per cent, and about 10 per cent more scattered in other parts of the country, necessitated on account of collections, like at San Francisco and Kansas City.

Senator NELSON. That is your exchange business?

Mr. JONES. No; necessitated on account of items we handle that are cleared through those points.

Senator HITCHCOCK. It that an average amount?

Mr. JONES. I should say that is nearly so.

Senator HITCHCOCK. What is the total?

Mr. JONES. We generally keep 45 to 50 per cent reserve. In 1907 we closed the panic, what was called the panic, with nearly 58 per cent reserve—not legal; reserve but cash and all balances due from banks.

Senator BRISTOW. If these regional banks should be established, provided for in this bill, Colorado might be attached to San Francisco or it might be St. Louis. In the event it was, or to New Orleans, have you ever figured as to what effect it would have upon Denver in the transferring of the reserves of the banks that are kept in Denver now to the regional reserve banks?

Mr. JONES. I believe that will be gone into by another member of our delegation who has studied that matter and who is to follow me.

Senator BRISTOW. If that is the case I won't ask that now.

Mr. JONES. I do not like to anticipate him. There are one or two matters I would like to add to what I said yesterday covering one or two questions asked me, with your indulgence. Answering the Senator from Missouri, I think he was questioning as to whether it would be possible to devise some plan to prevent the pyramiding of deposits by prohibiting the bank receiving the deposits from the first bank—where it originated—from reusing it. After giving the matter some little study last night, I am confident there is not enough cash in the country to provide sufficient reserves if such deposits were to be held in cash by reserve or central reserve banks.

Senator NELSON. Without using them?

Mr. JONES. Yes; without using them, if such banks were required to hold such deposits in cash it would contract the currency beyond conception and it would be wasteful and add to our present hoarding system.

Senator REED. At the same time, you recognize the fact that the pyramiding of reserves impairs the actual utility of the reserves as a reserve, do you not?

Mr. JONES. Not when things are working smoothly.

Senator REED. Nothing is the trouble when everything is working smoothly. That implies the absence of trouble, the very statement of it.

Mr. JONES. That is true. I made the remark a moment ago we are building up a big machinery to keep going all the time when we do not need it. And, to be frank with you, I do not believe there is any need of arguing whether the dividends should be 5 per cent or 6 per cent. It might be wiser to figure as to the amount of assessments that may be necessary to keep it going. I do not think under the present plan there would be much dividends for us to quibble over, unless you provide for the Federal reserve banks doing a general banking business. That I would regret very much to see.

Senator HITCHCOCK. Where you said a moment ago a bank would not be able to operate profitably and successfully, except by borrowing or rediscounting—

Mr. JONES (interposing). A bank would not?

Senator HITCHCOCK. I understood you to say that under the system which this bill proposes to establish a bank would be compelled to rediscount paper in order to operate profitably.

Mr. JONES. I said it might be necessary for the member banks to become continual borrowers of the Federal reserve banks in order that those banks might operate profitably.

Senator HITCHCOCK. Oh, you are speaking of the reserve banks?

Mr. JONES. Yes, sir.

Senator HITCHCOCK. Is it also true that in order that the reserve bank might earn a dividend it would be required to adopt such a policy as would procure currency from the Treasury? It could not operate simply by the reserve deposits with it, could it, at a profit?

Mr. JONES. I thought that was the plan—that it should operate upon the deposits of the Government and the deposits of the banks and its own capital stock.

Senator HITCHCOCK. Let us see: The law provides that it must keep a reserve of one-third of all the money deposited with it. That means that it can only lend out two-thirds of its deposits; do you think that it would be able to operate at a profit when it only had two-thirds of its deposits to lend and only had the demand for those deposits at certain seasons of the year when banks required discounts?

Mr. JONES. We are getting into a very deep phase of the subject, and I am confident the bankers of the large cities are more competent to answer that than we of the country. I have been under the impression that the bank, to make a success, must loan its loanable funds. To whom is it to loan its loanable funds? The intention, as has been stated, is to reloan it to the banks. We object to our banks becoming chronic borrowers, but they might have to become chronic borrowers to make this a success as planned now with the great machinery built up, unless the Federal reserve banks enter the field as competitors of the existing banks.

Senator NELSON. Aside from that if they can not do a general banking business, their whole discount business will simply be limited to the demand for note issue, won't it?

Mr. JONES. It seems to me—

Senator HITCHCOCK (interposing). Before you go into that, let me ask you this question: Besides being a stockholder in many country banks you are a city banker, are you?

Mr. JONES. I am so considered.

Senator HITCHCOCK. In Denver. Now, can you give the committee any idea of the cost of handling the business of the country banks? You have a lot of country bank depositors, have you not?

Mr. JONES. Yes. The cost depends on how we handle the business, as to whether we are allowed to charge their account with the items we receive on their town or whether we must send them as funds in transit and upon the interest paid on their balances, and as to the average balance they carry and as to what items they send us, and as to the territory they cover, whether within a limited area or scattered over a large area.

Senator HITCHCOCK. Under the terms of this bill the reserve bank must credit the checks upon deposits.

Mr. JONES. The gentleman to follow me has been delegated to go into that feature.

Senator HITCHCOCK. Is he going into the necessity for doing that?
Mr. JONES. Yes; he has analyzed it for you.

Senator HITCHCOCK. As I understand this proposition, the reserve bank becomes a clearing house for hundreds of banks and will be compelled to maintain a great force to handle the business of those reserve banks; but if you are going to have somebody go into that I would be glad to hear them.

Mr. JONES. Adding to the suggestion made yesterday that the Federal reserve banks should take over the 2 per cent bonds of non-members or of such banks that prefer to give up their charters rather than become members under the terms of the bill we would submit that the Federal reserve banks should certainly take over the 2 per cent bonds held by the banks that are now securing Government deposits, because the Government deposits are to be transferred from the banks to the Federal reserve banks. This we would like to impress upon you, and to give you an illustration I will use my own case: A few months ago I was notified that our bank was designated a regular United States depository. We received a deposit under the prevailing rules that had been established for years.

Senator NELSON. How much was the deposit?

Mr. JONES. \$50,000 was the amount we received, which I believe was with interest at a nominal amount or without interest maybe.

Senator NELSON. One and a half?

Mr. JONES. Not at that time. We were asked to send down Government bonds as security. Feeling we always wanted to help maintain the market on twos, as we have always taken a pride in the fact that our Government was floating a 2 per cent bond, we authorized the purchase of 2 per cent bonds. They were purchased, we paying 101½ for them. They were deposited with the Secretary of the Treasury as security for our deposit. Within a short time thereafter we received notice that a new rule had been established and we would have to pay 2 per cent on the deposit. Gentlemen, we are paying 2 per cent on that deposit to-day, and the 2 per cent bonds for which we paid a premium are with the Government as security. Now, there are many other banks which hold Government deposits on which they are paying 2 per cent, and many of which paid a larger premium on the 2 per cents than we did. Now, these deposits are to be removed to the Federal reserve banks, and in justice we ask that the Federal reserve banks take these bonds on a par basis.

Senator HITCHCOCK. Can you state what amount of 2 per cent bonds are now held by the national banks to secure deposits?

Mr. JONES. I have not the information at hand.

Now, adding to the suggestion I made on behalf of the country bankers yesterday to endeavor to devise some plan that does not penalize the bank that does not feel it can afford to come in and to make it as inviting as possible in order to build up that which the country needs more than the banks, for the banks do not need relief as much as the country needs it. We can protect ourselves, as has been demonstrated, by contracting. The public always suffers more, because we see the trouble and accentuate it and do get in shape to protect ourselves better than the borrowing public can. I understand, by reading history, that at one time even religion was endeavored to be forced by coercion and not made attractive, and it was never successful until it was made inviting and voluntary to the

people. Now, I believe if something could be devised by which it was made inviting and voluntary we could build up a system which all would be glad to join.

Senator POMERENE. Do you think there is an analogy between the banking system and religion in this country?

Mr. JONES. There may be an analogy between religion and anything else that is good for the people.

Senator NELSON. Unless you assume that money is the root of all evil. [Laughter.]

Mr. JONES. Another thing, gentlemen. We country bankers never expect to have representation on the board, but we do believe that there has been provided a sufficient banking representation on the board. Now, I am speaking personally; not for the country bankers at all. One of my reasons for it is we do not feel the machinery will work smoothly without there are more men of approved banking experience on the Federal board. We know what it is to go up against theoretical and technical banking. If a good bank wants to borrow from its correspondent on account of sudden need, it can wire that correspondent it is sending sufficient securities to cover, and the bank can get credit before the securities are received.

Senator NELSON. But do not overlook how smoothly this bill passed the House without the aid of bankers.

Mr. JONES (continuing). And we have asked, for the purpose of protecting our capital stock there, that we be given more liberal representation.

Senator NELSON. Don't you see how easy that could be done without the aid of the bankers? I mean the passing of the bill.

(No answer.)

Senator WEEKS. Mr. Jones, do I understand you to say your Denver bank had 58 per cent of deposits in reserve at the end of the panic?

Mr. JONES. Yes. But since I said that it has occurred to me it might have been 52 per cent.

Senator WEEKS. 52 per cent.

Mr. JONES. Above 50 per cent.

Senator WEEKS. How much did you have at the beginning of the panic?

Mr. JONES. In speaking of reserve, I meant what we had in our vaults and scattered over the country—actual reserve. We call it not legal. We probably had 40 per cent.

Senator WEEKS. You increased your reserve 12 per cent?

Mr. JONES. Yes; I think so.

Senator WEEKS. Where did you get it?

Mr. JONES. Commercial paper that was paid. We are quite a commercial paper buying bank and the maturity of our commercial paper which was credited to our accounts with our eastern correspondents provided funds greater than demands upon us.

Senator WEEKS. Then you did not reloan?

Mr. JONES. We did not deny loans or renewals to local customers. A loan that came to us from a regular bank correspondent or from a local depositor—we did not deny them, because we knew our ground on account of having so much commercial paper.

Senator WEEKS. You did not renew your loans that were bought?

Mr. JONES. We were not asked to renew outside commercial paper—we protected our own community.

Senator WEEKS. I would like to call the committee's attention to what happened in 1907. Here is a bank that certainly increased its reserve more than 12 per cent. Now, the New York banks at the beginning of the panic had \$300,000,000 in reserves. If all the country banks of the country had increased their reserves 12 per cent, it would have taken more than \$300,000,000 to have done it. In other words, the New York banks would not have had any reserve left if every country bank had increased their reserve as much as did this country bank.

Mr. JONES. I beg your pardon; you do not understand the way our reserves were increased. Our balances increased in New York through the maturity of our commercial paper payable there.

Senator WEEKS. I understand how you increased your reserve.

Mr. JONES. Our cash in vaults may not have increased.

Senator WEEKS. That does not make any difference. The reserve was increased 12 per cent by your bank. Somebody had to loan those people who had paper maturing.

Mr. JONES. That is true.

Senator POMERENE. If every bank had increased its reserve to that extent, how much money would have been out in the hands of the public—the pockets of the public?

Mr. JONES. How is that?

Senator POMERENE. I say, to change the question a little, if every bank had increased its reserve 12 per cent during that panic, how much would there have been out in actual use?

Mr. JONES. We did not increase our cash reserve. Our cash reserve may have been reduced, but our general reserve with other banks was increased by reason of the maturity of outside paper.

Senator NELSON. Do you not know what they did with it? They probably held it?

Mr. JONES. They probably used it for the protection of their own communities.

Senator SHAFROTH. The table was presented here by which it was shown that the New York banks did not have as much reserve in the panic of 1907 as the country banks. Very few banks has as much reserve as the witness's bank.

Senator REED. Mr. Woodruff, will you take the stand?

We will now hear from Mr. Woodruff.

STATEMENT OF GEORGE WOODRUFF, PRESIDENT FIRST NATIONAL BANK, JOLIET, ILL.

Senator REED. Mr. Woodruff, you appear as one of the representatives of this committee of country bankers?

Mr. WOODRUFF. Yes, sir.

Senator REED. Where is your bank?

Mr. WOODRUFF. My bank is the First National Bank of Joliet, Ill.

Senator REED. What is the capital?

Mr. WOODRUFF. \$200,000.

Senator REED. And the surplus?

Mr. WOODRUFF. \$150,000.

Senator REED. How long have you been in the banking business?

Mr. WOODRUFF. Ever since I was 5 years old.

Senator REED. That is still a little indefinite, but I take it you have been in some 12 or 15 years, at least. [Laughter.]

Mr. WOODRUFF. About 27 years.

Senator REED. You have been in the banking business practically all your life?

Mr. WOODRUFF. I have been in the banking business practically all my life; yes, sir. My father was in the banking business before me, and when I was a little boy he put me in the business. I would spend my vacations in the bank, and go to school at the same time. I have been actively engaged as an officer of the bank for 10 years.

Senator REED. I believe you have one particular thing you desire to discuss, and I will thank you to go ahead with that now.

Mr. WOODRUFF. Now, gentlemen of the committee, the committee appointed by the country bankers have asked me to talk to you a few minutes about the exchange section of the bill. So it seemed to me it might be a good scheme for me to take it up briefly from five different standpoints, and then I will be very glad to answer any questions that I can. I desire to take it up first from the standpoint of the reserve bank itself, then from the standpoint of the city bank, then from the standpoint of the country bank, and then discuss the principle involved, and then suggest the changes that the country bankers desire made in the bill.

Now, from the standpoint of the Federal reserve bank itself. We have read the law over, and it seems, from the wording of the law, that the reserve banks will be compelled under this act to accept at par checks drawn by individual depositors upon any member bank, and also the checks drawn by any member bank, which we will call drafts, because that is what we call those checks drawn by one bank against any other bank, and then in addition, of course, the bank drafts of any bank upon any other Federal reserve association. So there are three classes of checks or drafts involved in that provision. From the standpoint of the Federal reserve bank, if it should attempt to handle the personal checks, I believe it would be a very expensive proposition.

In the first place, it would probably involve the taking over of much of the so-called transit business by the Federal reserve bank from the member banks. Of course that business would consist only of checks or transit items upon member banks, but that might be a very large amount of business.

The reason the bankers asked me to talk was because I am a country banker, and therefore interested from the standpoint of the country banker, and also because I happened to clear a great many of these items which come to country banks in my State. There are about 200 country banks who send their business to me, and we cooperate, and we make a small profit in handling the business.

We handle this out-of-town business through what we call a transit department.

Now it is necessary for us to also have an analysis department, because if we did not have some way of knowing whether we would lose money or make money we would run our business at a loss. Every bank which opens an account with my bank—and it is also true of reserve center banks—is listed in our analysis department, and at the end of each month we have an analysis of all the business

we have handled for that bank. We figure the profits we have made out of the handling of that business, and at the end of the month we know how much we have made or lost.

In that connection I have the figures which I sent for the other night, when the members of the committee asked me if I would talk to you. I have the figures from our analysis department covering this year's operations, in which we have handled 799,420 individual checks. That is the number of checks.

Senator HITCHCOCK. What time is that?

Mr. WOODRUFF. From January 1.

Senator HITCHCOCK. There were 799,420 checks?

Mr. WOODRUFF. Yes; down to the last of August.

Senator HITCHCOCK. How many months is that?

Mr. WOODRUFF. Eight months, amounting in the aggregate to \$29,900,000. I find that that cost me for overhead expenses, \$12,600, which means 42 cents a thousand for overhead expenses. Overhead expense means the cost of the clerical help, stationery, postage, and all of the expenses inside of the bank.

Senator HITCHCOCK. You mean 42 cents per thousand checks?

Mr. WOODRUFF. No, sir; per \$1,000. That does not figure rent or the expenses of the salaries of the overhead officers. The salaries of the officers directly in charge of the out-of-town department are figured in, but the other officers, the general officers of the bank, are not figured in in figuring the overhead charge of the transit department. Neither is the rent.

Senator REED. You mean the president and the cashier; those officers of the bank which you have anyway?

Mr. WOODRUFF. They are not figured in. We had one vice president whose salary was figured in. An assistant cashier does the work now and gives his exclusive time to this department.

Senator REED. The only thing you charge as overhead charge, as far as salaries are concerned, are the salaries of those men who actually devote all their time to handling this particular branch of the business? Am I right in that?

Mr. WOODRUFF. Yes, sir.

Senator REED. That is \$12,600?

Mr. WOODRUFF. Yes, sir. Since I have been president of the bank I have divided the bank into departments, and we have some degree of segregation. We have our savings department and our commercial department and our out-of-town department very well segregated, although we do not segregate the investments, and consequently we can divide our overhead expenses very accurately.

We find the cost of collecting that amount of business, which involves exchange charges and the loss of time in the mails would be about \$28,300, and I would estimate that to be about 94 cents.

Senator HITCHCOCK. 94 cents per what?

Mr. WOODRUFF. Per \$1,000.

Senator BRISTOW. What were the items of expense? This last item—

Mr. WOODRUFF (interposing). The last item covers the exchange charges plus the loss of time in the mails.

Senator BRISTOW. That is the interest on the money while it is in transit?

Mr. WOODRUFF. Yes. We figure \$1,000 to be worth 14 cents per day, that is, at 5 per cent interest. If you come into our bank and cash a check on some bank that is five days away, we give you the \$1,000, as we would do whenever a man comes in and we know him. We usually do not quibble about a matter like \$1,000 if the man is good, and we absorb the little loss. If he were a stranger we would not do that.

It takes five days to get that back in cash. We have given him cash for it. There would be a loss on those five days of 70 cents. That is carefully figured in our analysis department. We figure how long it is going to take to get that check back from actual experience, and when it comes back we know how much time we lost in collecting it; that is, we know how much money we lost, because otherwise we could have loaned that amount at 5 per cent. We figure a flat rate of 5 per cent. Sometimes we get more and sometimes less. We find a charge of 94 cents per \$1,000 is our average cost.

Senator NELSON. Exchange and interest?

Mr. WOODRUFF. Yes, sir; that is, interest and exchange.

Senator REED. How much is the exchange?

Mr. WOODRUFF. We would allow about one-third as exchange and about two-thirds for loss of interest, because of time lost in the mails. That gives you, roughly, a little idea of our experience from actual business in handling a small amount of this business, and you can easily figure what a central reserve bank would have to consider in handling a sum amounting to hundreds of millions of dollars. It would amount to a tremendous expense, and in addition to that it would be a tremendous undertaking to organize transit departments that could even handle the business physically. We find that the banks of this country, many of them, which have built up transit departments have started them in a small way. Even in our little bank down in the country, if we had to develop a transit department and would have our volume of business suddenly thrown upon us, it would necessitate very much loss to us, particularly from the standpoint of the organization of the department; it would take a long time to get that department organized.

Senator HITCHCOCK. You are clearing for about 200 State banks?

Mr. WOODRUFF. Yes; some State, some national, and some private banks.

Senator HITCHCOCK. All of Illinois?

Mr. WOODRUFF. Practically all.

Senator HITCHCOCK. Do you handle all the checks that they send out?

Mr. WOODRUFF. Yes, sir.

Senator HITCHCOCK. And all the drafts made on them?

Mr. WOODRUFF. We would if we received any. You know there is a difference between checks and drafts. A check is looked upon as a personal check, a check which an individual draws against his bank; and a draft we call a bank draft, which means that one bank has drawn its draft against another bank.

Senator HITCHCOCK. I want to know what you actually receive. Suppose a bank in my town received a check from one of the Illinois banks, would that go through your hands?

Mr. WOODRUFF. If the bank in your town had an account with me and was using my bank as a clearing center.

Senator HITCHCOCK. Suppose it had only an account with Chicago?

Mr. WOODRUFF. It would not come near me.

Senator HITCHCOCK. You do not get all the checks on Illinois banks?

Mr. WOODRUFF. Of course not.

Senator HITCHCOCK. The reserve bank located in Chicago would get all the checks?

Mr. WOODRUFF. Yes; all the checks upon its members, because the law does not allow it to take any other checks. The transit departments would remain as they always have, because there would be such a vast amount of checks that would not go through the Federal reserve bank anyway. They would divide all their transit business and then dump in the Federal reserve bank all checks drawn upon members of the reserve bank.

Senator HITCHCOCK. Have you any estimate of what that business would amount to, if a reserve bank were located in Chicago and had, say, 1,000 country members?

Mr. WOODRUFF. Of course, that would be a very hard thing to estimate, because there is no way of determining how much transit business is now handled in Chicago. I think, however, that I can give you a formula that you could use to estimate that. I find that my deposits from country banks amount to about a million and a half; sometimes a little more and sometimes a little less. I find that we clear every month a little better than twice that amount of items. If you use that as a general rule, you will get somewhere near the truth.

The average reserve city bank probably handles about twice as much per month in out-of-town items as is held in bank balances. Of course that might not be true with many banks. Many banks might have dormant balances and not be handling so many of the items. Then in large city banks the local deposits would make the items much greater in number. However, in our bank the monthly items will average about twice the amount of the bank balances. That is about the only estimate that could be made. I think that is about as near as you could get to it.

Senator HITCHCOCK. If the country balances in Chicago were \$75,000,000?

Mr. WOODRUFF. In such a case we would figure that there is practically in the neighborhood of \$150,000,000 of transit business passing through the Chicago banks.

Senator HITCHCOCK. That would be on the basis on which you are doing business?

Mr. WOODRUFF. Yes, sir.

Senator HITCHCOCK. This reserve bank would naturally handle not only Illinois checks but outside checks, and therefore would it not handle a much larger proportionate volume of business than you handle?

Mr. WOODRUFF. I doubt it. The Federal reserve bank only handles checks on its members, which would mean only the member banks inside of that reserve district.

Senator HITCHCOCK. Suppose it did handle in the same proportion, which would be \$150,000,000 a month, what would the overhead charge on that be, on the same basis as yours?

Mr. WOODRUFF. My overhead cost, taking the average all through, is less than the overhead cost of the average collecting bank; that is, 42 cents per \$1,000.

Senator HITCHCOCK. What would that be on \$150,000,000; that is, in eight months? What would it be on \$150,000,000? That would be \$63,000 per month, would it not?

Mr. WOODRUFF. That is the way I estimate it.

Senator HITCHCOCK. What would the cost of collection, exchange, and interest be?

Mr. WOODRUFF. 94 cents per \$1,000 is my experience in Joliet.

Senator HITCHCOCK. That would be about \$130,000 on \$150,000,000?

Mr. WOODRUFF. Of course, this \$150,000,000 that we are estimating on is, as I have explained, a very rough estimate, but it is the nearest we can get.

Senator REED. In making those figures you ought to take out the one-third you pay for exchange, because, I take it, the regional banks would not have to pay exchange.

Mr. WOODRUFF. We will discuss that in a moment. Answering Senator Hitchcock, I think that amount would be \$141,000. That is the way I figure it.

Senator HITCHCOCK. Then that would be a total of \$204,000 a month that would be the cost of operating a reserve bank in Chicago, as far as the handling of checks and exchange is concerned?

Mr. WOODRUFF. Only provided we have that \$150,000,000 a month. Of course I feel that, as a matter of fact, the Federal reserve bank in Chicago would handle more than that amount of these items. Whether it would or not, I can not say. The bankers of Chicago could give you more definite information on that point.

Another thing you must remember, the reserve bank will not take all the business. It will only take the items on member banks within the reserve district, and that makes a difference.

Senator HITCHCOCK. What proportion of the total cost of operating a reserve bank would be represented by this \$200,000 a month? What additional cost of operating can you estimate?

Mr. WOODRUFF. I do not quite understand what you mean.

Senator HITCHCOCK. Would this \$200,000 a month represent all the cost of operating a reserve bank?

Mr. WOODRUFF. Oh, no. That \$204,000 a month which you are estimating would merely represent the cost of handling \$150,000,000 of checks per month. Of course, that department is entirely separate from the general expense of operating a Federal reserve bank. I am only discussing the exchange section.

Senator HITCHCOCK. You are not in a position to make an estimate except on that exchange section; to estimate what additional monthly cost there would be in operating such a reserve bank?

Mr. WOODRUFF. That would be impossible, because you do not know how many employees you would have to have and how much space you would have to have, and things of that kind. Of course, you would have to have a large amount of space to have a transit department which could handle this business. It is impossible to say how much it would cost to operate the bank. Other bankers could give you a better estimate as to their exact cost on that large business.

Senator REED. You are not estimating the cost for clerk hire alone \$200,000 a month?

Mr. WOODRUFF. For all the expense of handling \$150,000,000 of checks. If you will pardon me for suggesting, suppose I go ahead and come back to that, and take the next point now.

Senator POMERENE. I want to ask you one question right there. You stated awhile ago that if a customer presented his check for \$1,000 and it would require five days to collect that check, and you gave him the money, the cost would be 14 cents a day, as I recollect your statement?

Mr. WOODRUFF. That is 5 per cent on \$1,000 for one day.

Senator POMERENE. For instance, if I deposited \$1,000 in your bank and issued checks on it, and it required five days for the return of those checks to your bank for payment, you do not take into consideration the profits you would have on the \$1,000 during those five days?

Mr. WOODRUFF. No, sir.

Senator WEEKS. How much of the cost is for postage?

Mr. WOODRUFF. That is a thing I can not tell you, because I have not the detail figures. I have them at home, but I have not them here, and I would not like to guess on that.

Senator SHAFROTH. Does not the gain which a bank makes on checks drawn by its own depositors, and which would take five days to come back to be cashed by you—does not the gain which the bank makes on that about offset the loss which it makes by advancing money on checks coming in?

Mr. WOODRUFF. In my case, it would not compensate in any way.

Senator SHAFROTH. How about the average bank? Would it not be about that way in the average bank not having a special clearing department like yours?

Mr. WOODRUFF. Well, I doubt that very much. Of course, it is impossible for a bank to know what checks are outstanding, and you must remember also that many banks pay interest on these accounts.

For instance, if you deposit \$1,000 with me and then you send out a check for \$1,000 that takes five days to get back—and five days is not the average time; it is merely the time I took in that example. Suppose it did take five days to get back. Perhaps you are getting 2 per cent on your balance during that time.

Senator SHAFROTH. So the loss would only be the difference between 5 and 2 per cent?

Mr. WOODRUFF. I doubt very much whether the outstanding checks in the mail would compensate the banks. The bank feels it is entitled to the balance which a man puts in. There is a very prevalent habit on the part of individuals to draw checks before they put the money in the banks. A man may figure it is going to take five days to get the check back, and he may not put the money in the bank until four days after he draws it.

Suppose I just go along and discuss these other things, and we will have the subject in mind better.

Gentlemen, I feel that from the standpoint of the Federal reserve bank, this will be a very expensive proposition, and will be very embarrassing for the bank to handle. It will be hard to build up the organization.

I understand by this bill that the framers of the bill feel that the reserve banks will accept these individual checks at par and will

compel its depositors to cash them at par, allowing no exchange charge, and that instead of sending them for collection, that they will immediately charge them against the account of the depositor. It does not say that in the bill, and personally I have wondered what right the Federal reserve bank is going to have to do that. But it seems to be the general impression that the bank will have the power to do that under this bill; that when it gets the check drawn against the bank out in the country it will immediately charge that check against the balance that is due to that bank in the country, and then it will send it on to that bank in the country which can not collect any exchange. Of course the check is not drawn on the Federal reserve bank; it is drawn on the country bank, and I can not see what right the reserve bank would have to charge it against the account of the country bank. The impression seems to be that the framers of the bill feel confident that the bank can do that.

Senator REED. Suppose a man drew a check on his bank in Springfield, Ill., and deposited that check with your bank in Joliet, and your bank accepted it and then sent it to the reserve bank in Chicago, and the reserve bank in Chicago would credit your account with that check and charge that check to the Springfield bank's balance. That is your idea?

Mr. WOODRUFF. Yes, sir.

Senator REED. And the check might go to the Springfield bank and come back, in which event the reserve bank would have to hold you responsible?

Mr. WOODRUFF. Yes, sir.

Senator REED. And get the money back. Is there any other objection to the system except that in regard to the cost?

Mr. WOODRUFF. Oh, yes. I am coming to the others.

Senator REED. I mean to that particular transaction; would there be any other trouble in the way?

Mr. WOODRUFF. I can not understand under this bill what right the Federal reserve bank would have to charge that to the account of the Springfield bank. The check is not against the reserve bank, and I can not see how it can be presented for payment without being presented at the counter of the Springfield bank. Many reserve city banks at this time try to do that with their correspondents. We have had reserve city banks try to do this, but we refuse to allow them to charge checks against our account, because the checks are payable at our counter, and consequently they must send them to us and we will remit for them.

Senator O'GORMAN. What would be the personal advantage to you under the present system in meeting these checks at your counter rather than have them charged against you by the reserve bank?

Mr. WOODRUFF. Now, I was going to explain that under another head.

Senator O'GORMAN. Does it not mean that you really have the use of the money a little longer time?

Mr. WOODRUFF. Yes, sir.

Senator O'GORMAN. That is the only advantage?

Mr. WOODRUFF. No, sir.

Senator O'GORMAN. What other advantage is there?

Mr. WOODRUFF. If the reserve city bank, in the example I have just given, charges the check against us and then sends it down to us, we

never know what our balance is in the reserve city bank. We may have \$50,000 on deposit and our books show \$50,000 to our credit in the reserve city bank, and we are carrying that as a reserve; and yet, to-day that reserve city bank, many miles away, may have \$60,000 worth of checks come in to it drawn against us. They immediately debit our account and our account is consequently \$10,000 overdrawn, and yet on our books we have \$50,000 in cash in that bank. We get a telegram stating that our account is overdrawn; and such a case has actually happened with us. We had an account on our books showing that we had \$50,000 in the reserve city bank. Four days afterwards we get in the items that have come through and a notice showing that they have debited so much money against our account without our knowledge. The correspondent bank has had trouble with our overdraft. Perhaps some of those checks are not even good checks, and we have to send them back again to the reserve center, in which case our money has been used and our reserve has been depleted without even our knowledge by checks that were worthless.

Senator HITCHCOCK. And then you may possibly have to send currency on and pay the express charges on the currency sent to that reserve center; instead of paying the money over your counter, you may be compelled to do that?

Mr. WOODRUFF. That might perhaps be. Of course, we might have to ship currency in order to make our balance good. We sometimes have to do that, although usually we horse trade with another bank, and as a matter of fact very seldom ship currency. That happens to be our position in Joliet, because we are near Chicago. Now, gentlemen, I desire to discuss this from the standpoint of the city bank. That is the second point I have in mind.

We find it would be very profitable for the city bank, because the city bank now has a large transit department handling this business. It would hand over a part of this business to the Federal reserve bank and have it credited at once and would save the loss in the mail and also the exchange which it now pays, and, in addition, it would save a large amount of overhead expense, because it would merely record the items and send them to the reserve bank in one package. From the standpoint of the city banker it would be a very good proposition, and the city bankers could make money out of this provision.

From the standpoint of the country banker—nearly all that I said a moment ago in reply to the questions of the Senators applies to the country banker. The country bank would have these items charged against its account without its knowledge, as I have explained. Then, it would be compelled to take these items at par if I understand the intention of the framers of the bill correctly. At the present time the country banks get exchange for this. There are two different kinds of exchange, and I think that sometimes we get those two different kinds of exchange mixed up. There is an exchange a banker charges his correspondents on checks drawn against him, and there is also the exchange that a bank charges people who come in to cash checks on some other bank. There is a difference between the two kinds of exchange. Perhaps I can illustrate that better by an example.

Suppose a man comes into my bank in Joliet and he says, "I have a check on San Francisco for \$1,000 that I want to deposit," and I say, "All right; I am very glad to accept that on deposit," and he puts it in. I figure that my loss on that will be 10 days, and it costs me 14 cents a day, and that is therefore worth \$1.40 and that is only provided I do not have to pay any charges in San Francisco. Perhaps I say to him, "That will cost you \$1.50 in exchange." In most small towns competition makes it impossible to make that charge, and consequently we absorb that charge. In other towns, where the banks have done that and have found that it ate up their profits, they had to make a clearing-house arrangement, and therefore we find the much-talked about clearing-house agreements in the reserve centers. But in my town, suppose competition does not compel me to absorb that charge, and I say to that man, "It will cost you \$1.50 a thousand." That is what is known as charging the customer exchange, and that is provided for by the section on page 33 of this bill which says that nothing in this bill shall be construed to forbid that. That is now the kind of exchange that is practiced by the reserve centers through clearing-house agreements.

That check goes to San Francisco and I get the money back in 10 days, and if I get it at par, all right, and consequently we feel we have a right to make that charge.

The other kind of exchange would be where a man would come into my bank—let us follow out the same example. I send that check to San Francisco. When the San Francisco banker gets that he says, "Well, I have got to remit down there to Woodruff this \$1,000, and New York exchange is at a premium, and I have to send him eastern exchange. He has got to get his money East." He says, "I have got to be out a 2-cent stamp and I have got to send him this eastern draft, and consequently I feel I ought to be entitled to an exchange charge." Therefore he charges me, we will say, \$1 for doing it, or maybe 10 cents. Those charges vary in all kinds of ways. He makes that charge and he remits to me. That is the other kind of exchange, and that is the exchange the country banker is interested in. When you send checks for collection on the country banker he wants to charge an exchange for them when he remits outside, because they are payable at his counter. If a man walks into the bank and gets cash, that is all right. If a man sends in by mail and the banker has to send the money by draft, he wants to charge a little something for doing that work.

Senator HIRCHCOCK. What is the ordinary charge?

Mr. WOODRUFF. The transit business is a horse-trade business. In my transit business I have very many different kinds of charges, and it would take a long time to explain them all to you. We have in our transit department an alphabetical index of all banks we remit to. On each card there is a letter or figure, and the man in charge of that department commits those to memory. They might be X Y, and that might mean 5 cents a letter. Perhaps some banker down the State is friendly with us, and we say here suppose you take our business down there. You do not care; it will come from somewhere else anyhow. Suppose you take it and charge us 5 cents a letter, no matter how much comes down; you only have to draw one draft, anyhow. He says will you do the same for me, and we say yes,

and we practice a little cooperation, and maybe we will make a charge of 5 cents a letter. It may be that the letters X Y mean that.

And then, perhaps the letter M means 10 cents a letter, and perhaps the letters A B mean 10 cents a thousand or maybe a dollar a thousand. A dollar a thousand is looked upon as a standard, although in some parts of the country it is as high as \$2.50 a thousand. But there is a minimum charge. A man will say, for instance, I will take your business at \$1 a thousand, with a minimum charge of 10 cents. A dollar a thousand means 10 cents a hundred. Suppose a \$10 check comes in, and he charges 10 cents on that; of course that would figure at the rate of \$10 a thousand.

Senator SHAFROTH. What do you think of fixing a maximum that they can make?

Mr. WOODRUFF. If you will forgive me for suggesting, I would like to discuss that a little farther along.

Now, I was discussing this from the standpoint of the country banker. Have I made myself clear in regard to the different kinds of exchange?

Senator SHAFROTH. It is clear to me.

Mr. WOODRUFF. The country banker feels that he ought to get paid for that work, if that check is not presented at his counter. He feels that the item ought not to be charged against his account without his knowing something about it. He feels that he ought to get a little money for this business because everybody else does. The express companies do not send money for nothing; the telegraph companies do not send it for nothing; and the United States Government makes the largest charge of all for its post-office money orders. The Government can not afford to send that money and remit it to different places for nothing, and the country banker feels that the principle involved is much the same.

Senator SHAFROTH. It costs money to handle money through the Post Office Department, and do you not think this system, when it is organized, will be such that the business can be done without any expense?

Mr. WOODRUFF. I regret that I can not say that I believe that to be true. I will touch upon that a little farther down, Senator.

Now, I want to take up the question of the principles involved. You know here again we find two subdivisions of this question that we want to try to get clearly in mind.

Now, there is a difference between facilitating exchange and cashing personal checks. I tried at the start to make that difference plain, by calling bank checks "drafts," because usually in the parlance of banking we call them bank drafts. The checks that are drawn by banks, that are the checks of the bank itself and signed by one of its officers, we call bank drafts, and checks that are simply signed by individual depositors we call individual checks, and that separates the two classes.

Now, there are two principles involved here: First, the facilitation of exchange. That means that in this country we should make it easy to transmit sums of money from one place to another. That we all want, and that ought to be done, and that is a thing that is hard to do now. We have domestic exchange premiums and discounts to-day, and sometimes they are very burdensome. We ought to facilitate exchange.

Then the other thing is the cashing or rather the clearing of personal checks. That is a thing that I doubt very much should be done. The difference is just this: If we leave in this bill the provision in regard to personal checks, we help to encourage in this country the flotation of a large number of personal checks. Bankers differ upon that, but we believe that to be wrong in principle. We believe personal checks were designed for the use of the community where the maker is fairly well known, where conditions are understood, and where the check will get right back to the bank. They were never supposed to be floating around over large areas, encouraging what we call the "kiting" of checks, a thing that causes many losses and a very bad situation in the banking business. If we encourage the sending out of these personal checks a man who has no money in the bank can pay a bill five or six days away with a personal check and never bother about putting any money in the bank until the check comes back. You realize that in the meantime, under this bill, a very bad situation might be created.

A man who had perhaps \$10 in the bank would draw a check for \$1,000, and would send it to some place, say, three days away. It would come to the reserve bank, and the reserve bank would charge that to the account of the bank upon which it was drawn. The bank would therefore be out that \$1,000 immediately, but the check would not come back to the bank for three days, and perhaps the man who gave the check in the first place would not bother about putting in the \$1,000 until the three days had elapsed, and the bank would be out the use of the money for three days.

Senator REED. And the man that drew the check would be out of the country?

Mr. WOODRUFF. That occasionally happens. We hate to acknowledge it, but it sometimes does happen.

Senator REED. You think that is facilitating fraud?

Mr. WOODRUFF. That facilitates transportation to Canada, sir.

Now, we do not believe we should encourage that sort of thing. We believe we should discourage these little personal checks as much as we can, and limit them to small areas. We will get around that by facilitating exchange, and now we get to the thing we should have. Instead of allowing the very little fellow who happens to have a bank account to draw checks and send them all over the face of the earth, as this would tend to encourage him to do, and as is largely done now, suppose we provide what is already provided in this bill, that bank drafts of member banks, drawn against any other member banks, shall be received at par, and that bank drafts drawn by any bank against any Federal reserve bank shall be received at par. That would make it possible for any bank draft to be received practically every place at par.

Now, let us see how that would work. Suppose that John Smith, who is a little merchant in my town of Joliet, has no money in the bank, and he pays a bill down in Kokomo, Ind., with a personal check. All the bad things I have been telling you about may happen under that arrangement. Suppose we can say to John Smith, "Now, those checks do not go through the Federal reserve bank at par, and consequently there is a good deal of difficulty in connection with them when they are sent away from home." He will be discouraged from using those checks for long-distance payments, and furthermore

the people down in Kokomo will write and tell him they do not want a personal check; they want a draft provided these drafts are easy to get and are par at every place. That is what we want, and this law amended as we suggest would make that so.

Now, suppose he does the other thing, that this law is drawn as suggested by our committee, and he is encouraged in every way to give a bank draft. Well, John Smith comes down to my bank, and he says, "Mr. Woodruff, I want to remit \$1,000 down to Kokomo, and I want a bank draft." I can give him my bank draft, signed by my cashier, upon any other bank that happens to be a member of my reserve district, and it will go at par; or I can give him a draft against the Federal reserve bank, and that, of course, would go at par any place in America. We sometimes use New York exchange now; usually use New York exchange for doing that. New York exchange goes all over America, just as I figure these drafts on Federal reserve banks would go all over America, but the trouble with that New York exchange is that there is oftentimes a heavy charge for those New York drafts, because New York exchange is at a big premium, for instance, at certain seasons in Texas.

Under the arrangement which we propose the exchange would never cost much because the reserve bank would always be near at hand, and everybody will know that those bank drafts are accepted at par, and consequently I do not think there is going to be much chance to make any charge to John Smith.

Senator REED. Would you object to the bill providing that a bank could issue drafts without charge?

Mr. WOODRUFF. I think that is a very good suggestion, personally. I do not believe that the country bankers as a whole would approve that. I am being very frank with you on this subject. I think probably many country bankers would want to make some small charge, because they think they should make a little out of that business.

Senator REED. Let me ask you another question on that point. That necessity for a small charge is felt most keenly by the very small country bankers is it not?

Mr. WOODRUFF. Yes, sir.

Senator REED. That is, a bank that is confined to a little local community, and is one of those banks that somebody described here as a "one-man bank?"

Mr. WOODRUFF. Yes, sir.

Senator REED. Where one man is cashier, janitor, bookkeeper, and everything else?

Mr. WOODRUFF. We have lots of those.

Senator REED. Where a small income becomes material, and yet it is a very good thing in a community, I take it, especially in these little towns that have only one bank?

Mr. WOODRUFF. Yes, sir.

Senator REED. Now, would the banks object if, as to that class of banks, the very small banks, there was permission given for a maximum charge, which would be very low, for the issuing of drafts, and the other classes of banks required to furnish the drafts free?

Mr. WOODRUFF. Personally, and I speak only for myself, I would have no objection to that. But remember; do not get the two kinds of exchange confused. Remember this is a charge for drafts that are

issued to customers, and we are coming back to this other kind of exchange in a minute.

Senator BRISTOW. Mr. Woodruff, before you leave that let me say I am afraid you do not appreciate fully how convenient it is for a business man, we will say at Salina, Kans., who has a bill due on the 1st day of November at Chicago, to draw his check on the 31st day of October and mail it, and depend on his collections on the 1st to replenish his account in the local bank.

Mr. WOODRUFF. Senator, I certainly appreciate how convenient that is. We have that to contend with all the time. He sometimes does not get in his collections to replenish his account, and that is the trouble.

Senator SHAFROTH. That is wrong; he ought not to do that.

Mr. WOODRUFF. That is one of the difficulties we have to contend with.

Senator NELSON. But, Mr. Woodruff, take the case you put. The man, instead of coming to you with his check, or drawing his check to remit to his customer at Kokomo—if, instead of that, you would encourage him to buy a draft from you and you charge nothing for that draft, you would not gain anything by the operation? Your bank would not gain anything?

Mr. WOODRUFF. No, sir.

Senator NELSON. If, instead of sending a check on your bank to that customer, he came into your bank and bought a draft from you and you charged him nothing for it, you would be making nothing?

Mr. WOODRUFF. That is perfectly true.

Senator SHAFROTH. You would have the use of the money a little longer.

Mr. WOODRUFF. Perhaps a day, until our draft could get into the reserve bank. There is no doubt that I personally would make more money by letting them draw their checks if I can keep them from skinning me in the meantime.

Senator NELSON. So there would not be any saving in that operation?

Mr. WOODRUFF. Not for the banker.

Senator NELSON. Suppose you furnished the draft at cost?

Mr. WOODRUFF. As a matter of fact we never charge for a draft to a customer over the counter, because we consider it good business to encourage them to do business that way. And, by making these drafts go at par, as would be done by this bill as amended in accordance with the suggestion of this committee, we feel it would not be necessary to limit the charge, because it would be known that a bank draft drawn against any member bank or drawn against the Federal reserve bank was free, and I think competition would curb any charges. For competitive reasons it would be impossible to make them. For competitive reasons we never make a charge for a New York draft; it is good business to encourage people to come into our bank.

Senator SHAFROTH. What percentage of the checks drawn on your account would you regard as having been drawn on the kiting principle?

Mr. WOODRUFF. That is a very hard thing to answer. We have every day in the volume of business we handle a number of checks that come back. To come back to the first principle I spoke about—the

Federal reserve bank—you must remember that the clerical department necessary to handle the hundreds of returned checks that would come back because of insufficient funds, because of improper indorsements, because of wrong signatures, because of not being signed, because of being dated ahead—that the hundreds and thousands of those checks that would have to be credited back to the bank would involve, of course, a very large clerical force, and many chances for error.

Senator O'GORMAN. Will you permit a question right there? Have you any idea what is the average amount of checks cleared through the New York Clearing House in a month?

Mr. WOODRUFF. No, sir; that is a thing we tried to get at on the start—where I estimated \$150,000,000. It is hard to get at, but I think you could get it from the officers of those reserve centers themselves.

Senator O'GORMAN. You have no doubt, I assume, that it exceeds \$150,000,000 a month?

Mr. WOODRUFF. I feel that there is no doubt that it does.

Senator O'GORMAN. Do you know whether the clerical force of the clearing house there finds any difficulty in disposing of that business?

Mr. WOODRUFF. The clearing house, Senator, never sees those items. They are handled through transit departments. They never go to the clearing house. Clearing houses never touch out-of-town individual checks.

Senator O'GORMAN. I have reference to the value of the business represented by the checks that actually are cleared in the New York clearing house.

Mr. WOODRUFF. That is a thing you can easily get from the reports of the New York clearing house, but it does not refer to this question in any way. There is no exchange involved there whatever. Those are local checks.

Senator O'GORMAN. And consequently the item of expense would not be comparable?

Mr. WOODRUFF. It could not be compared in any way, sir.

Senator NELSON. I do not understand that the New York clearing house clears out-of-town checks.

Mr. WOODRUFF. No, sir; that is the point I make.

Senator SHAFROTH. Every other town does that has a clearing house, does it not?

Mr. WOODRUFF. No town in America.

Senator SHAFROTH. You mean the checks that come through the Denver banks from outside are not collected in the Denver clearing house?

Mr. WOODRUFF. Only the checks on Denver. There is just one exception to that, and that is in connection with what they call the out-of-town clearing department operated in Boston. That has been very successful, and I will try to remember to speak about that in a minute.

Senator SHAFROTH. Are there any statistics as to the amount of out-of-town checks that come into these various clearing houses?

Mr. WOODRUFF. Out-of-town checks do not come into the clearing houses, sir; they are handled in the individual banks. When you spoke a little while ago, Senator, of \$150,000,000 a month, you based that on \$75,000,000 bank deposits in the city of Chicago. You realize,

of course, that the city of Chicago has a very much larger amount of bank balances than that. I want to make that clear.

Senator HITCHCOCK. I estimated that it would be \$150,000,000 a month for 1,000 banks, in proportion to the 200 banks for which you clear.

Mr. WOODRUFF. I understand. That will give you a very rough estimate, because those banks keep fairly small balances compared with the balances they would keep in Chicago.

Senator HITCHCOCK. You think that the \$150,000,000 a month would not be a sufficiently high estimate?

Mr. WOODRUFF. I simply can not estimate it, because I just simply do not know, and I am getting at it in such a rough way that I want to impress upon you that it is not an accurate estimate. You can get estimates by communicating with the manager of the Chicago or New York Clearing House. I can only tell you that that is an estimate based on my actual experience in Joilet, and that might not refer to New York or Chicago.

Senator HITCHCOCK. You do feel, however, that 42 cents per \$1,000 and 94 cents per \$1,000 for the cost of collecting interest and exchange would be about right?

Mr. WOODRUFF. Yes, sir.

Senator HITCHCOCK. Regardless of the size of the Chicago concerns?

Mr. WOODRUFF. I think so.

Senator NELSON. What is the total of the two together?

Senator HITCHCOCK. The total of 42 and 94? It is \$1.36.

Senator REED. From which, of course, ought to be deducted any part which is now included as exchange, which would be unnecessary to pay under this bill, because this is supposed to do away with the exchange charge.

Mr. WOODRUFF. Yes, sir.

Senator HITCHCOCK. Let us see if it will do away with the exchange charge. Would it not be necessary occasionally—

Mr. WOODRUFF. Will you let me take that up in just a minute, Senator? I want to take up these matters in logical order, if I can.

You remember we were talking about the principles involved and we figured it would be a good scheme to facilitate exchange; that a man would go down to the bank and pay his bills with a draft instead of sending his personal check, and you, Senator, suggested that it might, perhaps, be more convenient to send a check the other way, and I called your attention to the fact that oftentimes they did find it more convenient.

In addition to that, there comes the question of right and wrong, and the easier way to do things. This same fellow, John Smith, can come down to my bank, for instance, and get a draft for nothing, and that settles the whole transaction. He has to have the money when he comes down, and we know therefore there is no check kiting. He gets the draft. The draft is sent to Kokoma, charged against our account in the nearby Federal reserve bank, and the transaction is finished. The only trouble John Smith had was that he had to walk down to my bank, maybe five blocks. Is it not better to allow John Smith to walk five blocks down to my bank and get a draft than to let him send a check down to Kokoma and then, figuratively, make those fellows walk all the way from Kokoma to Joilet? Actually

they do it by mail, but figuratively, they walk from Kokomo to my bank to get exchange on that check.

Senator BRISTOW. That system has grown up through the consent and acquiescence and cooperation of the banks. And the business men—very creditable business men—will figure at times that if they owe a bill at a distant city they will take advantage of this accommodation, and the house with which they are dealing in the city understands it, and the bank with which that house has its account understands it. The system may be used by those that are fraudulently inclined at times, but don't you think that it has been useful and convenient and that you would be depriving a great many business men of a facility which their bank had been perfectly willing for them to exercise and of which it has never made any complaint?

Mr. WOODRUFF. Senator, any change in this plan will cost me considerable money, but nevertheless I tell you that I consider the system wrong. That system has been built up by the competition of the bankers and with the acquiescence of the bankers, but we do it because we are in competition.

Senator BRISTOW. Don't you think you ought to stand a little competition as well as the merchant who has to stand it?

Mr. WOODRUFF. Yes; but that is not the point involved. We have plenty of competition, as has been brought out by the fact that we are competing so strongly we allow people to do this. But I consider the principle wrong. Out of it grows the discontent with the clearing-house rules. The banks, for competitive reasons, were compelled to go into this, and then they were forced to make these clearing-house agreements in order to protect themselves from loss.

Senator BRISTOW. We are very proud, at least some of us are, of the banking system we have in this country. It is a great, democratic banking system. There are thousands of independent banks, and it is a competitive system. In most of the towns the banks are intense competitors for business, and that is one of the things that some of us believe ought to be maintained. That is why many of us look with suspicion at some of the provisions in this bill.

Mr. WOODRUFF. I can only answer your question by saying I feel this provision is wrong in principle, Senator, and my reasons I have already tried to explain.

Senator SHAFROTH. The principal virtue, I think, in a man giving a check to pay a bill is that when he gets it back he has the signature of the man on the back of it. That is always in his possession, but if he has to go and trace it through drafts it is not so convenient.

Mr. WOODRUFF. It is not so convenient, but he can always get it:

Senator SHAFROTH. Certainly, that is true.

Senator NELSON. His indorsement on the draft will be his receipt.

Senator SHAFROTH. But the draft is not in his possession.

Senator NELSON. It goes back to the bank; it can be got from the bank that issued the draft.

Senator HITCHCOCK. I should like to ask a question right there. What is to prevent a trust company not in this new system using this facility through a member bank and thus getting its exchange free of any charge?

Mr. WOODRUFF. There is nothing to prevent, sir.

Senator HITCHCOCK. A trust company, then, in Chicago could demand of a national bank there a check or a draft upon the reserve

bank there, and when it got that check it could send it to San Francisco where it would be worth par and the Chicago trust company would therefore pay nothing for its exchange, although it did not belong to the system.

Mr. WOODRUFF. We would not object to that, because proper facility of exchange is a good thing. What we would object to is the trust company in Chicago making an arrangement with a member bank and then dumping all its items for collection into that member bank and that member bank dumping them into the Federal reserve bank and the reserve bank being compelled to handle them for nothing.

Senator HITCHCOCK. How can you stop that?

Mr. WOODRUFF. By barring checks bearing the indorsement of a nonmember. Now, if we leave the law as it is, let us see who gets hurt—

Senator HITCHCOCK (interposing). You mean, as it is in the bill?

Mr. WOODRUFF. Yes, sir. Suppose we leave it as it is and see who gets hurt. John Smith, down in Joliet, draws his check, and he pays this bill down in Kokomo, and the Kokomo fellow goes and presents it at his bank—deposits it. Now, under this bill he might deposit it at par, while to-day perhaps there would be some exchange charge. If competition is keen there may be no charge anyhow. At any rate, he might gain a little bit there although this law allows the bank in Kokomo to charge—because it says nothing shall be construed to prohibit the bank from charging. At any rate, it is put into that bank. The bank at Kokomo turns it over to its Federal reserve bank.

It would be a better example if I say that John Smith in Joliet draws his check in Joliet and sends it to Chicago, and the Chicago bank turns it into this Federal reserve bank. The Chicago bank may perhaps attempt to charge its customer exchange, because there is nothing in the law that will make it take that at par. It turns it into the Federal reserve bank and the reserve bank will have to take it for nothing. Consequently the Chicago bank gains, because the Chicago bank is relieved of the cost of handling the check. The Federal reserve bank immediately charges it against the country bank. That is, of course, a hardship upon me right away, because it is charged against me without my knowledge and is charged against me without allowing me any exchange. Therefore I am beat out of the exchange, and I have the item charged against me several days before I now have it charged against me. When it comes back down to Joliet, of course, I might add 10 cents to it, but the customer will not stand for that and consequently I am the man that loses.

Now, suppose we made a charge, a minimum charge of \$1 as some Senators suggested here a little while ago. Then John Smith draws his check; it goes to Chicago; the Chicago firm deposits it in the Chicago bank, and they deposit in the Federal reserve bank, and everything is just the same. Then the Federal reserve bank sends it to me, and I charge them \$1. That dollar has got to be absorbed by the Federal reserve bank. I would be better off, I suppose, because I get my dollar, but the reserve bank would have to absorb that dollar.

Suppose the reserve bank should charge the dollar back against the depositing bank in Chicago.

The great trouble with that would be that the Chicago depositing bank would probably not deposit very many items in the Federal

reserve bank under those conditions, because the banks that come into the reserve system are going to be the banks that now do not make a very large charge; they are going to be the larger banks, the national banks. Consequently, the Chicago bank would probably collect this for less than a dollar; once in a while they might get down to this one-third of 94 cents that I suggested. It could beat the price that the Federal reserve bank would be quoting. But the large charges are made by little banks in the country, oftentimes private banks, very seldom national banks, and almost sure not to be in this system at all. Consequently, if you charge the dollar back to the Chicago bank I do not believe this scheme would work at all.

That provides for both those contingencies, and when we get down to brass tacks, it seems to me the Federal reserve bank has got to do one of two things: They have to cut this question of individual checks entirely out—and remember, they never can handle all the individual checks; they can only handle those upon member banks. There are always going to be a lot of little private banks that are not members of this system; out in my State we have some 500 or 600 of them. Those checks that are hard to collect would never go to the Federal reserve bank, and we are never going to have a complete collecting bank or clearing house. The items will always have to be divided anyhow, and the Federal reserve bank, at best, could only take part.

Therefore, the best thing in our minds is for the Federal reserve bank not to handle personal checks at all, but to facilitate exchange so that a man can always go to a bank and get it. If a man wants, for convenience, to float his check, it seems to me best to leave the facilities as they are, and consequently there will always be a charge made against that to keep that business down.

Senator SHAFROTH. How would it do to have these drafts among banks collected free through the regional banks, as you suggested, and have the maximum charge apply to the other checks only?

Mr. WOODRUFF. What maximum charge?

Senator SHAFROTH. \$1 a thousand.

Mr. WOODRUFF. By whom?

Senator SHAFROTH. By the collecting bank.

Mr. WOODRUFF. I have just tried to explain that that would not work; that no business would come through the Federal reserve bank if you allow the reserve bank to charge \$1 a thousand.

Senator SHAFROTH. Now, as I understood, you wanted only the bank drafts to go through the regional bank?

Mr. WOODRUFF. Yes, sir.

Senator SHAFROTH. Now, why can not there be a law which provides that in all other transactions a charge of \$1 may be made?

Mr. WOODRUFF. That is, to apply to all transactions outside of the Federal reserve bank entirely?

Senator SHAFROTH. Yes.

Mr. WOODRUFF. If that could be made to hold, there would be no objection to that.

Senator SHAFROTH. Take it as to the national banks.

Senator NELSON. There would be no necessity for that, for they could in every case go and buy a draft instead of sending a check.

Senator SHAFROTH. Yes; but it is a very great inconvenience. A man often sends a check out after banking hours, or up here in the

Senate Chamber. I always add 25 cents to the amount of the check; if it is a \$200 check, I make it for \$200.25.

Mr. WOODRUFF. The average man does not take that trouble, Senator.

Senator NELSON. You really pay exchange on that.

Senator SHAFROTH. I do, in order to avoid a kick.

Mr. WOODRUFF. Now, gentlemen, if you will allow me to make just one or two more remarks, I think I am through. I suggested that perhaps the best thing to do, in our minds, would be for the Federal reserve bank not to touch individual checks at all. If the Federal reserve bank must go into the collection of individual checks—and the country bankers, of course, are opposed to the reserve banks going into the business at all; but if they must go in—then the best thing they can do is to go in on the same lines as the present reserve city banks handle the business. They should put in a separate department to handle out-of-town business and take all checks at par, and handle the business just as it is handled now by the big banks, charging exchange, handling all business, member or nonmember; having an analysis department so they will know how much it costs them, and charge it back to their customers. That could be handled on the lines of the Boston clearing-house out-of-town department. They clear as cheaply as they can, and when they get the returns back they credit the member banks.

If these banks must go into this business, the only way it could be worked successfully would be to do that.

Now, as to the bill itself, we have suggested in our resolution that the bill should be amended on page 33.

Then I want to call your attention to one thing we have left in; that is on page 24, and it seems to me this clears the situation. You will find on page 24, under the head of "rediscounts:"

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

Now, suppose you leave that in, in case there should ever be any question. It would not do any harm to leave that in and after your Federal reserve bank is organized and after its officers and directors have taken this thing up, if they ever want to create a collection agency or clearing house they can always do it under this section. They may accept checks and drafts; they can take whatever they please when the time comes.

But over here on page 33, where it says it shall be the duty of every Federal reserve bank to take these checks, that, we think, is a great error.

Senator NELSON. If you strike out the word "checks" on page 33 and leave it in on page 24, it would still leave it with the regional banks to do this business and charge for it.

Mr. WOODRUFF. They could do what they found it necessary to do when the time came. It is very hard for us to sit here and be sure we are all right. Maybe we are wrong, maybe I am wrong, maybe the framers of the bill are wrong on that. It is easy for us to sit here and theorize on how we can handle this business, but, after all,

the men that have to do that are the men who are running the banks after the banks are created. Leave it there, and when the banks are started if the officers feel it necessary to do that they can do it——

Senator NELSON (interposing). And strike out the word "check" on page 33.

Mr. WOODRUFF. On page 33, line 15, strike out the word "upon," the last word. And in line 16, strike out the first five words; also the balance of the section after line 19.

Senator NELSON. How would it read then?

Mr. WOODRUFF (reading):

It shall be the duty of every Federal reserve bank to receive on deposit, at par and without charge for exchange and collection, checks and drafts drawn by any of its depositors upon any other depositor and checks and drafts drawn by any depositor in any other Federal reserve bank upon funds to the credit of said depositor in said reserve bank last mentioned.

Senator POMERENE. You used the words "checks" and "drafts" interchangeably there, do you?

Mr. WOODRUFF. No, sir. I tell you, I am not authorized by our resolution to cut out that word "checks."

Senator POMERENE. But you have clearly defined checks and drafts as we understand them, and now you leave the word "checks" in. As I understand your statement here, you object to the collection of checks?

Mr. WOODRUFF. Yes, sir.

Senator POMERENE. Why do you leave that word in?

Mr. WOODRUFF. The only reason that word "checks" is left in is the fact that we say "bank drafts." That is merely banking parlance. We do that for convenience among ourselves. It was thought that in some places in the country what we consider bank drafts might be referred to as bank checks. There is no difference if it is drawn by the bank.

Senator NELSON. You see, this is a check of one bank upon another, and it would be technically a draft, but this word is used here——

Mr. WOODRUFF (interposing). So that it would prevent any question.

Senator HITCHCOCK. But you do have what are known as cashier's checks, payable to an individual in a town?

Mr. WOODRUFF. Yes, sir.

Senator HITCHCOCK. And such a check should be received at par.

Mr. WOODRUFF. Yes, sir; but a cashier's check does not come under this in any way. A cashier's check would not be drawn upon some other depositor. A cashier's check is used largely for little remittances within a town——

Senator HITCHCOCK (interposing). Should not a cashier's check be received at par?

Mr. WOODRUFF. Well, it would probably lead to some abuse.

Senator HITCHCOCK. No; suppose a man in your town is given a cashier's check for \$100 on your bank, and he sends it to Chicago and deposits it, and the Chicago bank deposits it in the reserve bank. Should not the reserve bank have the right to charge it against you at par?

Mr. WOODRUFF. You might put it in, but it would encourage me to issue nothing but cashier's checks instead of drafts against the Federal reserve banks, because as long as I keep the cashier's checks floating around I would have the use of the money.

Senator HITCHCOCK. I do not see that that would be kept floating around any longer than the draft would.

Mr. WOODRUFF. It might never be sent to the Federal reserve bank; probably it would not. There is no reason, Senator, why a bank should use both of these things, for they have the same effect. In other words, if a bank wants to pay a bill there is no reason why it should draw a cashier's check if it is going to have the same effect as a check upon the Federal reserve bank.

Senator HITCHCOCK. I may go into a bank and say, "Give me a cashier's check to the order of John Smith." That is often done.

Mr. WOODRUFF. I can see no objection to putting that in—

Senator HITCHCOCK (interposing). If you leave the word in, that would include a cashier's check.

Senator NELSON. They have left it in.

Senator HITCHCOCK. They have? I did not understand so.

Mr. WOODRUFF. One of the members of the committee suggests that I reiterate the fact that most of the banks that make large exchange charges are small State and country banks that would not come into the system. I have already made that point. His point is that this rule, even if it were a good rule, would not affect the worst troubles.

That is all I have to say. I appreciate your kindness.

Senator BRISTOW. Just a minute. There is one part, Mr. Woodruff, of your statement that I wanted to inquire a little further about. I understand you object to having checks drawn against your bank that may be deposited with your reserve bank in Chicago, for instance, charged to your account. You want it to come there and be collected. One of your objections is it depletes your reserve which your books show you have there and causes confusion. Now, does not that require your reserve banker in Chicago, where your account is, to carry you for that amount of money for the time that is required by that check after it is presented to be sent down for collection?

Mr. WOODRUFF. In case it is charged against us and overdraws our account it would.

Senator BRISTOW. Suppose it did not? Now, when a business man in Chicago receives a check in payment of a bill of a party in Joliet he takes that check on your bank and deposits it with his banker, who happens to be your reserve agent there, and that reserve-agent bank credits this customer of its with the amount, but it can not charge the amount to you until it sends it down to your bank, and you authorize it to make such a charge?

Mr. WOODRUFF. Yes.

Senator BRISTOW. Now that bank is out of the use of that money until it gets your authority to charge you with it?

Mr. WOODRUFF. That bank is always foxy enough to take care of itself on that.

Senator BRISTOW. We are not talking about being foxy; we are talking about the facts.

Mr. WOODRUFF. Yes.

Senator BRISTOW. What difference is there between that and the man who follows exactly the same principle and sends his check to Chicago, the dealer there deposits it, and it is sent back to the local bank—we will say to Joliet—and there it is charged up to the merchant's account? Are you not objecting to doing for the merchant exactly what you are demanding that the reserve agent do for you?

Mr. WOODRUFF. In the first place, the Chicago Bank—I did not mean that word “foxy” disrespectfully, Senator—the Chicago bank, when it credits its customer with that check that it sends down for collection to us, usually, if it is an interest account, does not pay the customer any interest on that check while outstanding. They very properly deduct from the interest account at the end of the month the items in transit. Now, in the analysis department, where they analyze practically every large account, wherever there are any of those outstanding checks, the analyzing department at the end of the month will tell them just what they lost by items being outstanding in the mail, what they lost by checks going from Chicago down to Joliet, and if the balance that the man kept in the bank would not be enough to make up that loss that the bank suffered and give a profit, then they will certainly make some new arrangement. Usually items of that kind may be credited three days after their receipt, or something of that sort. That is how they protect themselves.

I do not quite understand the last part of your suggestion.

Senator BRISTOW. They protect themselves in that way, as you say? Now, if your account with your reserve agent was sufficient so that it cared to carry that account, and not credit your checks until it had authority from you, it would take your account just as it does now?

Mr. WOODRUFF. Yes.

Senator BRISTOW. And if your account there was not sufficient to justify them they would not take it any longer—they would refuse?

Mr. WOODRUFF. Yes.

Senator BRISTOW. That would be the same principle applying to you you say the bank would apply to the merchant?

Mr. WOODRUFF. Yes.

Senator BRISTOW. My suggestion was that while you object to the merchant taking advantage of this time of transit, you still demand that the bank give you the same advantage that you feel you ought not to give the merchant?

Mr. WOODRUFF. I understand. That is, you mean if a local depositor in our bank should have \$1,000 in the bank and sent a check, and that check goes around the circle, we would get the use of the \$1,000 while that check is going around the circle; but if it was charged immediately, we would not get the use of it. Your point is well taken; there is no doubt we make a little additional profit there. The use of bank drafts as we advocate would be fair to everybody for the Federal reserve bank would get the use of the money while items were in transit. Then let us call attention to the other side. Many times the money is not on deposit with our bank.

Senator BRISTOW. Is not that a question for the bank to settle with the depositors, and not to be settled by law?

Mr. WOODRUFF. It could hardly be done, just exactly as the Chicago bank does with the merchant.

Senator REED. Senator Bristow, are you not overlooking this situation? I can only get at it by an illustration. I am addressing

myself to you and Mr. Woodruff. Assuming that the merchant in San Francisco owes a merchant in New York City \$10,000. As I understand, Mr. Woodruff, under this plan the merchant could draw a check upon his bank in San Francisco and send it to the New York merchant. The New York merchant would thereupon deposit that check in his bank, and it would that day go into the regional bank, and out of this Government bank there would be paid to that merchant in New York \$10,000. Then the check would be sent back to the regional bank in which San Francisco deposited, and there it would be charged against the account of the San Francisco bank. All that would take some 7 or 8 days; maybe 9 or 10 days. The Government banks (we will call them that) would advance that money for all that period of time. In the meantime the merchant either did or did not have the money in his bank in San Francisco. If he did have it there, that local bank would have had the use of that money, but this Government bank would have had to have advanced the money for the use of the merchant in New York City. If he did not have it there, then his local bank would not have had the use of the money, but the merchant in New York would have had the use of the money, and this Government bank would have been advancing the money for several days on the transaction. Now, it seems to me that that is a questionable scheme.

Senator BRISTOW. I agree with Senator Reed, that I do not think these Government banks ought to have anything to do with that kind of business. I think that is the business of the banks that are organized to handle the business of the country, and that they ought to do just as they do now.

Senator REED. On the other hand, Senator, if you will pardon me, if this merchant desires to use the \$10,000 and had \$10,000 in New York of his own money, in some bank, he could check against it properly, because once the check went there that banker can pay it. Or, if he had the \$10,000 in his own bank in San Francisco, he could buy a draft and send it on. Now he, in that case, of course, would be out the interest on his money during the time he was transmitting it, but as he owed the bill in New York, and as it was his duty to pay it in New York, there is no hardship imposed upon him when he has to pay the bill where he has contracted to pay it.

Senator BRISTOW. But, Senator Reed, Mr. Woodruff's proposition is this, that the man could buy the draft just as you suggest and pay it just as you suggest, and not by check as I suggested. But if the merchant gave a check to his New York house in payment of this \$10,000 account, and that New York house took the check and deposited it with the regional reserve bank, the regional reserve bank, under the bill, is authorized to charge the account of the San Francisco bank with the \$10,000. But Mr. Woodruff is objecting to that, and says that must not be permitted until the San Francisco bank has authorized its account to be charged with that \$10,000. Now, he is asking that his bank be permitted to have the use of that \$10,000 while it is in transit through the mail back to San Francisco, but that the merchant be deprived of the privilege now given him.

Senator REED. The difference is that in the first instance the merchant bears the loss incident to the payment of the bill 3,000 miles from his home, but where he has contracted to pay it. In the other case the loss falls upon the regional bank. The regional bank, that

has no interest in the transaction, is compelled to stand that loss, it seems to me. I may be wrong about it.

Senator BRISTOW. I can see the force of your suggestion so far as the regional bank is concerned, and the bank that deposits with the regional bank ought, then, to pay that bill.

Mr. WOODRUFF. I want to suggest, in connection with your last statement, that there would be one serious objection to charging those items against the reserve balance. The bill, as I understand, provides that we must keep not less than a certain per cent of our reserve in the regional bank, and then I believe the bill also provides if we disobey any of the provisions of the bill we may be fined or sent to the penitentiary. Now, entirely unbeknown to us, a lot of those items may be charged to our account in the Federal reserve bank. Our reserve in the bank may therefore fall, without any action on our part, to a point below the point provided in the bill, and we may go to prison.

Senator O'GORMAN. Do you not think, right there, that the reserve board will make necessary rules and regulations and, among other things, provide that the regional bank will advise member banks daily, by wire, of the checks that have been charged up to their accounts?

Mr. WOODRUFF. Senator, in that case we would be compelled to deposit by wire also in order to keep our account from being overdrawn. Another thing, the Federal reserve bank could not advise us until the close of business, because they would not know what checks might be presented, and then it would be too late for us to remit.

Senator WEEKS. You all agree that the methods of remitting are crude, cumbersome, and unscientific, do you not?

Mr. WOODRUFF. Yes.

Senator WEEKS. And we ought to take advantage of this legislation to improve it?

Mr. WOODRUFF. Yes.

Senator WEEKS. And that the consensus of opinion is that if the reserve bank collects bank drafts and drafts on other reserve banks and lets individual checks alone that would be a reasonable solution of the question as far as this bill is concerned?

Mr. WOODRUFF. We feel, Senator, that the business of the country would eventually be transacted as it should be and the payments made with drafts on the regional banks.

Senator WEEKS. That is, if charges were made on individual checks the custom would grow, and grow rapidly, to use cashiers' checks or some form of bank draft or check to pay bills?

Mr. WOODRUFF. Cashiers' checks would not be used very much, in my opinion, but I do believe drafts against regional reserve banks would come to be the standard exchange in this country, a thing I feel should take place.

Senator BRISTOW. Mr. Woodruff, before you close, I do not want to be understood to be advocating that your accounts should be charged with the checks without first being submitted to you; but I do maintain if that rule is good for you it is good for the merchant. That is what I objected to. You change the system by law and put a burden on the merchant that the banks voluntarily have relieved

them from, and still, by law, you preserve to yourself an advantage which you think you ought to have, and an advantage I do not deny you ought to have.

Senator NELSON. There is where you are mistaken, Senator; they have never relieved the reserve banks of that duty.

Senator BRISTOW. I mean the merchants.

Senator NELSON. They have always insisted, most of the banks, that they should not charge them with those checks until they notified them.

Senator BRISTOW. I am not objecting to that; but I do object to devising a plan here by which a merchant has got to buy a draft instead of using a check.

Senator HITCHCOCK. Mr. Chairman (Senator Reed), I move that we take a recess to-day until 2 o'clock.

Senator REED. Mr. Woodruff, Senator Shafroth desires to ask you a question.

Senator SHAFROTH. I have been requested to ask you this question, Mr. Woodruff: If the reserve banks must handle individual checks, should not they be confined to checks originating in member banks, thereby eliminating all checks bearing the indorsement of nonmember banks?

Mr. WOODRUFF. In case you leave the law as it is that would unquestionably be a very great improvement.

Senator SHAFROTH. That would have a tendency to have the non-member banks come into the system, would it not, and be an inducement for them, if their checks were included?

Mr. WOODRUFF. I think it would be a very small inducement for country banks, Senator. For city banks it would be an inducement.

Senator SHAFROTH. It would?

Mr. WOODRUFF. Yes.

Senator REED. It has been suggested that we have an executive session for a few minutes and then take a recess until 2 o'clock.

(Thereupon, at 12.50 o'clock p. m., the committee went into executive session, at the conclusion of which a recess was taken until 2 o'clock p. m.)

AFTER RECESS.

Senator REED. We will now hear you, Mr. Tilton. I want to make the suggestion that you come directly to the criticism of the bill which you have in mind, or any statement you have to make with reference to any particular matter that needs improvement. I will ask you now to state your name, place of residence, and the bank with which you are connected.

STATEMENT OF M'LANE TILTON, JR., PRESIDENT OF THE FIRST NATIONAL BANK OF PELL CITY, ALA.

Mr. TILTON. I live in Pell City, Ala.; I am president of the First National Bank of Pell City; I am president of the First National Bank of Lincoln and director in another national bank and three State banks; I am also secretary of the Alabama Bankers' Association.

Senator REED. What is the capital and surplus of the bank in which you are directly connected as president?

Mr. TILTON. Mr. Chairman, and gentlemen of the committee, I am here representing a typical country bank that has a capital, as have all these banks I have mentioned—six in number—of \$25,000. The largest amount of surplus that any of them has is \$7,000. The largest amount of deposits that any has is \$160,000, and the smallest amount of deposits of any one of these banks is \$30,000. I believe, Mr. Chairman, that I am representing a class of banks that has not yet been heard before this committee and yet which represent, in number, over 60 per cent of all the banks of the United States. And I further feel, Mr. Chairman, that we bear a portion of the burden of the national prosperity directly in ratio to our numbers rather than to our total resources.

You gentlemen have heard here from the country bankers on two subjects, and I am going to speak of the subject of the segregation of deposits, and go into a little more details than Mr. Woodruff did this morning on one feature of the exchange provision of this bill. Mr. Chairman, this is a matter of life and death with us. I heard Mr. McAdoo say yesterday that we should be generous; we should be patriotic. No one recognizes more than I do, and the country bankers as a whole, that legislation of this kind is peculiarly of a sort that calls for prudent compromise and unselfish concessions; but, Mr. Chairman, when we are called upon, as small country bankers to make concessions which send us out of business, I think the limit of unselfishness has been exceeded.

It was my good fortune to be the country banker who called the meeting of the country bankers in Boston.

Senator REED. I am going to interrupt you there: Was that call instigated in anyway, directly or indirectly, by anybody else?

Mr. TILTON. I will answer that question—no, sir. It was conceived in my mind, and I did not speak to a human being, so far as I am aware, before I sent out my call among the banks of America and the financial journals.

Senator REED. Pardon me for asking these questions, but I think it is necessary to do it, because of statements that have been made. Did you get letters, or were you advised in any way from any of the large bankers of New York or elsewhere, asking that opposition be stirred up to this bill?

Mr. TILTON. No, sir. On the contrary, those city bankers who spoke to me told me not to call this meeting, because it would be a fizzle and I would be ashamed of the result.

Senator REED. What city bankers did that?

Mr. TILTON. I used the term "city bankers." I mean by that my close friends at home, the larger bankers in the immediate territory with which I discussed this matter. I could not recall their names offhand.

Mr. Chairman, self-preservation is the first law of nature, and when you have in this bill two sections, one the segregation of deposits, and the other the matter of exchange, neither of which is germane to the measure, and when the result of the operation of those two sections is to put out of business, in my humble judgment, fully 60 per cent of the country national banks in America. I do not see how

this committee, which voiced the sentiments it did yesterday, will think for one moment of doing that injustice.

Senator REED. Now, we are interested in your showing why the bill will do that.

Mr. TILTON. I will do so, sir. Permit me to say right here, however, that the resolution that we adopted in Boston has been misunderstood by a great many people. What we really did there was to try to decide upon as few things as possible which, if incorporated into this bill, would enable the small country banker to join the system and would enable the small national banker to retain his charter, and would induce the small State banker either to nationalize or to come in as a member by whatever provisions might be made.

For 50 years, Mr. Chairman, the financial legislation of this country has been drawn directly in the interests of the fiscal centers. I am not reflecting upon any bank in any large city of which I am aware. Those people are my friends. During those 50 years a great number of small country banks have developed all over the United States. Nowhere have they developed more rapidly than in the cotton field and in the Far West. I believe that any financial system in this country would not be a success unless it is drawn so that these small country banks, of whom mine is one, can come into this system and enjoy a fair profit; and I believe it will be a vital error—a vital error—to so draw this bill that we must stay out and forfeit our charters.

Senator REED. Now, Mr. Tilton, those are matters we can handle. We want you to tell us what is the matter with this bill; how it is going to injure, and how we can remedy the trouble. You see this is a hearing and your talk is exceedingly interesting and I am not trying to stop it, except I want to get down to the facts, because we have more people to hear now than we are going to be able to hear.

Mr. TILTON. I will come, then, right down to the facts. The two subjects assigned to me are the exchange feature and the segregation of deposits. I believe the exchange feature, unless amended in the manner suggested by these country-bank resolutions, will mean a loss of profits to the country banks which will average more than 25 per cent of their net earnings. Speaking for my own bank, it will be possibly a little larger, and I believe that our net earnings from exchange are very much smaller than they are for the average bank in the cotton field and in the Western States.

There was something said here this morning about how checks are collected. This bill requires us to pay over two counters. The object of this legislation is to enable the bank to pay over one, and always be able to pay. Our checks as now drawn are presented to us over our own counter, either by the individual owning them or by the collecting bank which is acting as an agent for the person who owns them. Under the system you propose here, whereby the Government bank will undertake to collect checks drawn by depositors of member banks, you are forcing us to keep a cash balance to our credit at the reserve bank to take care of those checks as they come in, in addition to keeping necessary cash in our vault to take care of them there if they are presented over our counter. In other words, Mr. Chairman, you are making us be prepared to pay in two places where we are now trying desperately hard always to be able to pay in one.

Senator REED. I understand you mean that you would have to have a certain reserve in the regional bank, and would also have to have a certain reserve in your own bank, and then you have to have a working surplus over the reserve in your bank, the legal reserve, and you say now that if these checks could be presented at the regional bank you would have to have a working surplus over and above your reserve there, in order that your reserve might be maintained intact?

Mr. TILTON. Exactly. I mean this: My present correspondent in New York, the Hanover National Bank, has no authority to charge checks against me it may receive over its own counter. All it can do is to remit those checks to me, in Alabama. If the regional bank is located in New Orleans, for example, I have got to be prepared over the counter of the regional bank in New Orleans, should the checks be presented there for payment, as well as be prepared to pay them over my own counter, should they come there. I do not know where they are coming.

Second, this section as now drawn will require us, for the reason just stated, to keep a sufficient sum in the regional bank over and above our necessary reserve requirements to meet the accumulation of checks during at least three days, if I estimate correctly the average distance of the average territory for each of these twelve regional banks, and we could not do it.

Senator HITCHCOCK. It would be much harder on you than on the bank located nearer the regional bank?

Mr. TILTON. Very much so, sir. My bank, the best one I have, makes an earning of about \$4,000 a year on \$32,000 and surplus. We have averaged that during the last five years, only because we have had no losses of any nature or description. That represents about 16 per cent on our capital, a little less than 16 per cent on the capital and surplus, and our net earnings during this period I have described have run less than \$1,500 out of a total of \$4,000. Therefore, the first effect of this section, if these checks are to be collected as the bill calls for, is to take from my bank at Pell City and from every other little country bank of \$25,000 capital and more, through the cotton belt, at least one-third of its net earnings. I can not see how this committee can consent to a provision not germane to the bill and which will have any such result upon 10,000 banks in the United States.

I want to correct a statement that was made this morning. It was stated here, or estimated, that Chicago possibly might handle \$150,000,000 of country items in a single month. I have talked, just a moment ago, with the gentleman who is going to appear this evening from another committee, not ours. He comes from the city of Albany, in a large collection center. He tells me his collection of country-bank checks each month average over \$4,000,000 a day, and there is another bank in that same city that does just as large a business. So when you come to estimate, Mr. Chairman, the amount of country checks Chicago handles, I have not the figures at my command to state that volume. Albany does much more, almost double, what it was estimated that Chicago might do under this measure. There is not a business building in the city of New York, there is not one in the city of Chicago, which would be big enough, Mr. Chairman, to house the employees that would be required to transact that enormous amount of business.

Who is going to profit where we lose? Who is going to get the \$1,500 I am making and all these other country banks are making? The business men of America would not get it. They do not pay it now. The only people who are going to get it are the banks in the collection centers. The banks in the collection centers criticize these little banks for making this charge. But I notice none of them turns down our account. Every bank in the city of Albany would be glad to have the account of any one of our banks, even though they say my rate of 15 cents a hundred, or \$1.50 a thousand, is excessive. If it is excessive, and does not warrant them continuing to make collections for me and paying the exchange on checks of mine, I want to know why they do not quit doing business for me?

Senator REED. Why? You make a very interesting statement there, that the only banks that will profit by having exchanges at par are the city banks—

Mr. TILTON (interposing). They are mistaken about it, Mr. Chairman.

Senator REED (continuing). In collection centers. Now, tell us why and how that is.

Mr. TILTON. I was invited to see the books of a national bank in a city of Alabama, whose name I am not permitted to give unless insisted upon, which estimated they paid to the country banks of north Alabama the sum of \$60,000 per year for the collection of those checks.

Senator REED. Did that bank lose the money?

Mr. TILTON. They made it up by the country bank balances that were kept there with them.

Senator REED. Didn't they charge the customer with anything?

Mr. TILTON. No, sir. They have no clearing-house rule in that city to which I refer.

Senator REED. You know we are dealing with awful hard facts here, or trying too, at least, and we want to get them just as they are.

Mr. TILTON. I can explain just in a moment. In a great many banks outside of the State of Alabama, a great many banks within the State of Alabama, keep balances on deposit with that Birmingham bank for the privilege of clearing their north Alabama items. They figure that the balances kept more than compensate them for the charge they have to pay for the country bank in the territory they clear for. In other words, they make a profit on the exchange by reason of the interest they are able to get out of the bank balances maintained with them.

Senator REED. Would you, if you had a regional bank, not escape the burden of keeping those balances with the Birmingham bank?

Mr. TILTON. Mr. Chairman, I do not want to escape that burden. The bankers of the large banks in my territory are my closest personal and business friends. We can not do business without leaning on some man who is a little bigger and a little better than we are; a little stronger financially, and a little wiser mentally. He is the man who is our friend, and if we get in a hole, all we have to do is to call on him and he will respond. And that condition applies to every collection center in every State of our Union, so far as I am aware. I would have to keep money in Birmingham because there are several days in the month where my cash withdrawals over the counter

are more than twice our capital, and we would have a great time in getting that money from New Orleans, Atlanta, or Chattanooga.

Senator REED. And now you call on Birmingham, do you?

Mr. TILTON. I get my cash from Birmingham; yes. Every country bank, so far as I am aware, has a larger bank as close as possible to it where it can always look to get immediate shipments of cash.

Senator HITCHCOCK. It can telephone for it?

Mr. TILTON. Exactly.

Senator HITCHCOCK. And get it in how many hours?

Mr. TILTON. I can telephone and get it the next morning, or I can telephone and get it that afternoon. There are six trains daily.

Senator REED. How far are you from Birmingham?

Mr. TILTON. Thirty miles. Senator Owen, informally, yesterday, made the suggestion that we could charge our own customers this exchange, and therefore lose nothing. Now, what would happen, my friends? When a customer of mine has drawn checks from our bank, at the end of the month, we make a debit charge to cover the trouble we have gone to to cover the exchange. The banks of Birmingham would jump at such a charge as that and say, "If you do business with us we won't make that charge," and the consequence would be we would lose a great volume of our deposits, because in my home town, like in most country towns, the volume of business we enjoy from our own little cities is comparatively small with what we get within a 5 or 10 mile radius from the outside.

Senator NELSON. From the farmers?

Mr. TILTON. From the farmers; exactly so, sir. It would be impossible for us to make that charge. And I want to comment briefly upon a matter presented here this morning by Senator Bristow. I agree fully with what the Senator said, but I do not believe that 1 country bank in 10 will agree with the view expressed by the speaker, Mr. Woodruff, who at that time was not speaking upon a subject germane to our resolution. Ever since the banking business in this country has been established the cry has gone out to the people of our communities, "Do business with us and pay your bills by check." And if, as Mr. Woodruff suggested, every time a man within 5 miles of my town wanted to pay a bill in Birmingham or Cincinnati or Chicago he came to my bank to get a bank draft for it, I would have as many clerks doing the business of writing checks as I have customers now drawing them. I could not begin to handle the business if our little bank should be run on that basis. It would take at least five more men to transact it.

Senator REED. You did not mean you would have to have as many clerks as customers?

Mr. TILTON. I would qualify that. We would have to double our force; we would have to employ five more men at least to handle those checks, and it would be a great annoyance to us.

What is the remedy? It is stated in this country bank resolution, "Confine the operations of the Federal banks to only those checks drawn by its members, either, as was suggested by the Senator sitting on the left, drawn on itself, which would be in the nature of a cashier's check, or upon the regional bank in its own territory, or upon any other regional bank with which it might maintain a balance, or upon any other member bank drawing on it. The Government escapes the enormous burden and cost of handling this huge transit

business, and the country bankers continue to enjoy 25 per cent of their net profits, and if they lose that many of them can not afford the loss or recoup it in any other way.

Senator REED. If the country banks in the small towns were forced out of business, what effect would it have upon the small town of that community?

Mr. TILTON. I believe the country banker has been the greatest business developer in this country. I do not know whether or not the bank has built the little towns that have grown up, but I do know that there is not a little town in the United States that could have grown as they have grown without the benefits and facilities that its little home bank afforded. I can certainly say that as to one town, because that town I happened to build myself.

Senator HITCHCOCK. And you may add that one of the great advantages the towns of America have over the country towns in Europe is the fact that they have banking facilities which the small town in Europe has not.

Mr. TILTON. Precisely.

Senator NELSON. And are the great gatherers of deposits from the farmer in the little rural communities that the big banks could not get hold of.

Mr. TILTON. When I went to building that city there was nothing there; it was a 600-acre abandoned farm. I went to present some letters of introduction to the bankers in Birmingham, who had passed that alleged town on the Southern Railway, and they looked at me in amazement at the idea that a bank there could be successful and yet, gentlemen, that bank there was successful and that town has grown until to-day we have 3,000 people in six years.

Senator NELSON. And what are your deposits?

Mr. TILTON. \$169,000 at the last I heard of it. Not a bit of that money was in circulation before we came there. That money, so far as I am aware, except the new money that has come in there from the manufacturing industries that we have, was money that was hoarded away by the people.

Senator REED. You think you rustled that money out of the stockings and bedticks? I use that figuratively; I do not mean literally.

Mr. TILTON. To an enormous extent. These savings deposits are \$80,000, and at least half was money in existence 10 years ago when the bank was organized, but had never seen the light of day until it passed over our counter, and I believe that can be said for every country bank in the United States.

Senator REED. Who are the stockholders? I do not mean the individuals; but you have stockholders in your bank?

Mr. TILTON. Yes.

Senator REED. Are they local people?

Mr. TILTON. Yes.

Senator REED. Any farmers?

Mr. TILTON. Yes, sir.

Senator REED. Any merchants?

Mr. TILTON. Yes, sir; manufacturers, miners, and lumbermen.

Senator NELSON. Interested in the business in your neighborhood?

Mr. TILTON. Yes, sir; property owners.

Senator REED. In other words, the local people, perhaps with somebody like yourself, who is acquainted with the bank-promoting en-

terprise, the local people get together and take some of their earnings and savings and make a small bank; and then the people put their money into that bank and that stimulates business and puts money into circulation and sets it to work, and you think that is a good thing for a community and a number of those banks are a good thing for a State?

Mr. TILTON. Yes, sir; and I go further than that and say that when I went to Pell City to start this bank I spent 30 days trying to get some stockholders, and I could not get anybody who was willing to put his money into it, so I borrowed a little more than I had already borrowed and started a bank, and about a year or two after that the people were falling over themselves to buy that stock, and now they complain because they are not stockholders.

I want to say a word about the savings section. That is not germane to a financial system of the United States. I do not see savings bank depositors of either State banks or National banks coming to this honorable committee clamoring for protection. Have they been here? They regard their savings in country National and State banks as important, and if they do not like us they can go to the Government post office and make deposits, because there are dozens of them in each county in the State. Why, then, encumber this bill with a provision that does not need to be there, when by omitting it you will encourage a great many banks to come in that would otherwise not do so.

A member of the committee made a suggestion that the acceptance of savings deposits upon the part of the national banks was unlawful. It is a mooted point. The Comptroller of the Currency has ruled that it was. If it is unlawful, and it is certainly desirable, then I think it should be made lawful.

Senator NELSON. They simply pay interest on the deposits, and that is what the great reserve banks have been doing, paying 2 per cent interest on bank deposits, and why the little country bank should not have as much right to pay interest on its deposits as the reserve banks I never could see. That is all there is to this savings department.

Mr. TILTON. That is all there is, sir.

Senator NELSON. They are time deposits, and you pay your interest on them; otherwise you treat those funds just as the other funds of your bank, and require the same reserves as you do for the commercial deposits?

Mr. TILTON. Precisely. The growth of the savings departments of the country banks has been, to my notion, the one great force behind the development of America. Country banks have always encouraged savings deposits. They are doing it to-day, and they want to be able to continue to do it. Under the cumbersome system that this bill provides you hamper them.

Mr. Chairman, you have in this provision created two banks under one roof. They are just as much two banks as if one was on one side of the street and the other on the other side of the street. But they are more than that. Two banks across the street from each other could be mutually helpful if they desired to be so. Under the provisions of this section you have created two banks, and have forbidden one of them to do business with the other.

Senator NELSON. Or help the other?

Mr. TILTON. Or help the other.

Senator REED. Let me ask you a question right there. Take this little bank of this little town you were speaking of, Pell City, a little town of 2,000 people. How many employees do you have in your bank?

Mr. TILTON. Four.

Senator REED. A cashier, and who else?

Mr. TILTON. There is the executive officer, the cashier, assistant cashier, and bookkeeper or stenographer.

Senator REED. Is that not rather more help than is ordinarily found in a bank of that size?

Mr. TILTON. No, sir.

Senator REED. Somebody here told us about what he called a one-man bank, in which he said the cashier was the bookkeeper, paying teller, receiving teller, telephone girl, and janitor.

Senator NELSON. That is the case with the little State bank; you know they can have State banks with \$10,000 capital.

Mr. TILTON. I have one of them, sir, and I have no bank where I can employ less than two people. The volume of business is growing so much that it is absolutely essential to have one man ready to step into the shoes of another man in the event of sickness, or anything of that kind.

Senator REED. If this bill was enacted and you had to segregate the savings-bank department, could this same force you have employed now transact the business for both departments?

Mr. TILTON. No, sir.

Senator REED. How much do you figure it would cost you to run the other departments?

Mr. TILTON. We would have to employ at least one other clerk at not less than \$50 a month.

Senator REED. That is, \$600 a year?

Mr. TILTON. Yes, sir. I will come to that in a moment.

Senator REED. Very well.

Mr. TILTON. Banking in the country consists of taking money from people who have it—

Senator NELSON (interposing). Your deposits are not like city deposits; they are made up of money paid over the till to you?

Mr. TILTON. Precisely; and lending to those who are in temporary need of it. In every rural community, and I suppose in every other community, these two types of citizens exist. If under this bill as now drawn the Federal board is given power to withdraw those savings deposits from one community and invest them in another community, the first and worst thing that is done is the contraction of credit in that community. With us it would mean cutting it down one-third at least in the wintertime and one-half in the summertime.

Senator REED. Why?

Mr. TILTON. It would mean—because we would have to purchase the class of securities demanded by the Federal board. And if the Federal board does not intend to name a different class of securities from that provided for, what is the use of giving them that privilege?

Senator REED. You make the statement that it would take from one-half to one-third of your money, or it would result in that contraction—I have forgotten which way you made your statement. I

want you to tell us how that works out—not but a conclusion, but show us how it works out.

Mr. TILTON. On the 1st day of July my little bank at Pell City had, approximately, \$75,000 of savings and \$75,000 of commercial deposits. All of that money was invested locally—loaned to local manufacturers, miners, business men, merchants, and farmers. If the Federal board in its wisdom, or lack of wisdom, had ordered a few days before that, that in the segregation of our savings deposits we should be permitted to invest only in the following items: United States bonds, State bonds, county or municipal bonds, or in the bonds of certain railroads that have paid dividends regularly for a certain number of years, it would have meant the transfer either then, or gradually, over a period of years, of that \$75,000 that we had invested locally and in securities which are on the outside. And I want to say further that the average country-bank board of directors can not tell what is a good bond and what is not. We thought the Frisco bonds were good, but we were disappointed.

Senator REED. At the present time that \$75,000 which you own on time deposits you loaned to A, B, and C right there in your own town and county?

Mr. TILTON. Yes, sir.

Senator NELSON. Just like your other deposits?

Mr. TILTON. Yes, sir.

Senator NELSON. Just like your check deposits?

Mr. TILTON. Yes, sir. The next point to which I wish to address myself is the loss of revenue that this would bring about. If there was an enormous demand created for a certain class of stocks or bonds whereby there came into a market for these bonds country banks which had never before been buyers, in my judgment the net earnings on bonds at the price at which they could be bought would be materially reduced by reason of that demand. I think it would be safe to say that whereas now we can get a bond that will yield us, in some cases, as much as 5 per cent, that by reason of this increased demand the net returns on bonds would decline by reason of their increase in price. The result would be that country banks would get about 4 per cent on their savings deposits.

Senator NELSON. And you could not pay your depositors over 2?

Mr. TILTON. Exactly, sir.

Senator NELSON. Instead of paying them 3 or 4?

Mr. TILTON. We are paying them 4 now and lending them money in our communities at 6 and 8 per cent. We would figure that to the average country banks in the South where rates are too high—and I am speaking now of the entire cotton belt—I think the transfer of these funds from local loans would mean an average loss of interest of 4 per cent. In my own case it would mean a loss of interest on, say, \$70,000. And 4 per cent of \$70,000 is \$2,800.

I have told you that under the provisions of this bill I am going to lose \$1,500 in exchange, so that would be a total of \$4,300, which is \$300 more than we have ever earned during the last five years. And yet we are asked to be patriotic—

Senator O'GORMAN (interposing). You do not consider this a perfect bill, then?

Mr. TILTON. No, sir; it is not the holy and sacred thing that I thought it was going to be when I reached here. I think it very

nearly corresponds to what a celebrated German historian said about the Constitution of the United States, that it was forced down the throats of a reluctant people by the stern necessities of the times.

Senator REED. It was a pretty good thing when it got there, was it not?

Mr. TILTON. Yes, sir.

Senator NELSON. You do not think this bill in its present form would have that effect, do you?

Mr. TILTON. Well, no. These banks are forbidden to do business with each other; they are required to keep a separate cash reserve in their vaults. It says you can not mingle these moneys; that you are not permitted to take money from one department to pay an obligation in the other department. The result is, Mr. Chairman, that you might have \$10,000 surplus cash in your savings department and a check of considerable size might be presented in your commercial department and you would have to dishonor it, and that means you are insolvent. If you were to use your savings-department cash to pay that, the bill says you are subject to a \$5,000 fine or two years in the penitentiary.

Senator O'GORMAN. Take your choice?

Mr. TILTON. Yes, sir.

Senator REED. They do not give you your choice.

Mr. TILTON. The suggestion of the country bankers in this connection is this: That the exchange feature be granted, so that the Federal bank will be relieved of the burden of collecting any other checks except those drawn by members. The other suggestion as to the savings feature is that that entire section be stricken out. It is not germane to the measure. It has no business there, and it will force many national banks to give up their charters, and it will prevent hundreds of banks from coming into the system who would be glad to do so if they were given an opportunity.

Senator REED. Let me see if I am right in one thing that comes to my mind now. If you take your bank which now has about half of its deposits—that is, of the deposits which it uses—in time certificates and the other half in ordinary commercial checkable deposits, and you provide that the two funds must be segregated. Of course you would have to keep a sufficient balance on hand in the commercial half of your bank, so that you could be ready at all times to meet demands coming in over your counter, and that would have to be in excess of your legal reserve, would it not?

Mr. TILTON. Yes, sir.

Senator REED. Now, you would have to create the same kind of a fund in excess of any legal reserve over in the savings department?

Mr. TILTON. Yes, sir.

Senator REED. And you say you could not use the funds of one department in the other department even for a day?

Mr. TILTON. No, sir.

Senator REED. Now, the great trouble with the banking business is the liability that you are under of having too many people suddenly demand their money, is it not?

Mr. TILTON. Yes, sir.

Senator REED. Then is not the fact that you have a large part of your money invested in time securities, which you can justly refuse to pay, really an element of strength to a bank?

Mr. TILTON. No, sir.

Senator REED. You do not think it is?

Mr. TILTON. No, sir.

Senator REED. I want to be sure you understand my question. If all your money was subject to demand at once—if half of your money was held on time deposits that you could justly refuse to pay when demand was made before maturity—then is not that fact an element of safety to you?

Mr. TILTON. Mr. Chairman, that is one of the banking propositions that reads very well, but no matter what the strain or stress was, and no matter what maturity there might be on a savings deposit, there is not one good bank in a hundred that can afford to decline payment on a savings account when it is demanded, even though it may not be lawfully due until six months thereafter.

Senator REED. I thought it was a thing that they ought to be encouraged to do—that the banks ought to be encouraged to do that sort of business, because it might be a very great element of safety in the hour of trouble; but you seem to take the other view.

Senator NELSON. I will tell you what the facts are. They issue time certificates, say, for six months, with a statement that if left six months they will pay that much interest. But, as this gentleman says, whenever a man comes to get his cash, they always give it to him, whether the time is out or not, and all that that man loses is the interest.

Mr. TILTON. Precisely.

Senator NELSON. That is the way it is run.

Mr. TILTON. And more than that, if a person came to your bank and wanted the money and you did not let him have it—suppose he offered the certificate of deposit on the savings bank as security for a loan for the unexpired period, you would not turn him down. If you refuse to do that, or will not let him have the money, you will start a countryman from your front door who is going to rouse the neighborhood.

Senator HITCHCOCK. You seem to hold rather emphatic views in regard to country banks.

Mr. TILTON. I ought to have emphatic views; I have been through the mill.

Senator HITCHCOCK. You did not get all your views in Boston, from the city banks, who are supposed to have intimidated you?

Mr. TILTON. I carried my views there and came back with them.

Senator HITCHCOCK. Did the other country bankers have equally as positive views as you have?

Mr. TILTON. Some of us considered these provisions much more important than any others.

Senator HITCHCOCK. Then the convention of the country bankers was the real thing, and the spontaneous expression of country-bank sentiment?

Mr. TILTON. Yes, sir.

Senator NELSON. It was not an infection you got from the big city bankers? [Laughter.]

Mr. TILTON. I issued the call, and I wrote the resolutions, and I had no conversations with any persons whatever before I issued the call.

Senator REED. Who is supposed to represent the sinister influence we have been reading about?

Mr. TILTON. We do not know anything about that sinister influence.

I have tried to show, gentlemen, why the savings section should not be allowed to stand, and so we ask that it be stricken out. If that is allowed to stand, we will have to face a loss in the matter of exchange. Small country banks which represent over half of the total do not make excessive profits. Many of them eke out a bare existence. Every item of expense is pared to the last farthing, and official salaries, and I say it to my sorrow, are kept down below the amount to which we are entitled.

Senator NELSON. They do not give any \$20,000 salaries like the big city banks?

Mr. TILTON. The highest salary is \$4,500 a year, and the lowest is \$1,200 in the bank with which I am connected. There is not much opportunity to get rich out of that kind of a system.

Senator REED. What does the cashier get as a yearly salary?

Mr. TILTON. From \$900 to \$1,200.

Senator REED. What does a clerk get?

Mr. TILTON. From \$50 to \$75.

Senator REED. A month?

Mr. TILTON. Yes, sir.

Senator REED. And does the president of the bank draw a salary unless he is active?

Mr. TILTON. No, sir.

Senator REED. And if he is active, what would he be doing, acting as cashier, or what?

Mr. TILTON. I do not know of any country bank president who gets more than \$1,800.

Senator NELSON. Do you give them 30 days annual leave and 30 days sick leave? [Laughter.]

Mr. TILTON. That depends on how much stock he has. [Laughter.]

Senator REED. In a word, the salaries are low and the expenses are kept low, and an institution run in that way, if it does not make any bad loan, may make a little money?

Mr. TILTON. Yes, sir.

Senator REED. And be of service to the community.

Mr. TILTON. I want to say right there that a lack of profits in banking is the most dangerous factor in bank solvency that is extant. You get a president or a cashier prodded by a board of directors, and they are in turn being pushed by dissatisfied stockholders who are complaining of the earnings of their institution, because they are not getting their 6 or 8 per cent dividends and 4 per cent surplus, and you put a bank official in that kind of a position, Mr. Chairman, and you have started that bank on the road to ruin.

Senator NELSON. He has to make risky loans, speculative loans, because of the higher interest?

Mr. TILTON. Yes, sir. In conclusion, the country banker wants this bill to be a success. We are not looking upon it as a partisan measure. We believe it is something designed to benefit all the people. We believe it can be made a success with our cooperation, but we feel it is an injustice to attempt to pass any bill which the small country banker can not take part in. I do not care for the little \$2,500 assessment in the stock of the Federal bank; I would not mind if it was \$5,000. I would be gaining an additional friend on top of my nearby city connection. I could go to the Government bank, and as a matter of law demand that my commercial paper be changed into currency, whereas now I can only go to a nearby friend and ask it as a favor from him.

Senator HITCHCOCK. Suppose the reserve bank refuses to discount your paper?

Mr. TILTON. That is not what they are there for.

Senator HITCHCOCK. There is nothing in the bill to compel it.

Mr. TILTON. I would not care to discuss that question. We would go around and buy a box of cartridges, I guess, and a gun.
[Laughter.]

Senator REED. We have been asking for practical suggestions.
[Laughter.]

Mr. TILTON. Mr. Chairman, and gentlemen of the committee, the national country bankers do not want to surrender their charters. You have not any right to force us to do so. We are proud to do business under the laws of the United States, and if the time ever comes when we must surrender that charter, and attempt to go back to the State charter, it is going to mean a very marked reduction in our business. How can a countryman understand why this has been done? You can get up on the housetop and talk for months as to the reason why the Government has passed the law which you can not do business under. It will drive our customers away, and you have no right to disregard the 4,000 or 5,000 country national banks and say that we are going to fix up something for the big banks in the fiscal centers, and let you stay out and surrender your charters, and use your name, and continue to rely upon the same people you have been relying upon.

Senator REED. You seem to be under the impression that the country bankers had some kind of a right to be heard before they were legislated out of existence.

Mr. TILTON. Yes, sir; we feel that way, quite deeply.

Senator O'GORMAN. Have you had any opportunity before these hearings to present your views regarding this pending legislation?

Mr. TILTON. No, sir; this is our first opportunity.

Senator O'GORMAN. I am not speaking of you particularly, I am speaking of the country bankers.

Mr. TILTON. This is the first time we have been represented by a committee. There may have been individual country bankers who have had an opportunity to be heard. I do not believe there has been a country banker who is truly a rural banker, as myself, who has had an opportunity to be heard; I mean a banker representing a bank with \$25,000 capital and less. We are over half of the total number of country banks.

Senator HITCHCOCK. It is very evident that the country bankers have not been heard or this bill would have been amended.

Senator REED. Do you really think it is worth while for this committee to take two or three days of our time in order to hear the country bankers? Do you think that would be a good expenditure of time on the part of seven or eight men?

Mr. TILTON. Yes, sir.

Senator NELSON. Do you think we are justified in having these hearings and listening to you gentlemen?

Mr. TILTON. Yes, sir.

Senator NELSON. And taking into consideration the fact that it would seriously affect you?

Mr. TILTON. Yes, sir.

Senator NELSON. You think we are justified in that?

Mr. TILTON. Yes, sir.

Senator NELSON. I am glad to hear it.

Mr. TILTON. If we are unable to go into the system, the small country banker might give up his charter. That is certain. If we are able to retain our charters and go into the system, I believe that most of the State banks will also do the same thing.

For one I believe that the idea is rapidly growing that we should have but one banking system in the United States. And I feel that just as soon as the State banks see that they have an opportunity to come in under this bill and have a part in this new financial system they will be willing, without being forced to do it at once, to give up their State charters and do business as national banking institutions.

Now, Mr. Chairman and gentlemen, you have the choice before you. You have two sections in this bill, the only two we are concerned with. We expressed at Boston no opinion as to whether there should be 1 or 100 banks, whether there should be 3 or 30 men on the Federal board. We are not concerned with those things. I do not believe there is any chance for a Government bank to be located at Pell City, and I do not believe there is any chance for any of us ever getting on any of these boards. If we have a chance, we might be a little bit excited about that, too. The things which we have presented here now are the two things which will enable us to become a part of this system.

Senator REED. Do you think there is any chance for some of you country bankers, you little men with the banks of \$25,000 capital—I mean the capital is little, not that the men are little—to be on the board of directors of a regional bank?

Mr. TILTON. I do not imagine so.

Senator REED. Why not? You have the same vote.

Mr. TILTON. I have not gone into that question.

Senator O'GORMAN. Perhaps if you organized them as you organized the Boston convention you might accomplish something.

Mr. TILTON. I would not undertake that. Here are two features of this bill that are not germane to it. The bill might be perfect as it stands; it might do something that was miraculously inspired, and you could remove the two sections from it and it would do the bill absolutely no harm. You have the choice of keeping those two features in and keeping out from 7,000 to 12,000 banks. And from what I have heard and seen in this committee room since I have been here I am going back home absolutely certain that no injustice is going to be done to the country banker.

Senator REED. Suppose we make the changes that you gentlemen suggest, in substance; perhaps not the changes that you suggest, but give you substantially what you ask for, are you not coming into this system?

Mr. TILTON. Yes, sir; on the run.

Senator REED. That is what we want to know.

Well, who is the next witness? I believe Mr. Barry is the next witness.

**STATEMENT OF DAVID BARRY, CASHIER OF THE FIRST
NATIONAL BANK, JOHNSTOWN, PA.**

Senator REED. What is your topic, Mr. Barry?

Mr. BARRY. Reserves.

Senator REED. Where do you live, what is your bank, and what is your position?

Mr. BARRY. My name is David Barry; I am cashier of the First National Bank, of Johnstown, Pa.

Senator REED. What is the capital of that bank?

Mr. BARRY. The bank was organized in 1863, and was the fifty-first national bank to be organized.

Senator REED. What is the capital?

Mr. BARRY. \$400,000 capital.

Senator REED. And the surplus?

Mr. BARRY. \$500,000 surplus; undivided profits, \$70,000; deposits, \$6,000,000; and our circulation is \$209,000.

We have 190 stockholders, and all but about 50 shares of our stock is held in our community. I want to say at the start, Mr. Chairman, that in the panic of 1907, although we are located in a great manufacturing center, where we have heavy pay rolls to meet, in the panic of 1907 everything was paid on a cash basis.

Senator REED. Did you put any limit on your depositors?

Mr. BARRY. None whatever.

Senator REED. How many other national banks are there in your town?

Mr. BARRY. I have those figures here. We have 3 national banks, 4 trust companies, and 4 State banks.

Senator REED. What is the population?

Mr. BARRY. The municipality, I should say, has 60,000, but the immediate neighborhood would probably bring it up to 75,000.

Senator REED. You may proceed.

Mr. BARRY. I am asked to speak on the question of reserves, as it concerns the country banks, and I will read the resolution adopted at the Boston meeting in regard to reserves:

That whatever percentage of reserves is agreed upon should carry with it the right to keep not less than one-third of such reserves with approved reserve agents in fiscal centers. The reduction of reserve from 15 to 12 per cent is no real advantage to the country bank. Very few country banks can do business without having a larger amount of funds either in vault or with near-by connections. These connections must be maintained after the passage of this law. The money so held by them should be counted as a part of the country-bank reserves.

If you will permit me, Mr. Chairman, to refer to the proposed law as compared to the present law, I will say that the proposed law

provides, when it goes into final operation, that the reserve to be held by country banks must be as follows:

Five per cent of our deposits must be held by the regional reserve bank, 5 per cent must be held at home, and 2 per cent may be kept at home or with the regional reserve bank, as we may prefer.

Senator POMERENE. Yesterday in a question I misstated the provisions of the bill, confusing the provisions of the bill with a suggestion which was made here. It is 5 per cent in the vaults, 5 per cent in regional reserve banks, and the other 2 per cent may be either one place or the other.

Mr. BARRY. If you will turn to page 37—

Senator REED (interposing). Either in the reserve bank or in their own vaults; but there is no option permitting you to keep that 2 per cent with any other bank?

Mr. BARRY. Oh, no. It is optional between our vault and the regional reserve bank, so far as the 2 per cent is concerned. Five per cent must be kept at home and 5 per cent must be with the regional reserve bank, and 2 per cent we may have either in our own vault or with the regional reserve bank.

Senator REED. All right; there is, then, no dispute between us.

Mr. BARRY. The present law, which we are operating under now, requires that 15 per cent of our deposits be kept in reserve; not less than 6 at home and the other 9 entirely optional. It may be kept at home or with our approved reserve agents, as we see fit. Country banks, indeed, keep on hand for pay-roll purposes, as they do in our district, more than 5 per cent, sometimes 10 per cent, and sometimes 15 per cent of their deposits, and we think that should be permitted to count as a part of the 7 per cent reserves, provided it is kept in lawful money. Under the proposed law, cash on hand over 7 per cent would be counted as reserves, and yet if so counted we must take it out of our possession and send it away into the possession of the regional reserve bank, where we can not get it, and then it counts as reserves. Most of Pennsylvania, Ohio, New Jersey, New York, Indiana, Illinois, Maryland, Virginia, and West Virginia, except one section, are deeply concerned over this provision of the bill. When I came here this morning several gentlemen from the far West and the South asked me to make particular mention of this feature, which was an important thought in my mind at the time. So it is not peculiar to our district.

We feel that the banks in the country should be permitted, as I said a moment ago, to count as reserve any lawful money they may hold in their vaults over and above 7 per cent, even though it reduces their balance with the Federal reserve bank below 5 per cent. We believe that to modify the law as we suggest would strengthen the bill and not weaken it, and we feel, too, there is no likelihood that any country bank will abuse this privilege because there is no incentive.

Senator REED. How low would you allow them to have their reserves in the Federal reserve bank?

Mr. BARRY. Without fixing any fixed limit, I should think that reserve ought to be in every sense of the word a reserve for the country bank. You take, for instance, I am not referring particularly to ourselves, we are so large that the ordinary rules do not apply to us; but you take a bank with deposits of, say, \$1,000,000.

Under the law it must keep \$120,000—\$50,000 at home and \$50,000 with Federal reserve bank, and, we will assume, the other \$20,000 at home. That is \$70,000. One of its depositors comes in and proceeds to build up a great deposit account in order to make a pay roll the next week. So large have the deposits of the country bank increased for this particular purpose, that night, that the country banker must, under the terms of the law ship 5 per cent of those increased deposits to the regional reserve bank.

Senator NELSON. The 2 per cent optional will take care of it.

Mr. BARRY. I assume that 2 per cent is at home, because a pay-roll bank will need the 2 per cent at home, and a good deal more. I assume it will keep that much at home, where they need it worse than in the regional reserve banks. Now, the depositor, having deposited daily for 10 days in order to meet a pay roll, in order to have a large balance to meet his pay roll, comes in, we will say, on Saturday, and asks to have given him approximately 7 per cent of the deposits, under these circumstances. That bank dare not temporarily use for even a day or two, as the case may be, any portion of its balance at a Federal reserve bank. If it is loaning close to its reserves, it must positively borrow money for one, two, or three days to meet this pay roll.

Senator NELSON. Suppose that money is in a bank in New York, and the bank uses it as they did in 1907; what will they do?

Mr. BARRY. We managed to get along.

Senator NELSON. You managed to get along, but you got along without that reserve money.

Mr. BARRY. Yes; but that is liable to happen to-day.

Senator NELSON. Was not that one of the causes of the panic, that the reserves had piled up in New York and they could not afford to pay 2 per cent interest on those deposits, was not that it?

Mr. BARRY. It may be——

Senator NELSON (interposing). And they invested it on call loans in the stock exchange, and when the panic came, those loans were the least liquid of all its assets.

Mr. BARRY. I am——

Senator NELSON (interposing). You would simply be perpetuating a vicious system.

Mr. BARRY. I am talking on quite a different subject. The point I raise is this: We have a large pay roll to make up.

Senator NELSON. Yes.

Mr. BARRY. And we dare not take it all out of our vault, because if we do, we will run below our reserve there, and therefore we must keep a balance with other banks in order that we may get it quickly, because we dare not take it out of the regional reserve bank, even temporarily.

Senator NELSON. You can not take your reserves. If you should take your reserves you indirectly violate the law.

Mr. BARRY. Under the old arrangement, Senator Nelson, we are required to keep 15 per cent, and we were permitted to keep 9 per cent of that wherever we saw fit. Now we are denied that right, and the provision of the law that positively fixes 5 per cent to be kept at home and 5 per cent to be kept in the regional reserve bank compels us to

keep a much heavier reserve at home in order to meet these pay-roll demands.

Senator BRISTOW. Let me see if I understand you. Say that your deposits were \$1,000,000. Then, under the present law, you would have to have \$150,000 of reserves?

Mr. BARRY. Yes.

Senator BRISTOW. That \$150,000 could be in other reserve banks or in your vaults?

Mr. BARRY. No; 6 per cent is the minimum that you must have.

Senator NELSON. But you can have 15 per cent, if you want it?

Mr. BARRY. Yes.

Senator BRISTOW. And you may have all of it there. Under this proposed law you have got to have so much in your vault and 5 per cent in the Federal reserve bank?

Mr. BARRY. Yes, sir.

Senator BRISTOW. Now, you can not use that 5 per cent in any way; that has to be there?

Mr. BARRY. It must be there.

Senator BRISTOW. So that you might have a large amount of cash at a certain time in the week at home, in fact, in excess of the 7 per cent, but nevertheless you could not count any part of that as a reserve, because you have got to have 5 per cent of your deposits anyway in this bank?

Mr. BARRY. Precisely. Let me illustrate that, Senator. We will assume the deposits are \$1,000,000, and you have \$49,000 with the regional reserve bank, and then \$160,000 for pay-roll purposes.

Senator BRISTOW. You have to have \$50,000 with the regional bank?

Mr. BARRY. I am first supposing that for the moment you happen to get below the amount fixed by law. If your deposits are \$1,000,000, and you have only \$49,000 in the regional bank and send the other \$1,000 home for pay-roll purposes you are below the law.

Senator POMERENE. Let me ask you there, what actual reserves do you keep on the average?

Mr. BARRY. As I said a moment ago, I am not pleading for ourselves, because we carry such an excess of reserve that the law would not apply, but I am pleading for the country bankers in the great pay-roll centers. Our deposits of \$6,300,000 we had protected, at our last statement, \$605,000, and had from other banks \$1,137,000. That is to say, we had \$1,700,000—

Senator POMERENE (interposing). What per cent would that be?

Mr. BARRY. Ten per cent cash at home and 15 per cent with the reserve agent and 3 per cent scattered among our reciprocal friends.

Senator POMERENE. Twenty-eight per cent, in other words?

Mr. BARRY. Yes.

Senator POMERENE. There is not anything in this bill which would prevent any banker from keeping in excess of the 12 per cent if he sees fit.

Mr. BARRY. Precisely; but 5 per cent he must keep with the regional reserve bank, which seriously hampers the smaller bank.

Senator NELSON. But he can get a discount on that.

Mr. BARRY. That will be a very slow process. You can not get it done by telephone, as Mr. Rogers suggested a moment ago.

Senator NELSON. When a bank gets so its life or death depends on that 5 per cent the bank is hardly worth preserving.

Mr. BARRY. Perfectly true, but the 5 per cent ought to be of some use to the bank, nevertheless.

Senator NELSON. It can use it by discounting paper for it.

Mr. BARRY. But the point is, there is no use the bank can make from day to day of those reserves as it can now.

Senator POMERENE. So your opinion is that the reserve system now is entirely satisfactory?

Mr. BARRY. Not at all.

Senator POMERENE. Don't you think the reserve provision in this bill is an improvement?

Mr. BARRY. Provided the 5 per cent is absolute—

Senator POMERENE (interposing). You have 15 per cent now and part of it you must keep in your own vaults.

Mr. BARRY. The rigidity of the present law is what we suggest be modified.

Senator NELSON. You can keep 1 per cent more under this law than you are required to keep under the existing law.

Mr. BARRY. One per cent less.

Senator NELSON. No; you can keep 7 per cent in your vaults instead of 6.

Mr. BARRY. But, as I say, in actual practice we do keep 10.

Senator POMERENE. Is not the rigidity less in the proposed law than under the present law?

Mr. BARRY. Pardon me. There is no rigidity in your resources with your reserve agents now.

Senator POMERENE. My question was as to the amount.

Mr. BARRY. The amount is smaller, I admit.

Senator NELSON. If you drew all your reserve out from your reserve agent you would be violating the law.

Mr. BARRY. Certainly, but nevertheless we would be using the reserve.

Senator REED. At the present time if a bank had deposits of \$1,000,000 it would have to have some place, either in its own vaults or the vaults of other banks \$150,000 reserve?

Mr. BARRY. Yes, sir.

Senator REED. Now, if it carried that reserve, 6 per cent in its own vaults and 9 per cent in other banks which it could do, it could get accommodation from those other banks if it needed money suddenly?

Mr. BARRY. Yes, sir.

Senator NELSON. Provided there was no panic.

Senator REED. I am speaking about ordinary conditions. If it wanted to run its reserves down in these other banks it could do so provided at the same time it ran its reserves up in its own vaults?

Mr. BARRY. Precisely.

Senator REED. If it wanted to run its reserve in its own vaults down clear to the 6 per cent it would do so, provided the aggregate in all the places was 15 per cent?

Mr. BARRY. Precisely.

Senator REED. Now, under this proposed law it has to keep 5 per cent in the regional bank, and that 5 per cent in the regional bank is fixed?

Mr. BARRY. Absolutely.

Senator REED. And it has to keep 5 per cent in its own vaults, which is another fixed thing.

Mr. BARRY. Yes.

Senator REED. And when you approach the line of 5 per cent in their vaults you must stop, and the only leeway that is left is 2 per cent. You can keep 2 per cent in excess in the regional bank or you can keep 2 per cent in excess in your own vaults?

Mr. BARRY. Yes, sir.

Senator REED. So you have a leeway of 2 per cent, whereas under the old law you had an actual leeway of 9 per cent.

Mr. BARRY. That is it.

Senator REED. Now, you claim that as it works out it would be something like this: You have \$1,000,000 deposits normally, and normally you would have to have \$60,000 in your own vaults, under this bill, and \$50,000 in the regional bank, and 2 per cent—or \$10,000—you could keep in your own vaults or in the regional bank as you pleased. You have \$10,000 there you can move back and forth, and that is an advantage.

Mr. BARRY. \$20,000, if you please; it is the rigidity, it is the fixed investment, you may say—

Senator REED (interposing). I understand. Now, a man comes in along about the first of the week, and he puts in \$20,000, and perhaps later in the week he puts in \$30,000 more. Now he has \$50,000 in your bank that he is going to use on Saturday night to pay his men off with. But the minute the \$50,000 is put in your bank you must send 5 per cent of it, which is \$2,500, to the regional bank. You have that much money you must send to the regional bank, and you can not possibly use it on Saturday night.

Mr. BARRY. And you can not possibly get it until several days after you have got this amount of cash.

Senator REED. That is the thing you object to?

Mr. BARRY. Yes, sir.

Senator REED. And, Senator Nelson, I do not think that goes to the question of the solvency of the bank.

Mr. BARRY. Not at all.

Senator NELSON. We must legislate, to my mind, for periods of stress. In ordinarily good prosperous times, when everything moves easily, almost any system will do, and our legislation must be shaped to meet emergencies. The panic of 1907, if it disclosed anything, disclosed the fact that our system of bank reserves was a danger.

Senator REED. Yes.

Senator NELSON. And this gentleman takes exactly the stand that Mr. Reynolds took; and, to my mind, it amounts to this: That these large city banks want to still continue to hold these reserves that they have been able to hold under the present system.

Senator REED. As I understand, his position is not exactly that. He would like to have the privilege of running the reserve in the reserve bank down below 5 per cent, provided at the same time he could run the reserve up in his own bank enough to compensate it. Do you claim the right to put that reserve over in a third bank?

Mr. BARRY. I believe the country bankers would agree with me that we would rather have the percentage of reserve increased back

to 15 per cent, provided we were permitted to keep some with our present city banks, where we can get accommodation.

Senator NELSON. And this 2 per cent interest.

Senator REED. Suppose that were not done and this bill were amended so that there should be never less than 3 per cent in the regional banks, and a total in the regional bank and in its vaults of not less than 12 per cent. Would that do you any good?

Mr. BARRY. That would help some.

Senator REED. Of course, that is depleting the reserves in the regional bank and making it so there would not be much money there to run it with.

Mr. BARRY. Five per cent of \$6,000,000,000 is a great deal of money; \$300,000,000 added to the Government's deposits make an enormous fund.

If you will permit me to go a little further, I will develop the question why we want to keep our reserves to some extent with city reserve banks, and I will discuss another point or two along the way.

The question has been asked by a good many country bankers here whether the law will be construed in figuring these reserves that the reserves will be counted as the books of the regional reserve bank show or as the books of the country banks show. We believe that is a matter of sufficient importance to have it defined in the bill. That may not seem important until we study the question very closely. As Mr. Tilden stated here a while ago, and Mr. Woodruff before him, there is only one way that a bank of our size could be safe in obeying the law if 5 per cent is absolutely insisted upon and if the regional bank is permitted to charge against our balance of checks that come on us. There is only one way we can be safe, and that will be to keep nearly 10 per cent with the regional bank. If the reserves are figured according to our books, then we can keep pretty close to 5 per cent all the time and not much of an excess.

Senator REED. Why is that?

Mr. BARRY. For instance, when we start in in the morning we do not know what our morning mail will contain. Our mail often brings in \$150,000 worth of checks on us. If they came through the regional bank, and our reserve there is \$300,000, our reserve is gone. But if it is figured according to our books and we can make that good the same night, that is an entirely different proposition.

Senator NELSON. I have no doubt but that that rule would be adopted. I can not see how they could adopt any other rule.

Senator REED. It is manifestly quite important.

Senator NELSON. Besides, that brings us to another question here that one of the bankers suggested, and that is this question of net deposits. You will remember that one gentleman—I do not recall his name—said that in the gross deposits you should deduct matters in transit.

Senator BRISTOW. That was Mr. Vanderlip.

Senator NELSON. So that if you deducted those matters in transit and took the net deposits you would not have this difficulty.

Mr. BARRY. The next proposition is, coming back to the subject again, that I asked that our country banks be permitted to carry a portion of their reserves, provided, of course, the proper amount be carried in their vaults and a proper amount be carried in the Federal reserve bank. They ought also to be permitted to carry with city

banks and count as reserve some of their balances. From its very nature, we doubt whether the regional reserve bank will ever become so intimate with the country bank as to give it the service the country bank gets now. There is an old story about a city bank cashier in New York who was very much concerned because he could not match a piece of dress goods that a cashier in the West sent him, and, more recently, we all know the trouble that has been caused New York bank cashiers by requests for tickets for the ball games. It may be improper, but it shows the intimate relationship and friendship in a business as well as a personal way between the city bank and the country bank.

Take our case, and the case of all these banks in the great pay-roll centers. It may be interesting, perhaps, Senators, to know that our bank alone makes up and pays out over its counters every month approximately \$1,400,000 in actual cash, which is disbursed right there in our community, and that does not include the pay rolls of the Pennsylvania Railroad and the Baltimore & Ohio Railroad and several other very large pay rolls. I dare say the pay rolls in our community will run close to \$1,750,000 a month.

Senator NELSON. Your town is where the great flood was some years ago?

Mr. BARRY. Yes.

Senator NELSON. I can locate it now.

Mr. BARRY. A long time ago we had an arrangement much less satisfactory than the present one. Our bank itself, for instance, constitutes itself a sort of reservoir for all our neighboring banks. When they get too much cash we have a gentlemen's agreement that we will take it off their hands, because we have these enormous pay rolls to make up. And that, perhaps, may answer the question that may be in the minds of some of you, why we keep at home 10 per cent. The reason for that is that we have to make up these enormous pay rolls, so we relieve our neighbors of this cash. Nevertheless, we find ourselves at times, when unexpected pay roll demands come, that our cash at home is not quite as much as it should be. A long-distance telephone message to Pittsburgh at 10 o'clock in the morning will bring out what we need in any amount. A long-distance telephone message to Philadelphia to-day will bring the money out to-morrow. We do not believe we could get that service from the regional reserve bank; we know we could not, and that is one of the reasons why we ask that we be permitted to carry a portion of our reserves with our present city correspondents.

Senator O'GORMAN. What proportion do you suggest you should be permitted to carry with your present city correspondents?

Mr. BARRY. I should say 3 per cent. Perhaps I should say, make it equal, half and half; I mean the same amount with the city correspondent as we carry with the Federal reserve bank.

Senator NELSON. That would be 5.

Mr. BARRY. Senator Reed suggested a moment ago 3; that we be permitted to reduce our deposits in the regional reserve bank to 3 per cent, and keep 3 per cent with our correspondents.

Senator NELSON. Suppose this fluctuating amount of 3 per cent—I call it fluctuating because it may be in either one of two places—sup-

pose that were placed with your big city banks. Now, instead of being fluctuating—

Mr. BARRY (interposing). That would not help us much, Senator, because the amount we require at home is often in excess of the 7 per cent we are permitted to have.

Senator NELSON—. There would not be a great difference.

Mr. BARRY. As I said a moment ago, we would prefer the reserve to be continued at 15 per cent, kept in the way I suggest, and to have it 12 per cent and limited to two places.

Senator POMERENE. As I understand your testimony, you said this question of reserves would not affect your individual bank very materially.

Mr. BARRY. No.

Senator POMERENE. And you simply had some concern about the smaller banks?

Mr. BARRY. Some, because I have talked to them.

Senator POMERENE. On an average, what reserves do they carry?

Mr. BARRY. They keep as close to the 15 per cent as they can.

Senator POMERENE. I know that is the legal reserve, but are they somewhat in excess of the 15 per cent?

Mr. BARRY. Not to any great extent. As I say, they keep as close to it as they safely and comfortably can.

Senator NELSON. The country banks in my section, as a rule, keep a great deal more than the 6 per cent in their vaults.

Senator POMERENE. Most of the country banks we have heard from thus far.

Senator BRISTOW. In the large cities, I think, we will find it somewhat different.

Mr. BARRY. Here is a peculiar condition. A bank of our size, for instance, within 5 or 10 miles of Pittsburgh, will not keep the enormous reserve in the vault that we keep, because they can send a messenger down with a bag and he will bring it back on the street car in a few hours. We can not do that. The cost of shipment and all that sort of thing would more than make up the amount we have on deposit.

Senator REED. Mr. Barry, how are you going to build up a central reserve bank system and a regional bank system that is going to be strong enough to withstand the pressure in the hour of adversity and sustain the banking system, unless it has some money on hand to do it with?

Mr. BARRY. Well, Senator, that is a very big question, but the thought that is in the mind of the country banker is this—if you will pardon me until I make some figures here. The Government proposes to take 10 per cent of our capital stock at once, and the Government also proposes to take 5 per cent of our deposits of \$6,000,000,000, which is \$300,000,000. I do not know what the Government deposits will be, but I am told \$150,000,000.

Senator NELSON. It will all depend on the revenues, you know.

Mr. BARRY. Yes. The bank will start out with resources of \$550,000,000; and, since the statement of the Comptroller of the Currency made up on June 4, 1913, showed that the total amount of rediscounts and borrowings of all the national banks in the United States

amounted to only \$73,000,000, the country banker is asking, Where is the need of starting out with \$550,000,000?

Senator POMERENE. Oh, well, you understand that under this proposed system rediscounts would not be as unpopular as they are now.

Mr. BARRY. Senator, I think you will find scattered throughout this country a very large number of banks, ours being one of them—I think, a majority of the banks—that look with considerable horror on the idea of placing themselves in the position of borrowers.

Senator POMERENE. That is because of an old system that has prevailed here for years.

Mr. BARRY. You will find a great many banks, too, that are so situated—they are fortunate, I admit—that they do not need to borrow, and no matter what provisions are made in the currency bill for rediscount they will never avail themselves of the rediscount.

Senator REED. Now, one trouble which we have to contend with, as I understand it, is this: That a bank takes its reserve, and, instead of keeping it in its own vaults where the law may require it to be kept, it deposits it in another bank. It may be deposited in a number of banks, pyramided, and then when the crash comes, by the failure of one bank the money may be tied up in a half a dozen banks. Now, you want to prohibit that system to some extent by forbidding depositing in other banks, do you not?

Mr. BARRY. I think, Senator, that if the bill is passed than danger will be at an end, because we still have the regional bank to come to and to rediscount for our city banks and move our reserves. The country bank views the situation in this way: The city bank renders us a service which the regional reserve bank, under this bill, can not possibly render. Now, permit me to state a few transactions that come across our counter daily.

We have some large manufacturing establishments in Johnstown, and the practice was several years ago when we had an item from them to the Pacific coast to send it to Pittsburgh, and Pittsburgh, in a leisurely manner, would send it to Chicago, and Chicago in turn would send it to San Francisco, and San Francisco, perhaps, would forward it to Seattle, and Seattle would make returns back the whole way. Our arrangement is now that we send that item out by special delivery, together with instructions to the bank at Seattle to collect and remit for our credit to the bank in San Francisco, the bank in San Francisco wiring us when they have the credit. Under ordinary circumstances that item is cleared up and placed to our credit with our reserve agent in San Francisco. Then, if our needs in the East require it, we will ask our San Francisco correspondent to make a transfer by wire to New York. These things I mention—such transactions as that—are absolutely necessary to the routine conduct of our business and the business of banks situated as we are.

Senator NELSON. Are you satisfied with the present banking system?

Mr. BARRY. No, sir.

Senator NELSON. What are the defects in it in your opinion?

Mr. BARRY. The defects are, as Senator Reed said, first, the pyramiding of reserves.

Senator NELSON. Is that all?

Mr. BARRY. Another is the rigidity of the currency.

Senator NELSON. Are not the two great things that we are seeking to remedy and cover by legislation, first, to give us a more elastic currency; and, second, to gather together and conserve our reserves and utilize them, making a basis for credit and currency? Are not those the two leading purposes we ought to have in view?

Mr. BARRY. I think so.

Senator NELSON. Can we afford to take such a penny view of it and ignore those two central ideas?

Mr. BARRY. In creating this legislation I think it would be well to bear in mind that banks such as ours in giving up the \$300,000 or more to the regional bank must almost to that extent reduce their loans.

Senator NELSON. We are legislating for the welfare of the whole country; we can not legislate for any particular bank.

Mr. BARRY. I am not asking that. I am speaking for the banks of this great section.

Senator NELSON. Here is one advantage. These reserve banks—1 or 12, whatever the number may be—can utilize these 5 per cent deposits, supposing they be discounting commercial paper.

Mr. BARRY. Yes.

Senator NELSON. Now, your bank could come to a reserve bank with commercial paper—and I take it you have such paper as this bill contemplate—and get that paper discounted and have bills issued for it. Now, in order to make your bills good, the bank must have a gold reserve of 33 per cent. That reserve, manifestly, must come from its capital and 5 per cent of its deposits. Now, the best part of this system is the fact you are not paying 5 per cent on your deposits. That is the great thing that is permitted, and you build up these reserves. Don't you know that?

Mr. BARRY. Two per cent may be part of the attraction, but there are banks in the cities to-day that we would rather keep a free balance with and have the service they render than for other banks to pay us 2 or 3 per cent.

Senator NELSON. You can keep everything you like outside of this 5 per cent.

Mr. BARRY. I understand; but it is going to reduce country banking loans by approximately that amount they put in the regional reserve bank.

Senator NELSON. They can not give you emergency currency.

Mr. BARRY. Pardon me, Senator, but I think they do give us in ordinary times—

Senator NELSON (interposing). Clearing-house certificates or chips—

Mr. BARRY (interposing). No; during ordinary times they can and would serve us better.

Senator REED. Mr. Barry, let us see if you are not overdrawing that—unintentionally, of course. The ordinary banker who is doing a conservative banking business does not think of running his bank down and keeping it down to the mere naked legal reserve, does he?

Mr. BARRY. No, sir.

Senator REED. He always has that legal reserve, a safety fund—I call it that for want of a better term—and he has to keep that safety

fund there because of the fact that if there were to be a sudden demand he might not be able at once to get money. Now, if there is a place provided where with almost absolute certainty he can get money and get it within a few hours, he can then loan down nearer his legal reserve, can he not?

Mr. BARRY. Yes.

Senator REED. And therefore there would be some money realized in that way to compensate for the moneys that were carried away from the community and over to the regional bank. I want you to speak with great candor on this—

Mr. BARRY (interposing). That is true, Senator—

Senator REED. I want from you gentlemen your candid, absolute judgment.

Mr. BARRY. That is true, Senator; but, carrying out what Mr. Rogers said yesterday, there are thousands of banks like ours that would be very sorry to depart from the old practice of being very strong in cash and reserves.

Senator REED. You can still continue that, and you can still deposit with outside banks, carry as much as you want to in the way of balances, get as much interest as you want to, and have the advantage of that, and still have the advantage of this other system. All that is required is a 12 per cent reserve in the aggregate. Now, I have great sympathy with your argument that you ought to be able to count as your reserve the money in the regional bank, or the money in your own bank, without being required absolutely to keep a fixed amount in the reserve bank provided that system does not work to the depletion of the reserve banks' moneys. If some plan could be devised whereby if you ran below for a day or two in the regional bank, making it up promptly, I would not see so much objection to that.

Mr. BARRY. It is the rigidity of this fixed amount, this reserve in the regional bank—

Senator REED (interposing). I am only suggesting this as a mere thought; I am not committing myself to it. Would it do you any good if the bill provided that for a period of not to exceed two days, or three days, or four days, you might at any time impair the reserve in the regional bank, provided you had an equivalent amount in your own vaults?

Mr. BARRY. It would help quite a good deal. It is the rigidity of the reserve bank balance that the country banks object to.

Senator NELSON. Let me call your attention to this: Under the existing law banks in central reserve cities are absolutely required to keep 25 per cent in their vaults against the 5 per cent circulation. Now, that is a fixed item, is it not?

Mr. BARRY. Yes.

Senator NELSON. The central reserve banks in the three great central reserve cities of this country must keep 25 per cent, and that is deader than a doornail, compared with the new reserve banks under this bill. Now, the reserve banks under the provisions of this bill can discount and loan money on that reserve, but the central reserve banks, with a 25 per cent limit, have no right under the law to utilize that for any purpose. Now, the reserve banks can utilize the 5 per cent for discount purposes, can they not?

Mr. BARRY. Yes.

Senator NELSON. So it is not as rigid as the 25 per cent in the central reserve banks.

Mr. BARRY. That may be, but that does not help the country bankers.

Senator O'GORMAN. Have you concluded?

Mr. BARRY. Except on one point. Senator Nelson has suggested how easy it will be to get discounts from the regional bank. That is not my own view, but I am not speaking for myself. The country banker, the little fellow in the town of 2,000 population, is asking how in the world can he ever get close enough and what sort of machinery the regional reserve bank will have. How can he possibly present his paper to the regional reserve bank and how will they have the machinery to decide whether or not it is good paper? Compared with the city banker, he feels himself at a fearful disadvantage in getting accommodations.

Senator O'GORMAN. Would you prevent the country banker that you speak of sending his collateral to the regional bank with the request for the accommodation he desires, and in due course securing that accommodation perhaps the following day?

Mr. BARRY. None of us imagine for a minute it would be rendered the following day. We think it would be a week rather than a day.

Senator O'GORMAN. You think so?

Mr. BARRY. Yes, sir.

Senator O'GORMAN. For what reason?

Mr. BARRY. In the first place, here we are in Johnstown. The regional bank may be located in Philadelphia. Under no circumstances can we expect an answer within two days; and if they take any time at all to investigate it it will be at least another day. Under the present arrangement, if you have your securities lying there, you telephone in, and, just as one of the other gentlemen said a while ago, a telephone message will temporarily consummate the transaction.

Senator NELSON. Assuming the banks have the currency there?

Mr. BARRY. Of course; that is 400 days out of 500, you might say.

Senator POMERENE. Can you not assume that a bank situated, for instance, as yours is, or any other good solvent bank, if they were in dire need for money the next day they could go to that regional bank with the prime commercial paper, with the indorsement of the member bank on the paper, and get that accommodation without any difficulty?

Mr. BARRY. I doubt whether it would come with the same speed as it comes now from our city banks.

Senator POMERENE. You must be a doubting Thomas.

Senator BRISTOW. I think he knows what he is talking about.

Mr. BARRY. I think, Senator, what we would prefer to do would be to send our paper to a bank in a city where the regional bank was located and ask them to attend to it for us. We think they would do it with lightning speed.

Senator WEEKS. Mr. Barry, before you leave the stand, you suggested a few moments ago you received various advantages from your relations with your reserve city banks. Can you enumerate those advantages?

Mr. BARRY. Yes; I have some of them here. We have here and there in every town a number of men with a surplus of money. They want to buy stocks and securities from time to time and they ask us to attend to it for them. We must ask our city correspondent to attend to it for us. We dare not ask the regional reserve bank; it is in another line of business.

Then, again, we have all sorts of strange collections with bills of lading attached, which the regional bank will hardly undertake.

Senator NELSON. That is the very kind of drafts that we want the regional banks to collect.

Mr. BARRY. We have drafts sometimes that are not bills of exchange in any sense of the word. We ask our city bank to go out with a verbal club and get that money. They do the most remarkable things for us. They are close to us as the man outside the counter is.

Senator WEEKS. Can you name any others?

Mr. BARRY. If, for instance, we do not continue these balances with our city banks, and our customers ask us to buy and sell stocks for them and we are not able to do it, they will very soon transfer their balances to the city banks direct. That is about all.

Senator WEEKS. Do they O. K. the paper you buy?

Mr. BARRY. Our particular bank does not buy any, but they do for a great many banks.

**STATEMENT OF F. M. LAW, OF THE FIRST NATIONAL BANK,
BEAUMONT, TEX.**

Senator O'GORMAN. Will you please state the capital and surplus of your bank?

Mr. LAW. The capital is \$200,000, with a surplus of \$300,000.

Senator O'GORMAN. And your deposits?

Mr. LAW. \$1,800,000.

Mr. Chairman, I will make the concluding remarks on behalf of the committee representing the country bankers. Allow me to say at the outset that, as you perhaps know, the committee which is attending these hearings is composed of one representative from each State, appointed by the country bankers' conference held in Boston, and I was appointed on that committee from the State of Texas. I particularly wanted to emphasize to this committee the fact—representing the country bankers, particularly of Texas—that according to the comptroller's report of 1912 there are 515 national banks in the State of Texas and over 90 per cent of that number are country banks.

I wanted particularly to lay stress on the fact that the country banks, the country national bankers, of Texas are desirous, I think, almost unanimously, of entering this proposed system. We realize the need of it, and we believe that the Government is trying to formulate a bill that will provide the relief needed, provide for a more elastic currency, and provide for the mobilization and utilization of reserves.

But on behalf of the country banks of Texas allow me to say that we believe that the bill as it stands now will, perhaps, work some hardships upon us as country bankers that we can hardly afford to bear. They have been enumerated before you. In the first place, we believe that the loss that will be entailed to us on account of the

depreciation in value of the Government bonds held against circulation and against deposits will be a hard loss for us to bear. The loss we will necessarily have to absorb on account of the proposed regulations in regard to exchange, will take away from us one of the principal sources of revenue of the country bank.

Then, if the proposed segregation of savings deposits were carried into effect it would remove from us another source of income—one of the principle sources.

Then, in addition allow me to say that Texas, being primarily an agricultural State, and the banking business there being based largely on agriculture, we have conditions there that are different, perhaps, from conditions in some other centers of this country. Nearly all of the loans that the country banks make in my State are farm loans, either directly or indirectly. I do not mean by that real-estate loans, but advances made to the farmers for the purpose of harvesting their crops. We either loan directly to the farmer or the farmer has his dealings with the merchant who carries him, and we in turn carry the merchant. In either case the loans can not be liquidated until harvest time.

That leads me up to the point of saying that under the provision of the bill as it now stands not longer than 90-day maturities are eligible to rediscount from the member banks with the Federal reserve bank. In order for the Federal reserve bank to measure up to the fullest standard of usefulness to the country banks in any agricultural section it will be necessary, in our opinion, to lengthen the maturity of paper that can be rediscounted by the member banks with the Federal reserve bank.

I believe, after conferring with a large number of country bankers throughout my State and some from outside of Texas, that if a provision can be written into this bill enabling the lengthening of these maturities, even a percentage of them, to six months it will give us the relief sought for. And it is my purpose primarily in appearing before the committee to emphasize the fact that the country bankers of Texas are in sympathy with the resolutions passed by the country bankers' conference at Boston and to say that we feel that this bill as it now stands will work some hardships that we can ill afford to stand, but that these amendments which have been suggested, if they can be written into the bill, the country bankers, not only of Texas, but throughout the United States, will not only come into the proposed association, but will gladly come.

Senator POMERENE. May I ask you a question, please, without interrupting you?

Mr. LAW. Yes.

Senator POMERENE. How do your monthly loans compare one month with another, in amount?

Mr. LAW. They fluctuate quite a good deal.

Senator POMERENE. In about what ratio?

Mr. LAW. Well, in the making of the crop our loans are, I would say, 50 per cent greater than they are for the harvest.

Senator POMERENE. That is during what months, now, would you say, they are the largest?

Mr. LAW. We begin to make advances to the farmer along in January and February. Those advances are continuous as he plants his

crop, as he cultivates, to the harvest time. We make further advances until the crop is actually harvested and sold. We not only do this, but sometimes, and frequently, the banks are called upon to assist the farmer to hold his crop for more advantageous prices, even after it is harvested.

Senator POMERENE. The thought I wanted to develop, if it is true, is the fact that you have notes constantly maturing every month. Is not that a fact?

Mr. LAW. Yes, sir; a certain percentage of them.

Senator POMERENE. A very substantial amount?

Mr. LAW. A great percentage of our loans, Senator, mature in the harvest time, in the fall. We make those loans for instance, in February, and they run until October.

Senator POMERENE. And during what seasons of the year do you require additional accommodations; or do you require them?

Mr. LAW. Yes, sir. It is during the seasons when we are making the heaviest advances to the farmers, generally along in July and August, when our resources are at the lowest ebb and the demand is greatest.

Senator NELSON. If the proportion of the paper to be discounted—say if 25 per cent of it would be 4-months' paper, 25 per cent 6-months paper, and the balance 90-day paper, would not that help you out? I mean the maturity?

Mr. LAW. That we could rediscount with the reserve bank?

Senator NELSON. Yes.

Mr. LAW. Yes, sir.

Senator NELSON. Say 50 per cent of it was 90-day paper; 25 per cent 4-months paper, and 25 per cent 6-months paper?

Mr. LAW. That would help out a great deal.

Senator POMERENE. What portion of your loans are six-months paper?

Mr. LAW. I would say 50 per cent.

Senator POMERENE. And the balance less than that?

Mr. LAW. Perhaps 25 per cent is less than 25 per cent more.

Senator POMERENE. That would be nine months, would it, or a year?

Mr. LAW. Hardly any loan runs over six months, and we think the six months would measure up to the requirements, perhaps, because we would not rediscount any of this paper until part of the time had elapsed. Paper maturing in October we need not use for rediscount until April or May.

Senator POMERENE. At any period of the year would the six-months paper that you have on hand exceed one-half of your total loans?

Mr. LAW. I hardly think so, Senator. It would perhaps approximate one-half at certain seasons of the year.

Senator POMERENE. And the balance would be less than that—most of it?

Mr. LAW. Perhaps most of it would be less than that.

Senator REED. Without desiring to cut anyone off, there are some New York bankers and Kansas bankers who have been here for

several days; and I can say, I think, for the committee, that if there are any of the gentlemen who are here who desire to file any briefs or suggestions with the committee, we would be very glad to consider them. But in justice to those who have been waiting here I believe we must be rather brief. Have you any further suggestion?

Mr. LAW. Nothing at all.

Senator WEEKS. You, of course were present at the Boston meeting?

Mr. LAW. Yes.

Senator WEEKS. Did you attend all of the conferences there?

Mr. LAW. Yes.

Senator WEEKS. And you were present at the meeting at which the resolutions which you come here to advocate were adopted?

Mr. LAW. Yes.

Senator WEEKS. I have in my hand here an extract from a Washington evening paper relating to those resolutions, and I want to ask you about your opinion of the correctness of the statement made, and I will read it:

The hint is conveyed that the influence of the big bankers of New York is responsible for the apparent unanimity among bankers that really does not exist, judging from hundreds of letters the President has from bankers in different parts of the country giving the bill their approval. It is recognized by the administration, it was intimated in several quarters to-day, that the pressure of the ruling banks of New York is terrific among banks in other parts of the country dependent on these institutions, to a large extent, for favors and assistance. There is likely to be a quiet investigation, etc.

Now I know nothing about the correctness of this statement. There is not a solitary instance of a similar statement, and it is of considerable importance to this committee to know whether any terrific or other influence was used to persuade you country bankers, so called, to adopt the resolutions which you did adopt.

Mr. LAW. I would say, most emphatically not, Senator. My observation, and I was present at all the conferences and all of the meetings, and at a good many informal conferences that were not held at any of the sessions—I found absolutely no evidence of anything of that kind.

Senator WEEKS. Did you see any such evidence manifest at the Boston convention, or any influence to have such resolutions as you adopted considered?

Mr. LAW. The first mention I heard of it, Senator, was the dispatches from Washington that news had reached Washington those sinister influences were at work.

Senator WEEKS. And you did not see or hear anything of it?

Mr. LAW. No, sir.

Senator REED. Now, gentlemen, I believe the committee has heard representatives of the Boston meeting as far as you have desired. If there are any further suggestions you have to make, we would be glad to have you send them to us in written form. We are not trying to cut you off, but I understand your wishes have been complied with.

Mr. Perkins, we will hear you now.

STATEMENT OF JAMES H. PERKINS, PRESIDENT OF THE
NATIONAL COMMERCIAL BANK, OF ALBANY, N. Y.

Senator O'GORMAN. Mr. Perkins, just state your full name and the bank with which you are connected.

Mr. PERKINS. James H. Perkins, Albany, N. Y. The National Commercial Bank.

Senator O'GORMAN. Capitalized at what?

Mr. PERKINS. A million dollars and a surplus of a million and a half.

Senator O'GORMAN. And deposits?

Mr. PERKINS. About \$25,000,000.

Senator O'GORMAN. I suppose that is one of the largest banks in the State, outside of the city of New York?

Mr. PERKINS. Yes; the largest, except the Marine Bank at Buffalo, I think. Mr. Treman and myself come here to represent the currency committee of the New York State Bankers' Association, which committee has been at work on this bill for the last six weeks or two months, off and on, and to offer some suggestions that they wish offered on the bill, in the way of amendments.

In the first place, we recognize in the present banking system two great faults, one of which is the inelastic currency, and the other is the reserve system which has always broken down in time of stress. We believe the bill in its present form to a certain extent entirely obviates the one and to a certain extent obviates the other of those difficulties. An elastic currency, we believe, is provided for, and we are not going to make any suggestions upon that subject.

I will first take up the matter of reserves, which is the last matter the country banks have been talking about, and therefore, perhaps, it will work in better at this time than later. We are not inclined to agree with the proposition that has been put forward that the reserves should be allowed to remain with their present reserve agents. We believe that the only money that should be reserve, if this new system goes through, is money that is held in the vault of the bank or that is held with the regional reserve bank. And although we believe that that will cause a great deal of upset during the transition period, we think that that has been somewhat obviated by the lowering of the reserve required. We do ask, however, that the period of transition from the present system to the new system be made much more gradual than is contemplated in the bill. We represent, as you see, not only the larger banks of New York City but the country banks scattered throughout the State. There are about 800 banks in our association, 600 of whom are outside of the city of New York.

Senator POMERENE. You mean national banks?

Mr. PERKINS. No; all kinds of banks, Senator. We feel that if the banks of the country, national banks of the country, are required immediately upon the organization of these new banks to deposit with the reserve agents 3 per cent of their deposits, and the capital that is required by the bill, it is going to cause a readjustment of credit that will very seriously handicap the credit community of the country. For instance, you take at one bank in Albany, with which I am more familiar than I would be with any other: We have \$9,000,000 deposits from national banks that are kept with us as reserve deposits. We do not know whether that is their whole

reserve, or not. It probably is not. But let us suppose that is, we will say, 5 per cent. If three-fifths of that money is suddenly taken out of our bank and placed in the reserve bank, that is going to cause a contraction in our credits, which will be hard to meet and which will be very hard on the community to whom we are loaning money. We recommend that that transition be carried on much more slowly; that instead of 3 per cent—we have not established any exact figure, but for instance, instead of 3 per cent being taken out at once, that 1 per cent be put into the Federal bank to start with.

Senator O'GORMAN. That is, the deposits?

Mr. PERKINS. The deposits. And let that continue, we will say, for six months, or something of that kind, and then another 1 per cent be paid in, and that will continue for six months, and then another 1 per cent. I believe that one of the greatest menaces that the bill has is the contraction that will be made necessary by the change of the reserves. That is the point we are particularly anxious on, in that regard. We believe that the reserves should be in the reserve association; we do not ask that they be allowed to stay with us. That is my view, although it was a hard one to swallow.

Senator O'GORMAN. That is your view, although your bank has \$25,000,000 of reserves on deposit now?

Mr. PERKINS. Yes.

Senator REED. Would it help them if, instead of the bank being required to carry cash down to the reserve bank and put it in, and then carry over its notes and rediscount them and bring the money back, you were permitted under this bill, in lieu of cash or in lieu of a portion of this cash, to deposit approved securities as part of your reserve?

Mr. PERKINS. Yes. That would help, of course.

Senator O'GORMAN. Is not that permitted indirectly by the provisions of the pending bill? Of course taking out of this considerable portion of your deposits would, if it was not compensated for in some other way, necessarily cause a serious contraction. But will that not be compensated for by your ability at once to secure the benefits of the rediscounts?

Mr. PERKINS. I think so, in a certain way, Senator. But you see, the question is so large that it is not the desire of any banker to rediscount such an enormous amount of money as we have to carry this thing out. Take in our bank, for instance: If we lost three or four millions we do not want to go with a capital of a million and borrow two or three million dollars, bang, right off the gun. Our people are not educated to seeing their banks borrow that way quickly. I believe the banks are going to become borrowers under this system, and it will be considered all right in time, but I think if you do it right off, quickly, it is going to create an uneasiness and disturbance in the community.

Senator O'GORMAN. How much would you have to contribute?

Mr. PERKINS. \$100,000.

Senator O'GORMAN. What is the amount of your deposits?

Mr. PERKINS. Of our deposits?

Senator O'GORMAN. Yes.

Mr. PERKINS. Our deposits are \$25,000,000. Of that \$25,000,000 \$15,000,000 come to us because we are a reserve bank. \$9,000,000 of that \$15,000,000 are from national banks.

Senator REED. Under the bill as it is, how much money would you have to take over to this regional bank?

Mr. PERKINS. It is a pretty hard thing to tell, Senator, because we do not know just what portion of this is bank reserves they have with us.

Senator REED. Suppose your deposits remained as they do now; you would have to carry over, for your capital stock, how much money?

Mr. PERKINS. \$100,000.

Senator REED. How much are your deposits—\$25,000,000?

Mr. PERKINS. Yes.

Senator REED. Then you would have two——

Mr. PERKINS (interposing). We would put in 3 per cent of that.

Senator REED. Three per cent now, but ultimately——

Mr. PERKINS (interposing). Five per cent.

Senator REED. Which would be \$1,000,000.

Mr. PERKINS. \$1,250,000.

Senator REED. Of course, now, if these banks that now deposit with you are simply carrying reserves and there are \$9,000,000 of reserves with you, when this bill goes into effect, those reserves will go out of your bank?

Mr. PERKINS. That is what we are afraid of. We are not afraid of what we have to contribute, or what we have to put in, but these reserves will be taken from us and put in the reserve bank. We think that should be by slow steps, in order to give us a chance to liquidate the business which we are carrying on and have been carrying on and building up for a great many years.

Senator NELSON. You are required to pay 60 per cent of it within 60 days?

Mr. PERKINS. Yes.

Senator REED. If you had to circumscribe your loans \$9,000,000, it would have a very serious effect upon the business of the country?

Mr. PERKINS. Over the whole State, yes.

Senator REED. What is going to take the place of that? Assuming that that goes on all over the United States, not only in Albany, but in Buffalo and the whole country? Here is a fund that is now deposited and redeposited and is actually working in the commerce of the country. Now, it is to be withdrawn, and part of it, at least, put into the regional bank. What is going to take the place of that under this bill?

Mr. PERKINS. Of course, there is going to be a certain amount of money released, because smaller reserves are required under the bill. In the second place, there probably will be more money released because this bill provides a way for getting money, and the banks will loan a little closer than they have been loaning. The only other way it can come about is through the banks becoming borrowers. Now, there is one thing that has not been gone into, I think, and that is the banks of New York State, if formed into a regional reserve bank, would make a very large one, and the largest one, probably, in the Union. It will probably do less borrowing than the banks of the other parts of the country. We act as a reserve agent for a great many of the country banks in New York State. Albany is a collection-reserve center. I do not believe that the money we loan

to our correspondents, that all the three national banks in Albany loan to their correspondents, runs over a half a million dollars at a time.

Senator NELSON. That is, that they borrow of you?

Mr. PERKINS. That they borrow of us. They are not borrowers. I do not see anything in this bill that should make them borrowers. They have not any new burden to carry.

Senator O'GORMAN. The fact that they have additional opportunity to secure money will not, necessarily, lead them to an expansion of their banking activity?

Mr. PERKINS. No. The difficulty is as you suggest, Senator, that this money is all going to be piled into this great regional reserve bank, and I think it is going to be a very serious trouble to get that money out into use again—at any rate for a time. I think it is going to be a very slow process.

Senator NELSON. Three per cent must be paid in 60 days, and then you do not ultimately get to the end of the 5 per cent until the end of 36 months.

Mr. PERKINS. No.

Senator NELSON. Suppose you take the 5 per cent; you do not object to that ultimate period?

Mr. PERKINS. No.

Senator NELSON. Suppose you take the 5 per cent and distribute it more equitably in the three years.

Mr. PERKINS. That was my idea, Senator, yes.

Senator NELSON. That is, so much within six months, so much within a year, so much within 18 months, so much within two years, so much within two years and a half, and finally 5 per cent by the end of the three years.

Mr. PERKINS. That is my idea, Senator.

Senator NELSON. That is, divide the 5 per cent equitably within that period?

Mr. PERKINS. Yes.

Senator BRISTOW. That is what he suggested, Senator.

Senator POMERENE. Into a half-dozen payments, instead of two or three?

Mr. PERKINS. I think it would be a very serious proposition. I think there would be a danger there.

Senator REED. If you were starting a bank to-day—take your bank: You would take \$1,000,000 for capital stock and pay it in and then you have \$25,000,000 of deposits in your vaults. You would not know what to do with it, and it would take a number of years to get into a position to utilize that \$25,000,000 of deposits?

Mr. PERKINS. Yes; and this bank is going to be so much bigger than ours; there is no comparison, Senator. It is going to be one of the biggest things we ever saw.

Senator REED. And you think it ought to grow gradually; its resources ought to grow gradually in order that it can put them into use gradually and the system, instead of being created in a night, ought to be created over a reasonable period of time?

Mr. PERKINS. Yes; I think three years is a proper time, but I think if it could be distributed over the three years it would be much safer. You see, 3 per cent is the larger part of your 5 per cent. It is the bulk of it.

Senator NELSON. And you would distribute it within that period; that is what you suggest?

Mr. PERKINS. Well, I think if the new bank gets its capital, as is provided by the bill, and gets 1 per cent of the deposits of its member banks—

Senator NELSON (interposing). In what time?

Mr. PERKINS. Immediately, and the Government deposits, as is provided by the bill, that that would keep it going from six to nine months, with all it could do to organize and get that thing into shape, and then you could put in another one per cent.

Senator NELSON. By the end of another six months?

Mr. PERKINS. By the end of another six months, and another 1 per cent at the end of that six months, and so on. I think it would be a very easy thing to arrange it.

Senator REED. How would it do to leave it to the central board to make calls, sooner or later, as the business of the bank required? In other words, vesting them with about the same discretion that an ordinary board of directors would have in the management of a bank?

Mr. PERKINS. The only objection to that, Senator, would be the uncertainty on the part of the member banks as to just when they would be called upon for the money.

Senator REED. Suppose they gave them 30 or 60 days' notice?

Mr. PERKINS. Yes; if they could only call it in limited amounts.

Senator NELSON. It would be much better to put it in the law.

Mr. PERKINS. I think so, too, sir. The minute the law passed, if it did, you would go right to work to carry out a definite program.

Senator REED. Is there anything else you have to suggest?

Mr. PERKINS. Yes. I have two or three other things. We suggest that the regional reserve banks do not pay any interest on the Government deposit; that the rate of interest paid to subscribing banks be increased to 6 per cent.

Senator NELSON. You mean the dividends?

Mr. PERKINS. Yes; the dividends. Excuse me. The dividends to the member banks being increased to 6 per cent, and that the earnings above the 6 per cent and the surplus that is accumulated, or to be accumulated, to be paid to the Government. Our idea in that is this, that it is the very essence of this scheme that these banks be not money makers. That is not what they are for, as we understand it, and if all the money above a certain percentage that is made by the banks goes to the Government, you do not give any incentive to the management of the bank to make it a money-making institution. You leave it to perform its functions of regulating the rates of interest and regulating the flow of gold to this country and from this country and carrying out the functions for which it was created. I think it is important also that the member banks be guaranteed their 6 per cent on their subscriptions, and I do not see why the Government should be paid interest on their deposits any more than anybody else should.

Senator O'GORMAN. You have given a good reason. If we concluded all beyond the surplus should go to the Government, then it would be an idle thing to give the Government an interest rate which would simply be taken out of that surplus.

Mr. PERKINS. Taking it out of one pocket and putting it in the other.

Senator POMERENE. And your further theory is that the Government is not paid interest, or that if the dividends which the banks should get or the stockholders should get should be in excess of 6 per cent it might be a temptation to give more attention to the earning power of the regional bank than the individual bank?

Mr. PERKINS. I think so; yes.

Senator POMERENE. One of our good friends this morning said that there would not be anything above 5 or 6 per cent.

Mr. PERKINS. That depends on how the bill is framed.

Senator REED. Do you mean to say the Government ought to guarantee the 6 per cent?

Mr. PERKINS. No.

Senator REED. You did use that expression.

Mr. PERKINS. I think the chances would be it would be cumulative.

Senator NELSON. It would be sufficient if it were cumulative?

Mr. PERKINS. Yes.

Senator NELSON. So if it did not get it the one year it would get it the next?

Mr. PERKINS. Yes.

Senator O'GORMAN. What is the next objection?

Mr. PERKINS. The next objection is in regard to the collection of country checks and items, which has been gone into pretty thoroughly here to-day. I think, however, we all recognize—now, this is my business; I am one of those city collection banks that is supposed to make this great profit out of the collection business—and I think that everybody who is in touch with this business recognizes the fact that our present collection system is very unscientific. It is not adequate and it is not good. For instance, I can give you a few examples. I know of a banker in Buffalo if you undertook to deposit a check there on Tonawanda, which is 10 miles away, they will charge you exchange for the collection of that.

Senator O'GORMAN. At what rate?

Mr. PERKINS. I can not quote the rate on that. It will ship it to Albany. We will ship it back to Tonawanda, who will keep it five or six days, or sometimes longer. They will charge us exchange and ship it back to us, and we ship it back to Buffalo again. They are two points within 10 miles of one another. That goes on all over this country, and, in fact, I can not help but think that the country bankers weakened their position this morning when they said they make 25 per cent of their earnings out of their exchange charges.

I do not know whether you are entitled to make 25 per cent of your earnings. I think it is a thing you have got to be more careful about than any other provision in the bill, in a way, because if the Government goes into the collection of these items they charge for exchange at par so that there will not be any dividends whatever. I think the regional reserve banks should be allowed to act as clearing houses under rules and provisions prescribed by their directors or the Federal reserve board. I think it would be a scientific way to handle that thing, to clear the items in the regional reserve banks.

Senator NELSON. It would be a tremendous expense.

Mr. PERKINS. It would be a tremendous expense, and it has got to be paid out. They can not do it at par without charging for exchange.

Our transit department costs us every year about \$300,000 to operate it.

Senator O'GORMAN. The transit department?

Mr. PERKINS. The transit department. It costs us half a million dollars to operate the whole of the transit department, and that includes the interest on the bank deposits. Take that out, and the cost of operation will run in excess of \$300,000, that is for clerical hire, and the official force, postage, and interest that we lose during the time when the money is outstanding, and the exchange charges.

Senator POMERENE. Can you tell us what your cost would be per thousand?

Mr. PERKINS. I have it at home, but I can not give it to you now.

Senator REED. I wish you would send it to us.

Mr. PERKINS. I will get the figures and send them to you, Senator.

My point is this: Do not make a compulsory thing in the act. Put it in the hands of the Federal reserve board or the regional boards to establish rules and regulations to regulate that collection business. The country banker deserves consideration. He can not remit at par without charging; he has to be taken care of in this thing, but it ought to be equitable.

Senator NELSON. What do you think of the suggestion made here that this clearing-house system be limited to checks and drafts of one bank upon another?

Mr. PERKINS. I think that is a good suggestion, coupled with the other suggestion which that same speaker made, that they may perform the functions of clearing houses. That clause is in the bill. That leaves it in the hands of the Federal reserve board.

Senator NELSON. You are familiar with the resolution that was adopted by the country bankers. What do you think of the provision that they adopted?

Mr. PERKINS. I think that is a pretty good provision, although I do not altogether sympathize with their point of view in adopting it.

Senator NELSON. If you omit that provision on page 33 which they have indicated and leave the provision on page 24, would not that solve it?

Mr. PERKINS. I think it would.

Senator NELSON. Under the provision on page 24 the banks could receive those checks and it would be left with the Federal board to determine the charges.

Mr. PERKINS. Yes; I think so. I think that would solve it. Personally I would rather see it remain as it is, because that is our business.

Senator NELSON. And to the public at large it would be a great blessing; there is no doubt about that, but we can not afford to crucify the country bankers.

Mr. PERKINS. No; I do not think to the public at large, either.

Now, we also believe that some further provisions should be made to take care of the Government 2 per cent bonds. We believe that it is the intention of Congress and everybody else in the country to provide for those 2 per cent bonds, and we recognize it is one of the most

difficult things to do, which you have got to consider in connection with this bill. It would not be a safe or proper situation to have the banks of the country holding those bonds on their books at par when the bonds are selling on the market at 90. It would not be a right and proper banking proposition.

I think the best suggestion we have had from our committee—they have made two suggestions—one is that the Federal reserve bank should take over every year a proportion of these bonds at par, the bonds carrying with them the circulating privilege. That would take up the slack that will come from the banks that liquidate and reduce their net circulation, go into the State systems, and so forth.

The other suggestion is that the Government should pay off every year a certain number of these bonds at par, and I think that probably is better. It acts as a sinking fund.

Senator POMERENE. Looking at it from the standpoint of the success of the system, would it not somewhat embarrass the system if the regional banks were to take over these bonds?

Mr. PERKINS. Well, only that they would then be issuing two kinds of currency.

Senator NELSON. That would be the trouble, and we ought to get on one currency basis ultimately.

Mr. PERKINS. I think so, too, Senator. If you bought the bonds at par, and they carry the circulating privilege, they do not cost you anything; you take it out of their money to pay for the bonds.

Senator POMERENE. It might encourage some banks not to go into the system.

Mr. PERKINS. Our suggestion has been that only a certain proportion of these be taken up every year, say, 5 per cent. If 5 per cent are taken up every year it will only take up the slack in the bond market. In my opinion it will not enable any man to get out of the system, if he can only sell 5 per cent of his bonds. The system, we hope, at the end of five years will be working so that he will not want to get out of it.

Senator NELSON. Suppose we leave the dividend at 5 per cent, as it is, to the stockholders. Suppose we have interest paid on Government deposits, and then suppose all that the bank makes over the 5 per cent dividend is devoted to taking up these 2 per cent bonds. In that way the Government would not have to advance anything it would get out of the profits of the banks. Why would not that be a good plan? I simply offer that as a suggestion.

Mr. PERKINS. That might work out, Senator. I think, however, a surplus should be accumulated for this regional reserve bank.

Senator NELSON. Yes; I mean after the surplus. Suppose they pay a moderate interest on the Government deposits, and suppose we leave the banks with 5 per cent dividends and leave all the other revenues of the regional banks to become a sinking fund for the taking up of the 2 per cent bonds, do you not believe that in the course of 20 years that would take them up without any outlay of money. If that would work well, this new system would pay its own way, and relieve you holders of the 2 per cent bonds and keep your bonds at par.

Mr. PERKINS. Suppose, on the other hand, Senator, they do not earn any surplus above your requirements?

Senator NELSON. Of course, that might be.

Senator O'GORMAN. In that contingency there could be subsequent legislation, providing for the 2 per cent bonds.

Mr. PERKINS. Then it would continue for some years, because you have to roll up your surplus first.

Senator NELSON. Would not legislation of this very nature help to brace up the 2 per cent bonds and stiffen them in the market?

Mr. PERKINS. I think it would.

Senator O'GORMAN. What is your view regarding the substitution of the 2 per cents, or the redemption of them, and the exchange of them for 3 per cents?

Mr. PERKINS. I do not think anybody who is going to stay in the system would want to exchange the 2 per cents with the circulating privilege for the threes without the circulating privilege. He would only do it in case he wanted to liquidate before the bonds became due. In a normal money market the 3 per cent bonds would not sell at par, in my opinion.

Senator NELSON. We know how the British $2\frac{1}{2}$ per cent consols are.

Senator REED. What do you think, Mr. Perkins, of the suggestion that was made here that we retire a portion of these 2 per cent bonds, issuing in lieu thereof 3 per cent one-year bonds and deposit those with the reserve banks, holding them, in fact, as Government securities, with the privilege, on the part of the reserve banks, to sell them in order to maintain a gold reserve if it became necessary?

Mr. PERKINS. Taking the whole issue up that way, Senator?

Senator REED. Not necessarily the entire issue, but take a portion of it.

Mr. PERKINS. I tell you our whole thought on this proposition has been that in order to get this system under way, to get it started, you have got one means of getting the banks all in, and that is the 2 per cent bonds. If they do not have to go in to protect their 2 per cent bonds, most of the banks will wait to see how it works before they go in. If your system is going to be a success, it has got to start out with strength, it has got to have the bankers behind it. In other words, although every man abhors being forced into a thing, you have got to force the banks into this thing or they will not go in.

Senator O'GORMAN. You believe in the compulsory features of the bill, then?

Mr. PERKINS. Yes.

Senator REED. I do not believe you entirely have the idea. It was suggested here that one way in which we could take care of a portion of these bonds would be to take those of them that are now on deposit, for instance, take them into this regional reserve bank and retire them out of the assets of the bank, and then replace the assets with bonds running one year and drawing 3 per cent, those to be put aside and not used except for the purpose of maintaining a gold reserve when it became necessary to use them. Is there anything in that?

Mr. PERKINS. Yes; I think that would keep the bonds absolutely at par.

Senator REED. And yet the banks would want to come in, and we would not be forced to buy these bonds unless we wanted to. Do you think that will work out?

Mr. PERKINS. I should think so.

Senator BRISTOW. Do you think legislation adverse to the interests of the banks should be resorted to in order to force them into a thing which they think is against their interests?

Mr. PERKINS. I do not think I expressed myself quite clearly on that point. I do not think that any legislation adverse to the banks should be resorted to. I think, however, that it is human nature for every man who has been going along under a certain system to wait to see how a new system goes before he goes into it. It may be the best system in the world, but I do not believe if it was the best system in the world that everybody would go into it when it was organized.

Senator BRISTOW. Suppose they are forced into it and it proves to be a bad system; what would be the effect on the country?

Mr. PERKINS. Very bad.

Senator BRISTOW. Why would it not be better to establish a system and invite capital to subscribe, without forcing anybody, and make it sufficiently attractive to induce men to take stock, and then let the banks take their time as to whether they come in or not and let them find out whether it is going to hurt or benefit them. Why would not that be better?

Mr. PERKINS. I tell you the great fault of our system, as I see it now, are two things, one is the inelastic currency and the other is the method of handling our reserves. The country bank relies on its reserve agent to take care of it in time of trouble, and the reserve agent has nobody to rely on in time of trouble. He has got to be there to take care of all his correspondence. There is no system by which a reserve agent, in time of trouble, can liquidate his assets, and yet he is asked to take care of his correspondents.

Senator BRISTOW. Suppose we had a Federal bank and made reserve provisions through this central bank controlled by a Government board, the same as this board which is proposed, or similar to it, and that it was voluntary as to whether a bank should come in or not, and if banks did not subscribe citizens could be invited to subscribe, and it was made attractive and by virtue of its desirability it drew the banks of the country into it; would not that be a very much better system than the one proposed?

Senator NELSON. This would be the trouble, Senator, if you will allow me. These private subscribers would have no reserves to put into a reserve bank. The French get along pretty well; they do not have bankers to subscribe to their stocks.

Mr. PERKINS. I think the banks—I was coming to that point a little later. I think the one thing which the bankers of New York State, all the bankers I have talked with, are most strong on is that controlling board about which you speak. I believe that if you are going to keep the banks out of this thing, if they stay out it will be because they are afraid of that controlling board, in which they have absolutely no voice.

Senator BRISTOW. Now, they would not have to come in if they were afraid of them.

Mr. PERKINS. Where will they keep their reserves, then; in the present way?

Senator BRISTOW. Yes.

Mr. PERKINS. Then you do not remove the defect, do you?

Senator BRISTOW. If it was an actual defect you could create a bank of issue and a bank of discount, a Federal bank, and bankers need not subscribe unless they want to, and the Government deposits are there, and this bank would be ready to loan them to any banking institution that does deposit its reserves with them.

Mr. PERKINS. And that institution would have branches all over the country?

Senator BRISTOW. That institution would have branches all over the country. It is a Federal institution, not controlled by private stock at all.

Mr. PERKINS. It is only a question as to who would go in and who would not. I think they would be slow to go in.

Senator BRISTOW. Now, with the example of the Bank of France before us, do you think that would be the case?

Mr. PERKINS. No; but the people of this country have had two experiences, I think, with a Federal bank—a United States bank.

Senator BRISTOW. That was a private bank.

Mr. PERKINS. Yes; this is privately owned, of course.

Senator O'GORMAN. It is privately owned. It is to be controlled by the Government?

Senator BRISTOW. Oh, no.

Mr. PERKINS. I do not believe—it is simply my personal opinion—but I do not believe the banks would come into that system quickly. It might be that experience would show that it was a wise thing to do.

Senator BRISTOW. It would not disturb the present system so as to cause any apprehension as to any danger that might come.

Mr. PERKINS. No; but the trouble is that the present situation needs disturbing.

Senator BRISTOW. It does not need any disturbance if you create a means by which any bank can get relief when it needs it if it has the security?

Mr. PERKINS. No.

Senator BRISTOW. If it was a bank of issue, and the Government would discount the paper of any reputable banking institution when it needed the discount in order to get—

Mr. PERKINS (interposing). And carried its reserve there?

Senator BRISTOW. Yes.

Mr. PERKINS. Well, I do not know; that might work out. I think the banks of the country are above all desirous that when the system is put into effect that they have some voice, not a controlling voice—I do not think they want that—but that they have some voice in the management of the institution.

Senator BRISTOW. If they are compelled to subscribe their capital and put their money into it, I think there is no argument against the proposition. You can not justly force a man, or 100 men, to create an institution and then say to them that they shall put their money in it but have nothing whatever to do with its management. But if they are invited to go in, with the understanding that they do not have anything to do with it, and that they need not put their money in unless they want to, they could not have any complaint?

Mr. PERKINS. Not a bit.

Senator BRISTOW. We had a witness before us, and he was a banker, who thought that there would be a hundred million subscribed if 5

per cent dividends were provided within a short time; that a hundred million would be subscribed by the people, who would be eager to get that stock.

Mr. PERKINS. His guess would be just as good as mine. It is not a situation that has ever been put up to the bankers. I have never heard it discussed at any meeting.

We suggest that in all places where reserves, either for note issue or reserves for deposit in Federal reserve banks, are mentioned, that it be gold, and not gold, and lawful money. That is a question which I will not argue, but about which Mr. Treman has something to say. We also suggest—and this is the thing I spoke of before—that we should be derelict in our duty to our association if we did not make it strong that if this proposition goes through, that the banks be given a representation on the board that controls this great system.

Senator O'GORMAN. As to that, do you not think the banks will have their influence felt when they have an advisory board, which is provided for in this bill?

Mr. PERKINS. We suggest, Senator, that the advisory board be dropped, and that the banks be given a representation on the board. Then they are actual working members of this organization and have a standing.

Senator O'GORMAN. Now, suppose the banks had no representation on the board, and I think it is safe for you to assume that they will not—do you not think they would be anxious to have the advantages of this advisory council?

Mr. PERKINS. Undoubtedly, I think.

Senator O'GORMAN. Is that all you have?

Mr. PERKINS. No; there is one more thing. We recommend very strongly that the number of reserve banks be substantially reduced from 12, as provided in the bill now, believing that the essence of this whole movement is to unite the reserves of the country in as strong institutions as it is possible to make, and not to have any one or two or three that are very much weaker than those. There are an endless number of arguments for that which you have undoubtedly heard, but perhaps the strongest, and one that is least harped on, too, is the fact that we believe under this system, if this system is put into effect, there will grow up around these centers what is called in Europe open discount markets, or places where bank acceptances, notes, or bank acceptances and indorsements will be bought and sold in the open market. The advantage of those open discount markets can hardly be overestimated, because it makes a place where you can invest money well, and where you can liquidate money easily. It will take away absolutely the necessity for one of the worst features of the present system, that is, loaning money on call in Wall Street.

For instance, in Albany, if I have a sudden deposit of \$1,000,000 or \$2,000,000 that is liable to remain in my bank a week or a month, I can not go out and invest that in four or five or six months' paper. The only thing in the world I can do with that money and earn anything is to put it in New York on call loans, and I believe that is one of the worst features of the present system, and one that will be obviated if you have a few strong central points around which will grow up open discount markets. That is all I have to say, gentlemen. Mr. Treman will now speak to you.

Senator NELSON. I think you are just right on that subject. I am glad to hear you talk that way.

STATEMENT OF ROBERT TREMAN, OF ITHACA, N. Y., PRESIDENT OF THE TOMPKINS COUNTY NATIONAL BANK, ITHACA, N. Y., AND PRESIDENT OF THE NEW YORK STATE BANKERS' ASSOCIATION.

Senator O'GORMAN. Will you kindly give your name and address and banking connections?

Mr. TREMAN. Robert Treman; Ithaca, N. Y.; president of the Tompkins County National Bank, director of the Ithaca Trust Co., trustee of the Ithaca Savings Bank, and president of the New York State Bankers' Association; and, in a business way, I am president of the New York State Hardware Association, as I spend a part of my time in the hardware jobbing business.

I want to speak in reference to the gold reserve in these reserve banks only.

If there is any one thing that the bankers of the State of New York feel strongly about, so far as I have been able to get their expressions, they are united, I believe, in thinking that the reserve against deposits and the reserve against note issue in the Federal reserve banks should be in gold and gold only, and therefore the words "in lawful money" in two or three sections of this bill should be eliminated and the word "gold" should be the only one used. In other words, that should be the only kind of reserve for the Federal reserve bank.

The question naturally arises, first—

Senator POMERENE (interposing). You would limit that to the Federal reserve banks and not extend it to the reserves of the member banks?

Mr. TREMAN. No; just the Federal reserve banks. The reasons for that are two, in my judgment. You may ask why should it be done, and, second, how can the gold be provided with which to do it.

Now, so far as the reason for it is concerned, if there is anything that this bank is supposed to do it is to properly mobilize and protect the reserves. And those reserves should not be scattered in the 25,000 banks of the country, but should be mobilized in these field banks—I am speaking of the gold reserve—these few Federal reserve banks. We are entering upon a great foreign distribution of goods. Anyone who has traveled in countries aside from Continental Europe will be surprised to find, as the little traveling I have done has shown me, how we Americans are not occupying the foreign markets. When you go through Turkey, and especially Palestine, you find very frequent instances where the Germans and the Englishmen have gone in and their goods are sold out there. You would be surprised at the amount of German goods in the part of Palestine governed by Turkey.

I was in Venezuela and other South American countries this last winter and found upon inquiry that nearly all the goods there came from Germany or from Great Britain. You go into Cuba, and in all of these places you will find branch banks of English or German banks, or they have banking connections, so that they have ways of

paying the funds back and forth between these countries and the country from which they buy.

One of the provisions of this new reserve-bank proposition, as I understand it, is to offer better facilities for our foreign commerce and for the transfer of money back and forth in our foreign commerce. There is only one money that is recognized by those people, and that is gold. And it seems to me if you want to establish a new banking proposition which is to have strength, especially in foreign countries, it must have the reserve in the gold standard which they have, which all the leading civilized countries have. If this Federal bank is to prove what is expected of it, it has to be practically an anchor against any disturbance in this country caused by foreign obligations. For instance, if we had a condition in the last six months in which the demands to finance the war between Italy and Turkey and the war between the Balkan States and Turkey, and the war in the Balkan States has for six months or more disturbed our markets here, we must be in a condition in this banking proposition to protect the country against the withdrawal of gold which we do not want to go out from this country.

Now, those gold reserves should be concentrated in one place where they can be controlled and where currency can be issued against them.

One of the troubles in 1907 was that our banking credits had been extended and had been growing so much for two or three years previous to that time, and the large overexpansion of banking credits. You had at the time in the United States Treasury the largest aggregation of gold bullion and coin that was ever collected in any country, but you could not use it because it belonged to the owners of the gold certificates which were scattered all over the country.

Now, what you want is to have those reserves in a position where they can be utilized, not only to protect the paper issues, but also to protect the bank credits and to supply the currency and the credits also that is necessary in certain emergencies. It can be well asked how you are going to do this. If you will pardon me a moment, I will give you some figures in regard to the gold of the country. We have in round numbers 3,600 million of all kinds of lawful money in this country. Of that money 364 million is segregated in the Treasury. These are the figures of a year ago.

Now, we will assume that is out of circulation. Of the 3,200 millions that are practically in circulation, 1,500 millions are in the banks, reported to be in the banks, and the 1,700 millions remaining are scattered in commerce and in private banks. Of the 1,500 millions in the banks, \$882,000,000, practically a little less than \$900,000,000 of gold, was in the banks, in their vaults, either gold or gold certificates, against which there was bullion in the Treasury. Of the \$900,000,000 the national banks held \$600,000,000 of gold at that time.

What is going to be required to furnish gold for these reserves? You have got to protect the Government deposits up to 33 $\frac{1}{3}$ per cent of that. We will assume they will be \$200,000,000. That is what the House committee gave out. You will practically get from the member banks \$300,000,000, and you will have a total of deposits in the banks of substantially \$500,000,000, against which you must have \$167,000,000 of gold.

The next thing you are to provide for is a gold reserve for any of these Federal reserve bank notes. How much that will be no one can tell, but it is assumed it will not make any undue drain on your gold, because you will protect them by an equal amount of other assets, by the capital of your bank before you touch your gold, and it would seem to me it would be a proper way to maintain your notes that you issue by having the reserve entirely in gold and not in any promise to pay or any other form of lawful money, so called. If you provide that reserve in gold, you will, it seems to me, gain the confidence of the banks of the country in regard to the stability of those Federal reserve banks and you will gain the confidence of the business community, because they will feel that there is actual money in the vaults of those banks, and you will strengthen your position with the foreign people immeasurably over what it will be if you have gold or lawful money. They do not understand that. It does not seem to me that it is nearly so essential that you should have in your member banks so much gold in reserve, because if you establish this system your Federal reserve banks will become the father to the child all the time, and the child will be going to the father. That is the way it is in England. They do not carry any gold reserve to any amount. If they want any, they go to the Bank of England. If the gold is being withdrawn from the Bank of England, it raises its discount rate.

In 1907, when this country wanted gold, they called upon England, and the Bank of England had to furnish the gold that was brought over to this country, and within the period of two months between October and December the Bank of England supplied over \$100,000,000 of gold to this country. Their reserve at that time was only about \$150,000,000 of gold. You would ask why did that not weaken them? Because the man at the head of the Bank of England was a man trained in banking, and he watches these matters, and the moment there is any danger anywhere in the world they begin to hoist the flag of distress by raising the discount rate, and during this period their discount rate at that time was raised from $4\frac{1}{2}$ to 7 per cent, and the German banks, or rather the Reichsbank, raised their rate from $5\frac{1}{2}$ to $7\frac{1}{2}$ per cent. The Bank of France did not raise theirs quite as much. It went, I think, from $3\frac{1}{2}$ to $4\frac{1}{2}$ per cent within that time. Each one did that to draw gold from other countries to them by reason of the discount. What was the result? The Bank of England had some £30,000,000, or \$150,000,000 of gold, in their reserve at the time of the panic in this country in October. Notwithstanding the fact that they supplied \$100,000,000 of gold to this country, they landed on December 23 with £29,000,000, or about \$140,000,000, still in their reserves that they had drawn from other places.

Now, the banks of New York State, whatever the rest of the country may feel, feel strongly that in that need we should have a banking system so strong that it will provide for any unusual emergency, for the extension of bank credits, and for the protection of the paper currency of the country, and if you do that you will make a strong institution, and the small member banks will take care of their reserves.

I am a country banker. I listened to the remarks of some of the gentlemen who are in the same class as I am in regard to the change

in reserves and what effect it is going to have. I have heard a great deal of discussion about the unfairness of this new bill to the country bankers in compelling them to do so-and-so. Now, they refer to a bank of \$1,000,000 deposits. Under the present national-bank act we are required to keep \$150,000—15 per cent—reserve. Of that we must keep 6 per cent, or \$90,000 in our vaults. Nine per cent can be in a bank in New York, Albany, or some other place, wherever we choose to put it so long as it is a reserve bank. We have been getting 2 per cent on that \$90,000; that is, \$1,800 a year, if I am not mistaken.

Now, under this new proposition you release 3 per cent, or \$30,000. That become the property of the bank to be used for loaning or in any way they care to invest it, in bonds or otherwise. I submit that at the present time they can not earn 6 per cent on that money and make the \$1,800, so that although the banker is compelled to put his money in the Federal reserve bank without interest, still, with the lowering of the reserve, he does not suffer a great deal, and it does not seem to me it works a great hardship to our bank.

Now, we recognize in New York that some conditions are very different, as Mr. Perkins has said. The rediscount system is not in vogue to a great extent with the New York State national banks, because they have been educated to believe they ought to take care of themselves and not discount their paper. Under this system I think there will be a change of sentiment, and we undoubtedly will go to our Federal reserve bank and feel that it is perfectly justifiable, it is honorable, and not a sign of weakness—

Senator POMERENE (interposing). And in every case it is regarded as perfectly legitimate and good banking.

Mr. TREMAN. The bank I have been connected with as president for 10 years never has rediscounted up to the present time, to my knowledge. We buy bonds when we are flush, and carry them along. If we are in trouble we may send them to the New York bank and say, "If we should overdraw any day you have those bonds as protection." But we try to avoid that, and those bonds have lain there a good many years. We also have the opportunity to sell our bonds in the open market at a slight loss, which is compensated for.

So I could not agree personally with the feeling that you are treating these small country banks wrong in compelling them to go into the Federal reserve bank. I feel strongly that what we need in this country is just such a central organization, composed of two, three, five, or seven units, or something like that. Personally I would make them as small as possible. I would have a few banks and then let them have different branches in the various places that are convenient.

Senator POMERENE. You mean to make the number of banks small?

Mr. TREMAN. Yes; 4, 5, or 6, instead of 12 as your bill provides. And it seems to me that by establishing the banks around you can make points of convenience for these men who have felt that the reserve bank was going to be so far off they would never get into touch with it. You have the power to provide for branch banks in those places, and make your connection in that way, and it certainly will result in your having greater control in times of emergency if you only have a few banks that will work together, and there is apt to be less friction than by having a large number.

Senator NELSON. There is one point I should like to ask you about; you did not make it quite as clear as I should like. I agree with you it ought to be a gold reserve, but how is a gold reserve to be provided for these regional banks in the first instance?

Mr. TREMAN. If you left it to me I should have every member bank that subscribes pay for its stock in that bank in gold to start with. You give to your Federal reserve bank the right to purchase gold bullion in the market if they want to, but I want to point out that under your plan of reducing the reserves in cash in the central reserve city from 25 to 18, and in the reserve from $12\frac{1}{2}$ to 9, and in the country bank from 6 to 5, you are going to realize from \$230,000,000 to \$250,000,000 cash. That all could be paid over, but you do not need it. If the deposits are not more than they are estimated—\$550,000,000—you only need about \$150,000,000 to \$175,000,000 in gold. If you will make them pay their stock in gold you will start with about \$100,000,000, and the rest can be accumulated in such a way as a bank may prefer to get the gold out of its own vaults into the other.

Senator NELSON. This has occurred to me as a defect in the bill. It did not provide in the first instance how this gold reserve should be acquired. There was no provision in the bill for that 33 per cent gold reserve, and it seemed to me—but I did not dare suggest it before, and I am glad you have suggested it—that the only way we could get it in the first instance would be to make these stock subscriptions at the outset in cash.

Mr. TREMAN. Take our case. We have \$100,000 and \$150,000 surplus. We pay 10 per cent for our stock—

Senator NELSON (interposing). The last bank statement we have here, if my recollection is good, discloses that the national banks have something over \$750,000,000 in gold at this time.

Mr. TREMAN. I have not seen the last statement. The last I have is June, 1912, and there were \$882,000,000 of gold in the banks, of which the national banks had about \$600,000,000.

Senator NELSON. I think the last statement discloses a little over \$700,000,000.

Senator O'GORMAN. Mr. Treman, you and Mr. Perkins were at the convention in Boston?

Mr. TREMAN. Yes, sir; I was there for only a day or a day and a half.

Senator O'GORMAN. Did you participate in the deliberations of the convention?

Mr. TREMAN. Yes, sir; to some extent. I found they were getting into what seemed to me a rather acrimonious debate, and it was after lunch time, and I arose, went to the platform, and suggested that they adjourn for lunch. They did so, and came back and apparently after the luncheon they felt better.

Senator O'GORMAN. Do you approve of the recommendations made by the convention regarding the changes that ought to be made in this bill?

Mr. TREMAN. The recommendation of the American Bankers' Association?

Senator O'GORMAN. Yes.

Mr. TREMAN. I could not personally agree with all of them, sir. I think, in the main, they are correct. They were contending for a

principle, and I did not feel it was wise to take issue on one or two things that I might differ on. The important thing is to get a reserve bank of some kind, or a central bank organization started that will relieve these difficulties as soon as possible; because this country, in my judgment, is on the eve of a great advance. You have wiped out apparently the tariff agitation for a while—

Senator O'GORMAN (interposing). We hope for a long while.

Mr. TREMAN. And if you can settle this currency bill and get it out of the way it seems to me we have a great opportunity, and what I am anxious to see as an individual is a proper banking and currency bill just as soon as possible.

Senator O'GORMAN. Do you recall which of the recommendations made by the convention you disagreed with? It was stated yesterday, I think, Mr. Treman, that the only person who opposed them was Mr. Scudder. Is that correct?

Mr. TREMAN. He was the only man on the floor that I saw that voted against the bill. There were some who did not vote for it.

Senator O'GORMAN. What bank did he represent?

Mr. TREMAN. I think it is the Richmond Savings & Deposit Co., if I remember correctly.

Senator O'GORMAN. You know Mr. Scudder, do you?

Mr. TREMAN. I saw him; I do not know him personally.

Senator O'GORMAN. What is his position?

Mr. TREMAN. I think he is vice president.

Senator O'GORMAN. Who is president?

Mr. TREMAN. I think it is John Skelton Williams, if I am not mistaken.

Senator O'GORMAN. Coming back to the previous question, which of those recommendations do you find fault with?

Mr. TREMAN. Which would I change, for instance?

Senator O'GORMAN. Yes.

Mr. TREMAN. You have asked me quite a question, Senator. There are two questions; one is the recommendations of the American Bankers' Association.

Senator O'GORMAN. I am speaking of the recommendations made by this Boston convention which were presented here yesterday.

Mr. TREMAN. Oh, I did not understand your question.

Senator O'GORMAN. Have those recommendations made by the country bankers met your approval?

Mr. TREMAN. Not entirely so. I should agree with them on the question of leaving out of the bill the savings bank proposition. Now, of course, in New York State we have not the condition they have in the South. We have savings banks that are segregated under State laws, and it is an entirely different proposition, but it seems to me it has no place in this fundamental banking law of the country at the present time.

I should not agree entirely with their recommendation—I am speaking merely for myself.

Senator O'GORMAN. I so understand.

Mr. TREMAN. I should not agree entirely with their recommendation about the reserves, because it does not seem to me it is working any great hardship at the present time; for instance, with our bank, for which alone I am speaking. In this bill you reduce the reserves from 15 to 12 per cent. Now, we probably will do business with

some bank in some other city besides the Federal reserve bank, but I think we can do it without any loss of profit more than we are having at the present time and still make our connection with the Federal bank.

Senator BRISTOW. The ability of one bank in that respect depends somewhat upon its locality and environment, would it not?

Mr. TREMAN. Entirely so, in this way: Take a small country bank in Gloversville in our State, where you have certain conditions. They might have every dollar of their deposits that they were legally allowed to loan out in local loans to manufacturers. It is a manufacturing center, and they probably would want to rediscount it. With us it is entirely different. We have not local demand enough, so that at times we buy bonds, or we buy commercial paper outside through note brokers.

Senator BRISTOW. I think that is all.

**STATEMENT OF F. S. LARRABEE, FARMERS' NATIONAL BANK,
STAFFORD, KANS.**

Senator BRISTOW. Mr. Larrabee, what is the capital stock of your bank?

Mr. LARRABEE. \$25,000.

Senator BRISTOW. What are its deposits?

Mr. LARRABEE. \$500,000. I am also director in 6 State banks, and stockholder in 11, and director of the Larrabee Flour Mills Co.

Senator BRISTOW. So you appear as a banker and business man?

Mr. LARRABEE. More as a business man, I think, than as a banker.

I come before the committee with some diffidence. I have not any figures; I have not come from Boston. I came direct from Kansas at the request of some of the Senators. I will tell you in advance that the small country banker, such as I am, is not interested so much in the organization as in the operation of the bill. With us, and with me particularly, the only thing I need from an institution of this kind is rediscounting at certain times of the year, and I should have that without limit if it is to be of any benefit to me.

In our wheat-moving period we use enormous amounts of money, and our present source of supply is our corresponding banks in the reserve cities. They lend to us without limit. I have been a banker for 27 years and I have never had a discount refused by a corresponding bank. I have always leaned on them, and they have been good leaning. Of course, in that situation I naturally hesitate about changing my credits without knowing just what I am going to get in return.

Senator BRISTOW. You have a bank of \$25,000 capital? What is its surplus?

Mr. LARRABEE. \$25,000.

Senator BRISTOW. And its deposits \$500,000?

Mr. LARRABEE. Yes, sir.

Senator BRISTOW. What is the population of Stafford?

Mr. LARRABEE. Two thousand.

Senator REED. Senator, can you pause long enough for me to call the attention of the committee to this statement in the Washington Evening Star:

The committee, it was learned this afternoon, will insist upon H. Parker Willis appearing before it to discuss the bill. Mr. Willis, who is news editor

of the New York Journal of Commerce, was the expert who aided the House committee in framing the bill.

I make no complaint of that statement, but this follows:

Members of the Senate committee expect to learn from Mr. Willis just what parts of the bill President Wilson is responsible for, and also what part Secretary of State Bryan had in framing the House bill.

I have never heard such a suggestion made by a member of this committee. I do not believe anybody else ever heard that suggestion made by a member of the committee.

Senator BRISTOW. I do not either. I do not think it ever entered the mind of a member of the committee.

Senator REED. I do not believe the author of that article ever heard anybody make that suggestion except himself.

Senator BRISTOW. Mr. Larrabee has to leave, and I am rather anxious for the committee to hear him. We can discuss this later.

Senator REED. I just wanted to call the attention of the committee to it now, because my eye just caught it. Such impressions as that ought not to be sent out by anybody.

Senator BRISTOW. Now, Mr. Larrabee, as I understand, you are more interested in your ability to get rediscounts. Now, what amount do you rediscount?

Mr. LARRABEE. Various amounts. The largest amount I have ever rediscounted in any one wheat-moving period has been \$100,000.

Senator BRISTOW. How do you get those rediscounts?

Mr. LARRABEE. I send my paper to New York, St. Louis, or Kansas City, wherever I think I can get the better rate, or wherever I have a line of credit available.

Senator NELSON. Do you sell your paper, or do you give your note and put up the paper as collateral?

Mr. LARRABEE. Understand; Senator, that under the existing banking laws a national bank is limited to the amount of its capital stock. I borrow to the amount of my capital stock, and then I give my personal note or the note of my directors for what more money I may need.

Senator NELSON. It is the note of the bank or yourself in any event?

Mr. LARRABEE. Yes.

Senator NELSON. And you put up this commercial paper as collateral?

Mr. LARRABEE. Not when I give my own note.

Senator NELSON. But when you give the bank's note?

Mr. LARRABEE. When I give the bank's note; I attach to it an account of my bills receivable. That happens with me only once a year, and I need that money only 30 or 60 days, because I soon get it back and in large amounts. At times of the year I am in the market for commercial paper myself.

Senator BRISTOW. Do you have an apprehension that you could not get these accommodations—

Mr. LARRABEE (interposing). I have the apprehension this far, Senator, that I feel like waiting. The bill puts the State banks into better shape than it does the national banks. If I were a State bank I could wait one, two, or three years, have my resources and lines of credit open, and at the end of that time if I saw it would be of

advantage I could come in. But as a national bank I am compelled to go in or go out of business, or else take out a State charter. And I can not say that I will protect my bonds by staying in the Federal system. The statement was made here that the bonds would be protected, but I can not see it. The bonds may go to 80 cents, and if I were to stay in the system I can not see but what I would have to put up enough money to make them worth par to protect my circulation.

Senator BRISTOW. Suppose you asked for a rediscount from the Federal reserve bank and it was refused?

Mr. LARRABEE. If I had done my business with the reserve bank and had lost my lines of credit with my corresponding bank I would be in bad shape—absolutely bad shape. And the line of credit granted to a country bank is dependent upon the deposits that it keeps with its corresponding banks.

Senator BRISTOW. What reserve do you keep?

Mr. LARRABEE. Twenty-five to thirty per cent.

Senator BRISTOW. Of your \$500,000?

Mr. LARRABEE. Yes, sir.

Senator BRISTOW. Where do you keep it?

Mr. LARRABEE. Well, at the end of some days the bulk is in Kansas City, and at the end of the next day the bulk may be in New York. I switch it around, depending on my exchange requirements.

Senator BRISTOW. That is, you leave 9 per cent of your reserve or more in the reserve cities?

Mr. LARRABEE. Oh, yes; my cash requirements are not heavy. I keep 6, 7, or 8 per cent in cash.

Senator BRISTOW. Now, in your business you may check out all of the money you have in Kansas City on one day?

Mr. LARRABEE. Practically all of it; it might happen that way.

Senator BRISTOW. But still your reserve in St. Louis or New York—

Mr. LARRABEE (interposing). I may get heavy exchanges or drafts deposited with me on St. Louis, which I send direct there, and I may draw pretty nearly all my balance in Kansas City. The next day it may be reversed.

Senator BRISTOW. And you draw your balance out in New York and have your reserve in Kansas City?

Mr. LARRABEE. Of course, those are extreme cases. It might not happen that way from day to day, but it might happen from one week to another.

Senator BRISTOW. So that while it is 9 per cent that you are permitted to keep with your reserve agents, it is—

Mr. LARRABEE (interposing). Flexible.

Senator BRISTOW. And it is useful?

Mr. LARRABEE. Yes; I do not have to keep it with any particular reserve agent.

Senator BRISTOW. Would you feel justified in coming into this system if the bill should pass?

Mr. LARRABEE. I do not think so. If I surrendered my national charter and took out a State charter, I might take advantage later on of the privilege of coming in if I thought it would prove useful and beneficial. Under the State charter, under the laws of my State,

I have many advantages I do not have under a Federal charter. I can loan on real estate; my loan limit is larger, which is an advantage sometimes, and the State law offers us some advantages that we do not get under the national-bank charters.

Senator BRISTOW. In what way would your milling company be affected by legislation of this kind?

Mr. LARRABEE. You know, Senator, within the last 20 years there have grown up among us aggregations of business. Twenty years ago our milling company made 100 barrels of flour daily. To-day we are the second largest milling concern in the Southwest, making over 3,000 barrels of flour daily. At certain times of the year we use enormous amounts of money, and we go into the open market and borrow money. None of our banks could take care of us.

Senator NELSON. You get it through note brokers?

Mr. LARRABEE. Through note brokers. We are fearful that when the City National, for instance, have to turn over \$50,000 of their deposits to the Federal reserve bank, and the banks in the reserve cities have to do that, they will restrict their operations in the open market, and we will be unable to secure funds to operate our milling company, because they will not buy our paper just for the privilege of rediscounting it with the Federal reserve bank. No bank is going to loan money to outside interests simply for the privilege of reselling their paper. If we were a customer they might do it to a limited extent to accommodate us.

Senator REED. Are you not mistaken about that Mr. Larrabee? If you do business with a bank right along, and you need some more money and would put up your notes, the bank would go down and get the currency for you.

Mr. LARRABEE. They would do that, Senator—the bank I was doing business with. But this summer, in the face of an unfriendly money market, we borrowed a half million dollars for our milling operations. None of our banks nor all of the banks combined would borrow that amount of money for us.

Senator REED. You are doing business now with how many banks?

Mr. LARRABEE. Two.

Senator REED. Now, suppose your two banks, knowing you were running a safe and sound business there, entitling you to credit—and you must be entitled to credit or you could not get the accommodation—and desiring to accommodate you, one of the members of this system, they could take your paper—

Mr. LARRABEE (interposing). But remember, Senator—pardon me for interrupting—but remember they are limited as to the amount they can loan us to 10 per cent of their capital and surplus.

Senator REED. They are not limited to it under this bill.

Mr. LARRABEE. They are not limited to the amount of my paper, like myself, but they are limited as to the amount of loans they can make to us to 10 per cent of their capital and surplus.

Senator REED. This bill is not written yet.

Mr. LARRABEE. I am taking the bill as it stands.

Senator REED. If that limitation were taken off as to the amount they could lend you, leaving it to the directors of the Federal reserve bank, so that they could accept paper in excess of 10 per cent, then do you not think those banks, in order to handle your business and see-

ing some profit in the handling of it, would willingly take your paper to the Federal reserve bank and obtain money upon it, even if there had to be money issued? Now, Mr. Larrabee, what this committee is trying to get is the frank and honest opinion of witnesses with reference to the virtues as well as the defects of this bill; and when I ask this question I find all witnesses a little inclined to maintain their position, and, of course, they ought to, if it is correct. And, directing your thought to this particular matter now, do you not think it would be a great convenience and help to you?

Mr. LARRABEE. Well, Senator, let me explain a little further. We do business with one bank that has \$100,000 capital. Do you think that bank would be justified in taking half of our requirements—a half million dollars? Do you think it would be safe to permit them to do it for the privilege of rediscounting our paper?

Senator REED. Possibly not—

Mr. LARRABEE (interposing). So we are glad to go into the open market for a certain part of our funds.

Senator REED. Let us see about the effect on the open market under this bill. Would there not be a better market for your paper if not only the bank you ordinarily do business with, but any bank purchasing that paper, knew it could at once turn it into money, if necessary, and at a reasonable rate, at the regional bank?

Mr. LARRABEE. Of course, it is difficult to tell in advance what will be the result of the operations of this bill. But I estimate it in this way—

Senator REED (interposing). Leaving you at the same time every resource you now have.

Mr. LARRABEE. You understand that banks, when they go into the market for commercial paper from brokers when they have surplus, do not go in and buy paper to resell; they won't do that. Now, if these large reserve banks have to deposit a large amount of paper and decrease their loans to get money to put into the regional reserve bank, our class of business is the first business they cut out.

Senator NELSON. It is the floating business.

Mr. LARRABEE. Yes; they cut that out.

Senator REED. Now, Mr. Larrabee, of course a bank would not perhaps buy your paper in the market with the purpose in mind at that time of taking it and certainly rediscounting it; but, as this bill offers to every member bank that becomes a member the facility to rediscount if it becomes at all necessary, do you not think that would loosen up the market for your paper just to the extent that this system adds to the present facilities of the market?

Mr. LARRABEE. That has not been my opinion, Senator.

Senator REED. I wish you would tell me why that would not be the inevitable result. To-day you have all the banks of the country to sell your paper to. Now, a new system is created which does two things—well, it would be better to state it as one proposition. It affords a new place in which that commercial paper that is prime and good can be at once rediscounted by any bank. Is not that an additional advantage to that which you now have?

Mr. LARRABEE. I do not think you get my point in that, that banks only go in the open market when they have a surplus of funds. And they will take care of their own customers, but in buying commercial paper—that is, when they have loose funds—

Senator REED (interposing). They will have the loose funds after this system is created, won't they?

Mr. LARRABEE. I have taken the statements of the men who have been before you from the reserve centers that their funds will be decreased.

Senator REED. But they all say they will be decreased at first; that is, there will be a transitory period, but nearly all of them say there is danger under this bill that there will be an inflation afterwards.

Mr. LARRABEE. I would not agree with them.

Senator NELSON. As I understand Mr. Larrabee, his demands during certain seasons, his requirement for loans is so big that no one bank can make him a loan. No one regional bank could do it.

Mr. LARRABEE. I do not know what their limitations are. My idea was that no single bank where we kept an account would buy our paper to rediscount it.

Senator NELSON. And his further theory is he would have to go to a number of banks to get his accommodations, and that no bank would buy his paper for the sake of rediscounting it with the regional bank.

Mr. LARRABEE. That is the theory.

Senator REED. It seems to me that criticism is based on the idea that the regional bank absorbs the funds of the country, so there are no surplus funds left, whereas the regional bank is expected to be in a position to supply an almost unlimited amount of funds as long as there is a good piece of paper back of it.

Senator BRISTOW. Now, Senator, I do not think you get Mr. Larrabee's point. Mr. Larrabee is from a little town out in western Kansas of 2,000 people. He has a bank of \$25,000 capital. He demands there in his milling business as much as a half million dollars. This year he borrowed a half million dollars.

Senator REED. I understand.

Senator BRISTOW. And there is no bank he can go to and borrow that money from that would be justified in loaning him that amount, that could go and get it rediscounted? As it is now, he has his connections, and he has no trouble, but here the rediscounting is only permitted by this regional bank. His present facilities would be curtailed, and he does not see how any bank could rediscount for him and then rediscount at the regional bank.

Senator REED. I do not understand that. He has his present relations and arrangements made now to take care of this. I do not understand, and I wish you would tell me, why this bill destroys those connections which he now has.

Mr. LARRABEE. Let me go a little further. Suppose you had a panic like that in 1907 going on and I had paper maturing. The only way my milling company can get money from the regional reserve banks is from some member bank. These member banks, with my paper coming out, they are not going to take any more time paper to accommodate me, unless I am a customer of theirs; and if I am not a customer of theirs, they are not going to handle that paper; and so, when that matures they are going to get out from under their undertakings just as soon as they can.

Senator REED. Why are they going to get out from under your undertakings when they could take your paper and everybody else's

paper and go over to the regional bank and get all the cash they needed?

Mr. LARRABEE. I do not know. I have been a banker for 27 years, and I have never bought paper when I knew I would have to sell immediately. In time of a panic, if my paper matures, I have got to liquidate my business. I will take, as an illustration, the bank at Shreveport, La. That paper matures in November. In November a panic is on. I do not know the bank at Shreveport has my paper until it matures. When that paper matures they are going to ask me to pay, because they are not going to take a chance in a panic of my failing and leaving them to pay that paper to the Federal reserve bank. And so I have got to liquidate.

Senator REED. You have got to do that now, and now if there is a panic on that bank in Shreveport would not help you and no other bank would help you. All the banks are in trouble now. Now, do you think it puts you in a worse condition if there is a place where all of the member banks, say seven or eight thousand banks, in this country can go and turn over paper which they take in, intending to rediscount, and that they now will rediscount, if an emergency has arisen, and it is in funds and the whole situation of the country will be relieved—do you think that that puts you in worse condition?

Mr. LARRABEE. Senator, I am not complaining of the bill on that account, but I think that the section looking to open market operations should be changed.

Senator REED. In what respect?

Mr. LARRABEE. I think at times they should be allowed to go in the open market and buy paper—the regional bank; such times as that, for instance.

Senator REED. Do you think the section ought to be enlarged?

Mr. LARRABEE. I think so, yes. Of course, I admit it is a difficult thing to do. Here you have the monied banks who are in the market for that paper. At times you are in the market as their competitors.

Senator REED. If competition is the spice of trade, would it injure the business of this country if one of those banks occasionally bought some paper?

Mr. LARRABEE. No, sir; I think it would be a benefit to the business of the country. I think that should be enlarged so as to permit their open market operations to be more extended. I am not complaining of the bill on that account, but telling you how it would operate.

Senator REED. You think the bill is a good thing, if it had some changes?

Mr. LARRABEE. If it had some changes, although I would not say I would put my bank into it. Of course, a bank is naturally conservative, and I would like to see how it operates.

Senator REED. You would like somebody else to take all the chances?

Mr. LARRABEE. Yes; I would like somebody else to try it.

Senator REED. Will you tell us, now, how we can get up a system and start it when all of the banks are in the same frame of mind you are—want somebody else to take the first step?

Mr. LARRABEE. No.

Senator REED. Yet you realize the necessity of something being done?

Mr. LARRABEE. Yes; I believe the ultimate result will be the Government doing the banking of the country, and we fellows will be out of business.

Senator REED. The Government running all the banks?

Mr. LARRABEE. Yes, sir; doing the banking business of the country.

Senator REED. I do not think that follows.

Senator BRISTOW. Have you had any trouble in the past in handling your credits?

Mr. LARRABEE. Never. In every panic I have been able to borrow money if I wanted it.

Senator BRISTOW. In 1907?

Mr. LARRABEE. In 1907. I did borrow money in New York.

Senator O'GORMAN. Did you ever have any trouble in getting money in New York?

Mr. LARRABEE. No, not in borrowing credits. I got credit there, but I could not get the currency. The fact was, I wanted credit. I was lacking New York exchange, and I had paper coming due in New York, and I rediscounted that just to get New York exchange. You will remember, in spite of what we are told, we depleted our balances in New York. Exchange was selling in the West from \$6 to \$8 a thousand on New York, which was evidence we had no money in New York.

Senator O'GORMAN. I am very glad to have you state that, and I think that what you now state was pretty generally known, although I was surprised during the day to hear my good friend, Senator Nelson, ask if all of the reserves were tied up in New York.

Mr. LARRABEE. If I had had New York exchange I would have been glad to have sold it at \$6 to \$8 a thousand.

Senator REED. I think if we do not do something here pretty soon, Senator O'Gorman is going to demonstrate that Kansas started this panic instead of New York.

Senator NELSON. Maybe you did not have much on deposit to draw from.

Mr. LARRABEE. I know, but if other banks in my section had had it they would have been glad to have sold it to me. New York exchange on Kansas City was selling at from \$6 to \$8 a thousand.

Senator WEEKS. It is your judgment, then, Mr. Larrabee, that the New York banks did all they could in the panic of 1907?

Mr. LARRABEE. I think so, and in the panic of 1893. I was in the banking business then. I borrowed money in New York. Of course I never overstrained my credit; I never asked for anything unreasonable. I have been in the banking business for 27 years, and I have never had a loan refused me.

Senator WEEKS. I want to congratulate you on your credit, for I could not borrow money in New York.

Senator BRISTOW. I am sorry we can not have more time with Mr. Larrabee, because I think he is a unique witness, living in a little town, which is one of the largest milling towns in the United States.

Mr. LARRABEE. In explanation of my theory that the Government would be in the banking business, I wish to say, to use a concrete illustration, for instance, John Smith has been giving checks all morning, we ought to let him borrow a little money now. He comes to my bank and wants to borrow \$2,000 or \$3,000. His credit is good. I take his note and he pays 6 to 8 per cent, whatever the rate is. I

take his note down to St. Louis and sell it for 3. That note comes back, and he knows the note has been down there, and he knows what the Government rate is. He is going to figure, Why could not the Government loan me that money direct; why is it necessary to have a bank come between me and the Government? And if he does not think of it somebody else will, and they will tell him about it, and your political platforms will be drafted to loan to the people direct, and the first thing you know you will be in the banking business.

Senator WEEKS. You do not think that would be a good thing?

Mr. LARRABEE. I am not sure but what it would be a good thing.

Senator REED. Then you are not sure you object to this bill on that ground?

Mr. LARRABEE. Oh, no; I am not objecting to it.

Senator O'GORMAN. You think the bill has some good features?

Mr. LARRABEE. Yes; many good features. Of course the operation is the main thing. If I can go to a regional bank and discount \$100,000 in time of need, at the time my crop is moving, it answers my needs entirely. But until I know I can do this I do not like to cast off anchors I have in other directions.

Senator REED. Would you have this system run by the banks or by the Government?

Mr. LARRABEE. As I told you, I have not considered that we little fellows would be concerned in the organization, because we would not have any voice in any way.

Senator REED. You have a vote.

Mr. LARRABEE. It would be so little.

Senator REED. Are you under the impression that somehow or other the little banks are not going to be directors in these regional banks?

Mr. LARRABEE. I did not understand that if there are any directors appointed here in Washington on the reserve board that we little fellows would be among them. They would be some bankers of prominence, of wide observation. I do not know that we would be competent to sit here and talk about gold reserves. This gentleman who talked about gold reserves—I did not understand him.

Senator REED. But you expect your Senator to understand it without hearing about it.

Senator BRISTOW. Mr. Larrabee, I am very much interested, although I have known you for a good many years, in some of your statements. You say that the farmer out there in Stafford County, if he wants \$6,000 or \$7,000, and you loan it to him, you charge him 6 or 7 per cent, and you rediscount that note, and we will say that the Government rate is three for these rediscounts; and he will say, "Now, why should I pay Mr. Larrabee 4 per cent? Why should the Government let Mr. Larrabee have that money, and let him charge me 7 per cent, while he is only paying 3," and he would not stand for that?

Mr. LARRABEE. No.

Senator BRISTOW. In your judgment?

Mr. LARRABEE. No.

Senator BRISTOW. If he could help it.

Mr. LARRABEE. No.

Senator BRISTOW. Do you think he would make a fuss about it?

Mr. LARRABEE. You bet he would.

Senator REED. Why shouldn't he?

Mr. LARRABEE. I do not know why he should not.

Senator REED. Why should you charge him such an extortionate rate, if you could get the money for him for 3?

Mr. LARRABEE. Of course, those are current rates now. This new bill may make a cheaper rate and he may get it for 5. But he would kick on giving me 2 per cent profit.

Senator REED. But he could not get his paper discounted without your indorsement.

Mr. LARRABEE. No; but he does not think so. He will say, "Mr. Larrabee would not get it without my note."

Senator O'GORMAN. He might remember, Mr. Larrabee, or if he did not you could recall it to him, that your capital was deposited to help create this fund.

Mr. LARRABEE. Of course there is an argument, but there is going to be a row about it. [Laughter.]

Senator BRISTOW. Mr. Larrabee, you are selling to-day \$1,000,000 worth of credits, your milling company is. Now, does it naturally come to your mind why this Government could not discount your paper direct?

Mr. LARRABEE. No; that is what I am kicking for here.

Senator BRISTOW. You do not want to have to go to a bank and pay 2 per cent more than the bank does?

Mr. LARRABEE. My business, I am not particular about that. What I want is to sell my paper at the going rate. If it is 6 per cent or 4 per cent I want it; what I want is to get funds in my time of need. I would just as soon pay the bank; I would not quarrel about that, if I could get funds through the bank.

Senator NELSON. What you want is currency.

Mr. LARRABEE. That is what I want—money.

Senator BRISTOW (interposing). What you are afraid of is the disturbance in that kind of a system?

Mr. LARRABEE. Yes; I am afraid of the restriction of credits, as long as this bank is permitted to engage in open market operations.

Senator BRISTOW. You went out there 25 years ago?

Mr. LARRABEE. Twenty-seven years ago I went to Kansas from New York State.

Senator BRISTOW. And did establish a bank?

Mr. LARRABEE. The first month I was there, and when there were no banking laws in Kansas. All that was required of a bank was to acquire a safe of sufficient size to put confidence in the public and to hang out a shingle. Many people did that and made good. Two or three went there and opened banks and bought their safes on credit and gave a chattel mortgage for them.

Senator REED. And then made money and made good bankers?

Mr. LARRABEE. Some of them have failed, of course.

Senator O'GORMAN. Is the banking business profitable in your State?

Mr. LARRABEE. It is exceedingly profitable now, Senator.

Senator O'GORMAN. What dividend is your bank paying?

Mr. LARRABEE. I will tell you what it earned. We have paid two 8 per cent dividends so far this year. Last year we earned 65 per cent.

Senator O'GORMAN. What part of the State do you do business in?

Mr. LARRABEE. In the rich part, the wheat belt. But that needs explanation, Senator. I have been there 27 years. I could do business in that town without capital. My capital is only \$25,000, and we have \$1,000,000 of deposits. The people do not ask what the capital is. It is just Larrabee's bank. Nobody else could go there and duplicate that without 27 years' record behind them. I think I have the most profitable bank in the State of Kansas, and it has been hard work that has done it, and not the capital.

Senator BRISTOW. There is one other witness—Mr. Moses—that I would like to have heard this afternoon.

STATEMENT OF E. R. MOSES, PRESIDENT OF THE CITIZENS' NATIONAL BANK, GREAT BEND, KANS.

Mr. MOSES. I am president of the Citizens' National Bank of Great Bend, Kans., and president of two State banks. I am also president of a mercantile company.

Senator BRISTOW. Mr. Moses, you are engaged in the banking business and the mercantile business?

Mr. MOSES. Yes.

Senator BRISTOW. Tell us what you think about this bill; how it will affect your business.

Mr. MOSES. Well, it is only apprehensive. We do not know whether we are going to have the regional bank and get loans as easy and with as much facility as we are doing now. For instance, I can send my note down with one or two of my directors on it, if I want money, for \$40,000 or \$50,000 and get it immediately, or telegraph for it. Now, if I have my reserve of 9 per cent in one bank and one of the cities I do business with is required to take 5 per cent out, say \$20,000 out of \$36,000 reserve, that leaves \$16,000 to my credit with the bank. My financial standing with that bank is injured to that extent; my loaning capacity is cut down one-half or more. Now, you take the capital I would have to put in of \$5,000 and the \$20,000 reserve, and I am still injured that much more, because I can go to the banks I have my deposits with there in the West—in Kansas City or in Wichita or Pueblo—and get immediately, by mail or upon a telegram, upon notes sent in by myself and directors, any amount of money I want that is reasonable.

Again, if there is a segregation in the savings bank of my time deposits, I could not begin to accommodate the commercial business of my section of the country this year, because of a crop failure coming there, which has taken all of the money that would be available to accommodate the farmers in putting in their crops and buying cattle or cows, and a good many of them are going more into that business, in which we have to help them out, and it would not aid me in anywise whatever with the State banks there, because if I should make a statement that the capital of my national bank is down to \$125,000, they would soon know, immediately. We have to look after business, because the business line is drawn very closely in the western country.

Senator BRISTOW. What per cent of your deposits are in these time certificates?

Mr. MOSES. They run from \$360,000 to \$410,000.

Senator BRISTOW. Upon which you pay interest—your savings deposits?

Mr. MOSES. No; the savings deposits run about \$125,000.

Senator BRISTOW. And you are apprehensive as to whether you could get the credit you can get now, when you need it, in crop-moving times?

Mr. MOSES. Yes, sir.

Senator BRISTOW. With the facilities from your present correspondent?

Mr. MOSES. Yes.

Senator BRISTOW. Would it be a great hardship upon you to go from the national banking system into the State banking system?

Mr. MOSES. It would not if they would make the bonds at par. We could very readily go into it, if they would not let us lose anything.

Senator BRISTOW. In your judgment, would it be to the best interests of your bank to remain as a national bank or go into the State banking system under the State law?

Mr. MOSES. I would prefer staying in the national-bank business, if they would give me time to see the operation of the business. I think a great many others—before I came here quite a number of bankers said if they would just let us stay in until we can see the operation of the law—apparently it will be so amended from time to time that it would be of benefit for us to come in—than what it is at the present time—and we would prefer that. If not, let us get out with our bonds at par. We have, understand, over 1,050 State banks in Kansas, and out of the 1,050 only 250 national banks. Out of 14 banks in my county there are only 3 national banks. So you can see how the State banks and national banks run. The national banks, while we think we have a little prestige over the State banks, yet the State banks are accumulating all the time, and I do not know but what it is good, because every little hamlet where there is a blacksmith shop or an elevator there is a bank coming in.

Senator BRISTOW. You think that is a good thing for a community?

Mr. MOSES. It is; yes.

Senator BRISTOW. That brings the money into activity more than if it was not there?

Mr. MOSES. Yes; it is really needed. The farmers in that country at certain seasons have need for that money at the crop-moving time, and especially when crops are not good. This year they need more money.

Senator BRISTOW. What change do you need in the banking laws of the country or in the currency?

Mr. MOSES. I do not think there is anything needed in the banking laws of the country, except that the larger banks of this country go and get currency when they need it. Country banks do not produce panics. They have plenty of money in the East. We had \$140,000 in one place. If we could have gotten hold of one-half of it—

Senator NELSON (interposing). Where was that money?

Mr. MOSES. In the reserve banks.

Senator NELSON. Where?

Mr. MOSES. In Kansas City and New York.

Senator NELSON. You could not get it?

Mr. MOSES. We got all we needed in the main.

You realize—this gentleman from Albany stated he had \$9,000,000 of bank deposits, and the banks borrowed only \$500,000 of it—you can realize from that how that money piles up, and they have got to do something.

Senator BRISTOW. What do you think about loans on real estate?

Mr. MOSES. That is one advantage that the State bank has over us now in the State of Kansas.

Senator BRISTOW. You use your bank money in your commercial business?

Mr. MOSES. Altogether. Now, in this bill—I like a great many features of this bill. I think the capital stock, however, should be reduced, and I think the reserve that has been mentioned here should be put to 3 per cent, allowing the other 2 per cent to go to the home bank or any other country banks. I think the savings section should be stricken out entirely.

Senator REED. That expression has been used to-day a number of times. Suppose, instead of striking it out, we withdraw the savings-bank proposition, giving you and the small national banks the right to establish a savings department, giving it to them upon terms so that they could run a savings bank. You would not object to that?

Mr. MOSES. No, sir.

Senator NELSON. Making it optional with them?

Senator REED. Yes.

Mr. MOSES. Upon the whole, I think if you make this so that the small banks would continue in the way they are I think they would be induced to come in. If you do not, I really think the small banks, even at a loss, would go out. It is always better to leave them in rather than to force them in. I never saw an institution of any kind that would prosper greatly where the people were forced into it.

Senator REED. Still there has been force applied many times to the banking system by the enactment of the law requiring them to do certain things that they should do, and requiring them to stop certain things they ought not to do. It has always, when it has been a wise law, been a good thing for the banks. Then we had to apply force to insurance companies, requiring them to keep certain deposits and conform to certain regulations. It has made life insurance an investment where it was once a speculation. Then you had to die quick to beat it.

Mr. MOSES. In this instance they have the option of remaining in or retiring. By allowing them to see the operation of the law I think they would all come in. I do not think it is necessary that the small banks should come in; the larger banks probably would join anyhow. When I say the small banks, I mean the banks of \$50,000 capital or under, but I think a great many of them would come in. There is no question about it.

Senator REED. Generally speaking, you think this is a good system, and would be desirable, with certain modifications?

Mr. MOSES. Yes, sir. I am very much obliged to you, gentlemen, for giving me the opportunity to appear before you.

Senator REED. If that is all, we will adjourn now until 10.30 o'clock to-morrow morning.

(Thereupon, at 6.10 o'clock p. m., the committee adjourned until 10.30 o'clock a. m. to-morrow, Wednesday, October 15, 1913.)

WEDNESDAY, OCTOBER 15, 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, Pomereene, Shafroth, Hollis, Nelson, Bristow, and Weeks.

The CHAIRMAN. The committee will come to order, and we will hear this morning from Mr. Ingle, of Baltimore.

STATEMENT OF WILLIAM INGLE, VICE PRESIDENT OF THE MERCHANTS & MECHANICS' NATIONAL BANK, OF BALTIMORE, MD.

The CHAIRMAN. Give your name and banking affiliations and address to the reporter, so that we may have them in the record.

Mr. INGLE. William Ingle, vice president of the Merchants & Mechanics National Bank of Baltimore, Md.

The CHAIRMAN. State your banking experience, Mr. Ingle.

Mr. INGLE. I have been with my present connection 32 years; three years before that in another local bank in Baltimore; an officer of the bank since 1900.

The CHAIRMAN. We will be glad to have your views in regard to this bill, Mr. Ingle.

Mr. INGLE. Mr. Chairman and Senators, I think it possibly only fair to say that I am here in a spirit not at all of antagonism to a very large portion of the bill under investigation. In other words, I would like to feel that I could help rather than hinder it, as I recognize the work that has been given to it. I possibly am in the same frame of mind as was owned by a gentleman who has been before you, and one prominent in banking affairs of the country, who, in Boston last week was reported to have said that he thought the bill was about 80 per cent good. I rather imagine that the votes taken in Boston reflect antagonism, not so much to the bill as a whole, but possibly to that 20 or some other per cent which was deemed not as good as it might be, each individual man, possibly, in voting "aye" in support of the Chicago conference having in mind, it may be, some different points which he thought were more vital than others.

I am not a speaker, and I have taken the liberty of making some notes.

Senator NELSON. That is all the better; we do not want oratory, we want facts.

Senator HITCHCOCK. Did you attend the Boston convention?

Mr. INGLE. Yes, sir.

Senator HITCHCOCK. Did you see this meeting of the two thousand or more country bankers?

Mr. INGLE. Yes, sir; I was a country banker for the time being, in order to see what was going on.

Senator HITCHCOCK. Can you give the committee an idea as to whether that seemed to be a free expression of the real opinion of the country bankers?

Mr. INGLE. Senator, I think it was an untrammelled expression, and while it is not fair to impute—and I do not do it at all—it is nevertheless true, I believe, that the matters especially before them

for discussion and investigation were those in which they were largely directly interested.

Senator HITCHCOCK. And which they understood very thoroughly?

Mr. INGLE. Well, I refer especially to section 17, which refers to the elimination, the possible elimination, of their exchange charge. I think without that that their enthusiasm would have been less marked. I also think that possibly a couple of other things that they threw into their meeting, while important, were possibly so obvious to everyone that they were present at their particular meeting more as sweetening than as being considered vital from the standpoint of objections of the gentlemen assembled.

Senator HITCHCOCK. Their witnesses who have come before us seemed to lay great stress also upon the depreciation of Government bonds.

Mr. INGLE. I think possibly that was a part of the sweetening.

Senator HITCHCOCK. They seemed to feel that was a vital matter.

Mr. INGLE. It is a vital matter, sir; but that is something which appeals, and with equal force, to all of us, and it does not at all attach with any exclusiveness to the country banker.

Senator HITCHCOCK. They also seemed to be very certain that the clause relating to the savings department of country banks would be very obnoxious and would result in keeping most of the banks out of the system.

Mr. INGLE. Senator, I imagine that one's views on that must be tempered by his feeling.

Senator NELSON. Has your bank got any trust company as an appendage, in which your officers are interested?

Mr. INGLE. No, sir; we are simply an individual commercial bank, with no entangling alliances of any sort. We have no savings department or trust-company adjunct, nor do we have real estate loans, directly or indirectly.

Senator NELSON. Do you issue time certificates of deposit?

Mr. INGLE. We do not; we have never issued one.

Senator NELSON. Do you pay interest to individual depositors?

Mr. INGLE. That is a very leading question, and I will be very glad to answer it, if you will pardon me. I can not answer it in a moment, yes or no. We do not, may I say, encourage the payment of interest on ordinary mercantile accounts, and in connection with such accounts we pay very little interest, indeed.

Senator NELSON. Do you issue certificates of deposit?

Mr. INGLE. We issue demand certificates of deposit bearing interest, and I imagine, sir, that we have outstanding at the maximum possibly \$100,000 out of an aggregate liability on loans of about \$20,000,000.

Senator NELSON. Is not that a species of savings?

Mr. INGLE. No, sir; not in our connection, I should say, because if anyone would come in there and ask us for a demand certificate of deposit, at any rate of interest, we generally refer them to a mutual savings bank. It is only in the case of a man who comes in with, say, \$10,000 or \$20,000, for which he has no particular use for 60 or 90 days or four months, or something of that kind, and feels that he ought not to let it lie in a bank earning nothing; we will then give

him a demand deposit at, say, 2 or 2½ per cent. I have known us to pay as much as 3 per cent, but not habitually.

Senator BRISTOW. Will you tell us, please, if you have not, what the capital and deposits of your bank are?

Mr. INGLE. The capital of my bank is \$2,000,000; the surplus is \$2,000,000; the undivided profits about \$200,000; and the deposits a week ago, when I left there to go to the Boston convention, were \$20,500,000.

Senator HITCHCOCK. You are hardly a country bank, then?

Mr. INGLE. No, sir; we could hardly with fairness call ourselves a country bank.

Senator BRISTOW. How much of your deposits are bank deposits and how much individual deposits?

Mr. INGLE. Our bank deposits, as segregated on our ledger—that is, the out-of-town banking connections—aggregate just about \$7,000,000.

Senator BRISTOW. Seven out of the twenty and a half million is money of other banks?

Mr. INGLE. Of course, you will understand that both amounts in figures as large as that, fluctuate within \$1,000,000 more or less frequently.

Senator HITCHCOCK. You may proceed with your statement.

Mr. INGLE. I will say that if by any chance any Senator may have a question he may desire to ask as I go along, I will try to answer it.

Senator NELSON. You will not find us modest about asking questions.

Mr. INGLE. In discussing any measure as comprehensive in its scope and language as is the proposed currency law, the points to be especially considered might fairly be divided into two classes, namely, those referring to fundamental and economic principles, and, second, those not so related but in connection with which selfish considerations may or may not influence the judgment of those directly interested, although in connection with some of the matter of the act it is difficult to determine just where may be drawn the line between altruism and personal interest in discussing the provisions of such sections.

It may fairly be said in regard to two fundamental principles referred to in the bill, namely, Government guarantee of notes to be issued, and the option of having them redeemed in anything other than gold coin, that the opinion of bank people is essentially unanimous in agreeing that it is most unfortunate that it has been thought wise in the proposed legislation to depart from beaten and tried paths and to offend principles of world-wide acceptance. In both of these situations the bankers' selfish interest is only incidental and relatively trifling, and second to that of the public for whose use notes of any kind are to be issued. As other provisions of the law make absolutely certain the security of proposed note issues apart from Government guarantee, and as law can properly regulate their volume either in the direction of expansion or contraction by providing a sliding scale tax, it is almost a pity to commit the Treasury further to the conduct of active banking and more confuse the present misunderstanding of the word money. The banks do not object to the presence in the law of the strictest ordering and control of their own

note issues, but with substantial unanimity protest that the credit of the Government should be conserved strictly for its own use.

It is equally or possibly more unfortunate that in providing for the redemption of the notes the words "or lawful money" should have been inserted in the act apparently as an afterthought. It is idle to here refer to the old question of double standard of measurement, but as the bill again forces it to the forefront, it is proper to direct special attention to the danger attendant upon the assertion of the discarded principle and this the bankers do with the same unanimity and again for unselfish reasons.

The banks have in mind only the desire to have a law useful and workable when they suggest that a relatively few, rather than many reserve banks shall be first organized. In heartily welcoming many of the provisions of the act it is comparatively immaterial whether there be one single board. The essential things are first, that the branches of a single bank or the several Federal banks controlled from Washington shall be so located as to be in touch with business conditions in the territory which they shall severally serve, and, second, and what is of prime importance if the law is to be helpful to the public through the banks, it is essential that the reserve or branch banks shall be managed from day to day as banks and not as a Government bureau with all the delay and attendant red tape which usually delays business with the average Government office.

Senator HITCHCOCK. Do you think that as the system is devised it is going to embarrass banks and involve a loss of time in getting the relief they desire?

Mr. INGLE. It would depend altogether, sir, upon the way in which the law is interpreted and handled.

Senator HITCHCOCK. The reserve banks are to be run just like any other bank?

Mr. INGLE. Exactly, sir, and if they are not interfered with—I mean if they are not so restricted by technical regulations by the Federal reserve board as to permit the directors or the executive officers of the Federal reserve bank from acting with promptness, every objection will surely melt away.

Senator HITCHCOCK. As I recall it, there is nothing in the bill prevent the directors from running that bank for bankers just as efficiently as any bank is run; in fact, the very purpose of it would be to give immediate results.

Mr. INGLE. Exactly so; and I am only suggesting that because so many people, having in mind their daily dealings—and I say it with all respect—with the Treasury Department and other Government bureaus—

Senator NELSON (interposing). I do not wonder they get that idea.

Senator HITCHCOCK. I am a little surprised. I have heard the bankers themselves say that when dealing with the Treasury Department, that the Treasury Department was redeeming the national-bank notes more rapidly than the national banks met those notes.

Mr. INGLE. I can tell you just what the reason for that is, if you are at all interested in it.

Senator HITCHCOCK. Yes; I would like to know.

Mr. INGLE. I am speaking now not ex cathedra, but in a general way, as I have observed it. The Treasury Department, for instance, receives for redemption certain circulating notes issued by any

interior bank. That interior bank, instead of making its 5 per cent deposit as promptly as the Government will require, looks over its ledger and finds, for instance, that it has to its credit in a city, in a reserve city frequently, a certain balance. They will write a letter to such city to get them to transfer for its account to Washington so much money for the credit of this 5 per cent redemption fund. That particular bank, in turn, has a balance, let us say, in Pittsburgh. It wants to use that balance, which may be dead for the time being, and instead of writing to Washington it will write to Pittsburgh, and Pittsburgh, in turn, may write to Baltimore or New York or Philadelphia, so that by the time that 5 per cent redemption deposit reaches Washington the transaction may be a week or 10 days old.

Senator HITCHCOCK. Does that not really prove what I say?

Mr. INGLE. It does, in respect to those banks which adopt that practice.

Senator HITCHCOCK. With the delay on the part of the bank and not on the part of the Government; the Government is always, as it were, holding the sack.

Mr. INGLE. In that particular situation, because it is to the benefit of the bank to use the Government capital as long as possible in that situation.

Senator HITCHCOCK. That was our testimony that the Government has been more prompt in dealing with the banks than the banks with the Government.

Mr. INGLE. Senator, may I make a comparison not in criticism? For instance, in connection with the last distribution of funds made by the Treasury Department the Government was obliged to have proper regulations to safeguard itself, but in caring for all that machinery I imagine as much time as two or three weeks elapsed, in many cases, before the money found its way into the communities where it was wanted. I do not offer that statement in any way of criticism at all. In Baltimore it was handled with exemplary promptness, as far as that goes.

Senator HITCHCOCK. That was not a case of emergency, in the first place, and in the next place, no machinery was provided by law.

Mr. INGLE. I know; they had to make a precedent.

Senator HITCHCOCK. I know they called upon me to name someone in Omaha, where I live, and I suppose the same thing was done with other Senators, and they had to depend upon what arrangements they could make. I thought it was handled, considering the lack of machinery, very well by the Treasury Department.

Mr. INGLE. Very well, and I am not criticizing the officials of the Treasury Department in any sense.

Senator BRISTOW. That brings up a point which has been referred to very often here. Senator Hitchcock refers to his being called up to name somebody to distribute the money in Nebraska—

Senator HITCHCOCK (interposing). It was not to distribute the money; it was to pass upon commercial credit or paper offered by the bank.

Senator BRISTOW. A Democratic politician in the State decided how that should be. Is that to be the practice?

Mr. INGLE. If you will tell me what your State is—

Senator BRISTOW (interposing). Kansas is my State.

Mr. INGLE. Oh, I see. That general subject has absolutely no relation to this bill. That was an emergency; an extraordinary occasion for which extraordinary machinery was provided.

Senator BRISTOW. It has been stated by a good many bankers that this bill would be a political measure. If the distribution of the Government's funds to relieve the crop-moving period is to be managed by Democratic politicians who have no connection with the Government, it would give some stability to this criticism, would it not?

Mr. INGLE. I hardly follow you there, Senator. It depends altogether upon the view one chooses to take of this comprehensive measure. It would seem to me almost as fair to assume that this bill intended to provide in this Federal reserve board practically a substitute for the present management of the comptroller, subject to the control of the Secretary of the Treasury. We can assume anything. It is true that many of the provisions of this act give wide latitude; so does the present national banking act. Under the terms of the present act it would be competent for the two men—the comptroller and the Secretary of the Treasury—were they so minded, to run their offices as a political machine in connection with the banking of the country. It would give them the opportunity very easily to close a very large percentage of the banks of the country, because we all know that in the matter of the maintenance of reserves, in the matter of excess, or otherwise dangerous law, almost every bank in turn lays itself open to very severe criticism by the department. So I can not say that—unless we assume that the bill was prepared deliberately as a political measure—that it is any more open to abuse than the present law. I, for one, do not believe for a moment that the bill reflects any desire to control the banks or their credits for political purposes.

Senator BRISTOW. Of course, you do not believe that politics ought to have anything whatever to do with the administration of a power of this kind, do you?

Mr. INGLE. Politics as politics?

Senator BRISTOW. As partisan politics?

Mr. INGLE. No, sir; I do not.

Senator BRISTOW. I think we all agree on that. There is some apprehension on the part of a good many bankers, as you know, that it will be used as a political agency in times of intense political partisan contention.

Mr. INGLE. That may be a very natural fear, Senator.

Senator BRISTOW. And I was just suggesting, since the distribution of this money that was recently distributed was supervised, to an extent, by politicians, who had no connection with the Government, in some of the States, that that was a ground for some such apprehension, or might be.

Mr. INGLE. Senator, if I understand that part of the program, these gentlemen in the several States were named not at all to apportion this money; as a matter of fact, as far as I am aware, they were not named until after the apportionment had been made. They were simply named as the personal representatives of the Treasury Department to see that the collateral was properly lodged in the hands of some one other than the interested banks. In other words, they were the custodians, to all intents and purposes, of the collateral.

They were also assumed to pass upon credits. I imagine that that portion of their labor was very light. In that case it is hardly possible to assume that any single individual, frequently not a bank man, would know anything in particular about the individual notes held among the assets of particular banks receiving a portion of the crop fund.

Senator BRISTOW. Do you not believe, Mr. Ingle, that whatever provision we make here should be made in such a way that any banker, regardless of his politics, or his religion, or any other incidental relationship, could, by right, obtain from the Government the help that he needs if he has the proper security or collateral to get it and not have to depend upon the will of some man?

Mr. INGLE. Again, Senator, an answer to that question must—I mean the answer you would probably like to make—would assume that we would be in danger of having these Federal reserve banks managed as a semipolitical organization and be subject to suggestion or control, apart from the need the member banks might have for money.

Senator BRISTOW. Would that not seem to be guarding against such a possibility? Do you not think that is advisable?

Mr. INGLE. As an abstract proposition, sir, I believe in the fullest liberty, but in real life, we will meet all throughout this country any number of banks, the limit of whose desires in obtaining money is only the stock in hand held by anyone from whom they can get it. If under no restraint whatever, many such banks would, if no brakes were put on them, borrow the entire stock of the Federal reserve bank, so that we must permit some latitude of veto power.

Senator BRISTOW. Should not that be fixed in the law as nearly as it can be?

Mr. INGLE. It is a pretty hard thing, sir, to write a law which will meet every situation. The tighter you make the law, the more unworkable it is. I would very much rather live under a law which was broad in its provisions and then trust to those administering it, trust to their sense of fairness.

Senator BRISTOW. According to that theory, then, we ought not to have laws; just elect men to govern the country.

Mr. INGLE. Oh, no. Law is often simply to give general directions, but not to say, for instance, what we shall have for lunch every day.

Senator BRISTOW. I had not thought of having a law of that kind in connection with this bill. [Laughter.]

Mr. INGLE. I mean we do not want to be too exact in any law we draw. We want some play. Until we all have wings——

Senator NELSON (interposing). You want elasticity in the administration of law as well as of currency.

Senator BRISTOW. I will not disturb you any further now.

Mr. INGLE. I am very glad to answer questions. I do not know that I have responded very clearly to your questions.

Senator WEEKS. You referred to the supervision which the Secretary of the Treasury would have over the reserve board as provided for in this bill.

Mr. INGLE. No, sir; I did not intend to say so, sir. I referred to the charge that in the present national banking act the Comptroller of the Currency, with the consent of the Secretary of the Treasury—

the two men have practically absolute power over banks, unless they are so very good that their officers are ready for translation. Under the new law the Secretary of the Treasury, as such, will, I assume, have no special voice.

Senator NELSON. Only as a member of the board.

Mr. INGLE. As a member of the board, if the law as it is drawn still stands.

Selfish considerations must be present, considering section 19 of the bill, the section providing for the refunding of outstanding 2 per cent bonds, but surely the motive prompting the suggestion that fairer provision be made for the protection of national banks holding these bonds in faith in their Government can not be thought to be altogether unworthy. Under the terms of the act, State chartered institutions are expected to avail themselves of its provisions. If all other conditions were even, the State banks would, under the law, be better off in owning practically no United States bonds than the national banks, which have made it possible for the Government to fund its debts and to borrow money on terms the best in the world.

It might be well to mention here the existence of a condition the presence of which will have great weight with all national banks in determining whether or not they will continue in business subject to Federal control. Practically all such banks are in sharp competition with State chartered institutions organized under liberal and many times unsafe charters and operating under widely differing local laws. Under existing law national banks tied down to the wholesome provisions of the national-bank act have seen their business so crippled by banking not controlled by its provisions that only the ownership of United States bonds and the presence of faulty reserve laws which give them some profit at the risk of safety, has prevented them from surrendering their national charters. Only about one-third of the banks of the country are under Federal control. It is difficult to conceive that any national law can be of real value unless it entirely controls the subject with which it deals when such subject is of common interest to the entire country. Either some way should be found to nationalize banking or, if that be impossible, a new law should be so inviting as to compel common assent to its provisions, regardless of State lines. In other words, it would be only fair to see that national banks should have an even chance in competition with State institutions and especially so as the former must enter the competition with the handicap attaching to the ownership of United States 2 per cent bonds.

Much has been said against Federal control and compulsory subscription to stock in the reserve banks as also the forced deposit of part of the reserve in these banks. If it were not for the presence of the United States twos, which could not be sold on an investment basis without a loss of \$250,000,000, there would be little force in this point made against the law, as a bank could either accept or reject the plan. In other words, the idea itself is not inherently unsound and with conditions such as would permit the exercise of untrammelled judgment no one could reasonably oppose it. National banks have always been under control of a law which inflexibly interpreted and followed could be made safe, just as severe in its effects as could be the action of the Federal reserve board under the proposed act. Instead of having, as in the past, two men to determine just

when a bank should be liquidated, the new law gives the power to seven. In connection with the controlling board it is unfortunate, as a matter of expediency and fairness, that the law insures the presence of only one practical bank man in its number. As under the new law more money will be released from reserves now held for loaning at current rates, that will be required to be kept with reserve banks, no harm or loss should follow the gradual transfer of the funds. In following much which has been said on this point, it might appear that the funds so transferred are to be destroyed or otherwise rendered useless, whereas just the contrary is the case.

Senator HITCHCOCK. Do you understand that those reserves which are to be kept in the reserve banks are to be subject to the same use that banks now make of their reserves in reserve centers?

Mr. INGLE. I will come to that a little later. It would seem to be wise, however, to avoid the rigidity in these reserve balances suggested by the law as drawn. It is assumed that these reserve balances are to be the active checking accounts of member banks. Against such balances will be charged not only checks drawn directly against them, but checks drawn on member banks and cleared through Federal reserve points. In consequence no balance can be a constant quantity. Would it not be possible to give some play here? For instance, a member bank might be permitted to encroach, say, 25 per cent upon its determined balance without penalty, provided its cash reserve at home was at the moment correspondingly increased. If depleted beyond the amount of such percentage, certain penalty could be provided to prevent the depletion for sake of profit or for any reason other than to meet some immediate exigency.

Senator HITCHCOCK. I infer, then, from your criticism or suggestion of a change, that you think that the provision in the bill which practically impounds the reserve where it can not be used—

Mr. INGLE (interposing). I think it is faulty, sir.

Senator HITCHCOCK (continuing). Is a defect in the bill.

Mr. INGLE. I think the money, or the credit, so carried and to be used only as a matter of bookkeeping from morning to morning in figuring the reserve might as well be impounded in Greenland as in the Federal reserve bank.

Senator HITCHCOCK. It can not be used in the bank which has the reserve at all?

Mr. INGLE. No, sir.

Senator HITCHCOCK. Two-thirds of it can be used as loanable funds in the reserve bank, and that is the only use that can be made of it?

Mr. INGLE. That is right.

Senator HITCHCOCK. But under the present system, if the bank has a part of its reserve in its vault and a part of its reserve in Chicago and a part in New York, it can so change these reserves by drafts and remittances that it practically makes active use of its reserves, does it not?

Mr. INGLE. It can withdraw the last dollar of its balances in any reserve city.

Senator HITCHCOCK. So that at present all of its reserves are capable of being mobilized and used, whereas under this proposed system 5 per cent of its—

Mr. INGLE (interposing). Deposits.

Senator HITCHCOCK (continuing). Of its deposits are impounded in the reserve bank; another 5 per cent of its deposits are impounded in its own bank; and both these amounts are just as much out of its reach as if they were down in the bottom of a well.

Mr. INGLE. Excepting for this reason, Senator: I think to make this law of any value at all it should provide that the member banks should be required to keep an average balance of a certain per cent of its deposits; otherwise the law would not be effective, as permitting the reserve banks to be of any service to their members. The thing I urge is that the constant presence of the reserves should not be required. If, for instance, a bank having a forced deposit—if I may use the word—of \$800,000 with the Federal reserve bank finds it necessary to very heavily draw exchange on a particular day—it may want to draw \$100,000, or \$200,000 more than its current dispatches to that bank on that particular day. In addition to that, the Federal reserve bank may, on the morning on which those drafts are presented for payment, find itself in possession of another \$100,000 worth of checks on its member bank, drawn by customers. So that its reserve then, fixed by law, would be depleted.

Now, what would be the consequence? Would that Federal reserve bank decline to honor those drafts or any of them? Or should they not be permitted to allow the bank having occasion to draw excessively to replenish that fund in exchange which it could arrange for, either among its neighbors in the ordinary course of business, possibly, or, if no other remedy presented itself, by the shipment of Federal reserve notes or other currency?

Senator HITCHCOCK. But there is no provision in the bill which requires a Federal reserve bank to repudiate the drafts of a member bank as long as it has any balance at all?

Mr. INGLE. And yet if we are required to keep the reserves as stated in the bill, it would have that effect.

Senator HITCHCOCK. The provision is that the member bank must make it good within a limited time.

Senator NELSON. Yes; within a month.

Mr. INGLE. But the language can be modified. And in modifying it, unless it is desired to destroy the usefulness of these Federal reserve banks, there should be some penalty attached to the withdrawing of these deposits below a certain percentage.

Senator NELSON. There is no restraint on the reserve bank. They can loan out the whole 5 per cent. The restraint is on the member bank.

Mr. INGLE. Yes; the restraint is on the member bank.

Senator NELSON. But, so far as the reserve bank is concerned, the fund is not tied up?

Mr. INGLE. Not at all.

Senator NELSON. And you must not overlook the fact that that 5 per cent fund is, after all, the biggest part of the capital of the reserve bank.

Mr. INGLE. And for that reason the law should be compulsory; but it should so protect the Federal reserve banks—

Senator NELSON (interposing). Compulsory in what direction?

Mr. INGLE. In compelling the banks to recognize a certain percentage of their deposits as a normal deposit to be maintained with the Federal reserve bank; and the moment they impinge below a cer-

tain permitted percentage, I think they should be penalized, so as to be compelled, practically, to replenish this depleted reserve.

Senator NELSON. But if you adopt that other provision of the bill, the clearing-house provision as to checks, as it is in the bill, how can a member bank always tell what its balance is?

Mr. INGLE. If it follows the bill in good faith it can.

Senator NELSON. It can tell what the regional bank may have cleared of its checks—

Mr. INGLE (interposing). It can tell within a margin of some 20 per cent or 25 per cent of its deposits—

Senator NELSON (continuing). But how can a member bank tell how many checks have been drawn on it?

Mr. INGLE. It can not tell at all.

Senator NELSON. And they will not know about those checks until they are turned in to the regional bank, and the regional bank charges them to the member bank?

Mr. INGLE. Exactly; that is correct.

Senator NELSON. So that it is impossible for these local banks, or member banks, to determine under that system proposed in the bill as to the clearances until they are advised by the regional banks?

Mr. INGLE. They can tell from their own books with an exactness which will permit them to replenish their reserves. They will know exactly the condition of their balance this morning—

Senator NELSON (interposing). But the banks do not tell them until those checks turn up what has been drawn against them?

Mr. INGLE. Exactly; but they know what they have drawn on that Federal reserve bank, and they know by experience—

Senator BRISTOW (interposing). But you do not understand what Senator Nelson is referring to.

Mr. INGLE. Yes, Senator Bristow; I do.

The CHAIRMAN. I think Senator Nelson did not understand him. What he was trying to explain is that by experience the member banks can tell approximately how much the checks that will come in against them will amount to.

Senator NELSON. Oh, they can can guess at it, of course. But let us suppose, for instance, that Mr. Ingle is a member bank.

The CHAIRMAN. Yes.

Senator NELSON. And we will say that all the members of this committee are depositors in his bank.

The CHAIRMAN. Yes.

Senator NELSON. And we, each of us, draw checks on our accounts there, and those checks are sent to the regional bank. Now, he does not know that we have drawn those checks or that they are out until the regional bank calls his attention to it under this proposed clearing-house system.

Senator POMERENE. Well, does that differ materially from the present practice?

Senator NELSON. Oh, yes; these country banks do not allow them to do that now.

Senator POMERENE. But these checks may be drawn and sent out to different customers of the bank and cashed.

Senator NELSON. But the bank they are drawn on does not allow them to send them out to other banks for collection.

Mr. INGLE. Only in exceptional cases.

Senator NELSON. But the rule is the other way.

The CHAIRMAN. The bank, however, does not know what checks will come in drawn on it any day until the checks are presented. They do not know what checks are going to be drawn against them on a certain day.

Senator HITCHCOCK. There is this difference in the two cases: A country merchant will not present a check on a bank in his own town for \$10,000 if he has only \$2,000 on deposit. But he may send the check to a manufacturer in a city, and the manufacturer may deposit the check in the city bank, and the city bank may deposit it in the reserve bank, and the reserve bank may charge the amount of that check, \$10,000, to the country bank, although the man who drew it had only \$2,000 on deposit there.

Mr. INGLE. That will not make any difference if there are responsible indorsers on it.

Senator HITCHCOCK. It would make this difference, that that \$10,000 check would be presented for payment and charged by the reserve bank against the country bank, although the man had only \$2,000 deposited in the country bank.

Mr. INGLE. That is exactly what should be done. That would break up the terrible practice of "kiting."

Senator HITCHCOCK. Then we had a man before the committee yesterday who said that that would encourage "kiting"; that it would encourage the country merchant to send his check to the city, where he owed somebody some money; and then he would depend on subsequent collections to make it good by the time the check reached his home bank.

Mr. INGLE. Senator Hitchcock, neither the country people nor the city people need any encouragement as to that. That is a lesson they learned long since.

Senator NELSON. Now, here is the way it would work of necessity, about that 5 per cent reserve in the regional bank. The regional bank would cash a lot of checks drawn on your bank. And they would report to you, saying: "We have cashed so many checks drawn against you. That reduces your 5 per cent balance so much; you must replenish it." Now, what else can you do? What other system could be applied?

Mr. INGLE. I would not adopt any other system. But I only suggested—

Senator NELSON (interrupting). So that the regional bank which has cleared these checks must notify the member bank that it has a deficiency, and the member bank must have an opportunity to put in enough funds to make it good.

Mr. INGLE. Senator Nelson, if you will let me explain the routine in such cases I think I can make it clear. That Federal reserve bank, upon cashing checks drawn on the member banks will follow the usual banking practice.

Senator NELSON. Yes.

Mr. INGLE. They will simply take those checks from day to day, inclose them in a letter—

Senator BRISTOW (interposing). But that is not the law.

Mr. INGLE (continuing). And charge the bank with that. The next morning the member bank has notice of the amount of any

deficiency for which it will have to provide in its current dispatches to this Federal reserve bank to bring its reserves back to the 5 per cent required.

And I only suggest that the law be so amended as not to make it appear that this 5 per cent was an absolute, fixed quantity—that you are obliged to keep that 5 per cent there.

The CHAIRMAN. It is no more fixed than the present reserve is.

Senator NELSON. It never can, in practice, be a fixed quantity.

The CHAIRMAN. No reserve is a fixed quantity.

Mr. INGLE. Well, if that is the thought, all right. I only brought that point out because it has been suggested that the impounding of this 5 per cent would make it rigid.

The CHAIRMAN. If the impounding of it in that way would make it rigid, it ought to be changed.

Senator NELSON. The language is rigid:

That every Federal reserve bank shall at all times have on hand in its own vaults, in gold or lawful money, a sum equal to not less than 33 $\frac{1}{3}$ per cent of its outstanding demand liabilities.

The CHAIRMAN. Yes.

Senator NELSON. And up above the bill says:

And from and after the passage of this act such fund of 5 per cent shall in no case be counted by any national banking association as a part of its lawful reserve.

The CHAIRMAN. I think if you will look at the national banking act, you will find that the requirement is the same. It is a reserve, but it is a reserve which can only be used for certain purposes.

Senator HITCHCOCK. Under the law as it exists now, a bank may have part of its reserve in its own vaults, part of its reserve in a reserve city bank, and part in a central reserve city.

The CHAIRMAN. Yes; and it may use them in all three places.

Senator HITCHCOCK. But this bill requires the bank to have 5 per cent of its deposits in one place, and 5 per cent of its deposits in another place; and even though a deficiency in one place is made up by an excess of reserve in another place, the bank will still have a default in the first place.

The CHAIRMAN. You may have a deficiency in all three places and still make up the default.

Senator HITCHCOCK. But under the present law the deficiency in one place may be made up in another place.

The CHAIRMAN. I thought you meant that under this bill the reserves could not be invaded at all.

Senator HITCHCOCK. I meant that the reserve which is kept in the reserve bank could not be invaded at all.

The CHAIRMAN. I do not think that is the meaning of the provision in the bill.

Senator HITCHCOCK. What page is that?

Senator SHAFROTH. Page 39.

Senator HITCHCOCK. What I have in mind is this: The member bank is required to keep a reserve of 5 per cent in the Federal reserve bank. That is an absolute requirement.

The CHAIRMAN. But that reserve is for the purpose of use by the reserve bank—

Senator HITCHCOCK (interposing). Then the bill says, "The Federal reserve board may notify"—no; that is not the provision I have in mind.

Senator SHAFROTH. I think that section 21 is what you have in mind, Senator Hitchcock, repealing the provision in the national banking act as to the 5 per cent redemption fund being counted as part of the reserve.

The CHAIRMAN. I think it is section 20 he has in mind.

Senator NELSON. Well, you can see the necessity for that. Under the present national-banking system the 5 per cent deposited in the Treasury for redemption of the circulating notes of the national bank is always deducted from the amount the bank is required to keep in reserve, whether it is a country bank or a bank in a reserve city or a bank in a central reserve city.

The CHAIRMAN. That is right.

Senator NELSON. It is necessary to do away with that in order to make it conform to other parts of this bill. That is, the law now allows the 5 per cent for the redemption of national bank notes to be deducted from the reserves required; and the meaning of this bill is that that 5 per cent which they have heretofore been allowed to deduct shall not be deducted from the reserves required under this bill.

The CHAIRMAN. Yes; it shall no longer count as reserves under this law. But that 5 per cent fund is constantly invaded by the banks. Sometimes they go below it and sometimes they go over it. And these reserves are capable of being invaded for legitimate purposes, and sometimes for illegitimate purposes; but if they go below the line they are expected to promptly make it up.

Senator NELSON. And this bill adopts the same principle in regard to the $33\frac{1}{3}$ per cent reserves of the regional banks; the 5 per cent that they are required to deposit for the redemption of the notes in the Treasury is deducted from the $33\frac{1}{3}$ per cent reserves required.

The CHAIRMAN. Yes.

Senator NELSON. We are adopting exactly the same principle for the regional bank as now exists.

Senator BRISTOW. Now, you referred with some earnestness to the system of "kiting" which has been discussed here to some extent. Do you disapprove of the checking system which has become so prevalent in the country, in the payment of bills by check, instead of by bank draft or—

Mr. INGLE (interposing). Not at all, when such checks are drawn to pay a bona fide bill. But, in practice, in quite a degree, a man in the country over here [indicating] has a friend in another country bank over here [indicating] some 10 or 20 miles, or 120 miles away. This man in the country at one point will ask one of his friends, or he himself will draw a draft for \$1,000 on his friend over here 100 miles away; and the man drawing the draft will send that draft to, let us say, Chicago—

Senator NELSON (interposing). As far off as he can.

Mr. INGLE. As far off as he can. By the time this man over here gets it—and many times these drafts are not drawn on funds at all. They are fictitious from first to last. But this man at the point at which the draft is drawn will promptly take his collection charge of \$2.50 off of that \$1,000 at the expense of the bank in Chicago, and in

the same breath present his Chicago bank a draft drawn on his friend at the initial point, and he, in turn, takes his \$2.50 off the same \$1,000. They keep that up in a more or less generous way. So that, once you hold out a check so drawn you break the combination, and sometimes break a bank, as happened two years ago in Kentucky, at the hands of some one very well known to me.

Senator BRISTOW. Well, I bring the point up because it was emphasized yesterday, and a serious objection was made to the system of the payment of bills by check. To illustrate: I live at Salina, Kans., and I might have a bill due in Chicago, and I pay that bill by writing a check on my local bank for \$1,000 and mailing it to the party at Chicago to whom I was indebted—

Mr. INGLE (interposing). Senator Bristow, I catch your point, now. May I respond? I did not catch it before.

Senator BRISTOW. Yes.

Mr. INGLE. I think that is not a businesslike practice. You go to Chicago and you buy \$100 worth of goods from some one. When you pay your bill you send him a check on Hickman, Ky., for \$100, it is true. But that man in collecting that check only gets, possibly, \$99.50. In other words, you are compounding with your creditor at 99½ cents on the dollar. I think you ought to go to your bank, as was the habit a generation ago, and purchase a draft on Chicago, or some reserve center, and pay the cost of it. If you do not keep an account that will justify that bank in giving you a draft at par you should pay the cost and send that draft at par to the man to whom you owe the \$100.

Senator BRISTOW. But suppose my creditor at Chicago and my banker at Salina and his banker at Chicago are perfectly satisfied with this method of handling the business, what right has the Government to interfere with it?

Mr. INGLE. They make a virtue of necessity. I do not think they are at all satisfied; somebody pays the freight. The bank which actually makes the collection pays for it. It either pays the country bank an actual exchange charge in money or it renders a return service for that interior bank in the shape of clearing its checks on other territory, which, boiled down into dollars and cents, generally means more than would result from a direct exchange charge.

Senator BRISTOW. Well, the country banks encourage that kind of remittance and desire it. They very much prefer that to the sale of drafts.

Mr. INGLE. Of course they do, because they know that they can not very well compel their own local customers to pay them 10 or 15 or 25 cents when they want to settle a draft out of town, as they can put some other disinterested bank under duress, practically, by compelling that bank—

Senator BRISTOW (interposing). Under duress in what way?

Mr. INGLE. Well, I do not know whether "duress" was the word I should have used there.

Senator NELSON. Moral duress.

Mr. INGLE. Well, they are obliged to do it.

Senator BRISTOW. Why are they obliged to do it?

Mr. INGLE. Because they have got to do business.

Senator BRISTOW. It is competition which makes them do it. If they do not do it, somebody else will.

Mr. INGLE. Yes; but it is competition based upon the use of a false principle and one which suggests the payment of a 100-cent debt in a 99½-cent dollar.

The CHAIRMAN. Mr. Ingle, will you allow me to explain at this point? I want to ask the committee if it will be agreeable to hear Senator Thomas at 3 o'clock this afternoon? He desires to be heard at 3 o'clock.

Senator NELSON. What is our program for the day?

Senator HITCHCOCK. Let us make it 3.30.

The CHAIRMAN. Half past 3 will be agreeable to me. But I should like to give him notice of the time, so that he can accommodate himself to it.

Senator SHAFROTH. That is satisfactory to me.

Senator BRISTOW. It is satisfactory to me, if it is to the Nebraska delegation.

The CHAIRMAN. We will make it half-past 3 then.

Senator BRISTOW. Well, continuing on the subject we were discussing: I think it is quite an important matter; because it has developed here in these hearings recently that the city banks would like to change the custom of making these remittances, while the country banks are very much opposed to any change in the method of remittance. The country banks—some of the gentlemen appeared before us yesterday—insisted that that method of remittances by check is a good thing for the country, and greatly facilitates business, and is a very great convenience; and that any bank in the city that will not conform—or any city that will not conform—to that practice which has grown up, would find itself handicapped, because it naturally would drive trade away. And one gentleman talking to me yesterday cited the instance of New York, the New York banks—I think probably through the clearing-house association; it made certain charges upon the country banks that Philadelphia did not, and that the tendency was to help the business of Philadelphia.

Mr. INGLE. But only in a very moderate degree, Senator Bristow. It would have been in greater degree, were it not for the fact that there again was interposed the fictitious condition made by the present banking act, under which we are compelled, whether we want to or not, to keep a balance in New York. In consequence, the New York banks, of all the banks in the country (and in a relatively lesser degree the Chicago banks) can make rules with the knowledge that the banks of the country as a whole are obliged to follow them. Such conditions do not attach to banks in the reserve cities of the second class.

I think the issuance of local checks is a very convenient method of settling accounts. There could be no objection whatever to it, if it were so arranged, as it is proposed under this law, that such checks are to be redeemed at their face value, not at a discount for the benefit of the paying bank.

I go to a country bank, or any bank, with a check for \$10,000, and I can get \$10,000 if I am known and that check is good. If I, rather than go there myself, elect to send that check by mail, surely that paying bank is as much obligated to pay me 100 cents on the dollar on that check as if I were there in person.

Senator NELSON. But how do they get the money to you?

Mr. INGLE. They can send me—they can elect, as a matter of courtesy, if you choose, to send me a piece of exchange which I can collect, or they can put a lot of currency in a bag and express it to me at my risk.

Now, if they want to charge me 5 cents or 10 cents or 15 cents for the time they are required to tie up that shipment of money in a bag or package rather than pass it to me over the counter, I assume that that would be a legitimate charge.

Senator HITCHCOCK. Now, as a banker, when you receive deposits you engaged to pay them over your own counter on demand, do you not?

Mr. INGLE. Yes; I engage to pay them over the counter on demand.

Senator HITCHCOCK. You do not engage to pay them by express or over the counter of another bank 500 miles away on demand, do you? You only engage to pay them at your own bank, do you not?

Mr. INGLE. I would suggest that this bank, when it registers the money by mail—I am not concerned whether it goes over the counter or through the side door. The bank is as obligated to pay that in one way as in the other.

Senator HITCHCOCK. I am talking about the proposition involved in this bill. If a man in your town draws a check on you for \$1,000 and one of the citizens of the town present it, you pay it over your counter. Suppose that man instead of giving the check to a citizen of your town sends it to somebody in New York and that person deposits it in a bank, and that bank presents it at the reserve bank in New York and that is charged to your account in New York. Is not that practically compelling you to pay that \$1,000 in New York, and will not that compel you to stand ready at all times to pay your depositors either at your own bank or at the reserve bank at the option of the depositor? Does not that compel you to be ready to pay it in two places at the same time?

Mr. INGLE. Hardly so, because that is a convenient method of paying that check at the counter of that bank on which it is drawn. If the reserve of that bank with the reserve bank is depleted, the inferior bank is obliged to pay that money over its counter to that reserve bank, in order to replenish its balance.

Senator HITCHCOCK. I say it is compelling you to be ready at all times to pay your depositors in two places, namely, at your own bank or at the reserve bank.

Mr. INGLE. As long as that is what is done now, I can not see that it makes any difference to express it so in law.

Senator HITCHCOCK. It is not done now.

Mr. INGLE. Yes; if I send a check for mail for \$1,000 to a bank in an interior town, I do not get the money for it in return. I get a check on the very same bank in New York.

Senator HITCHCOCK. Let us take the same case as an instance. A citizen in your town having a credit in your bank sends \$1,000 to a merchant in New York, and the merchant in New York deposits it in a bank in New York in which you have an account. Does that bank charge it up to your account?

Mr. INGLE. As a practical matter; yes, sir.

Senator HITCHCOCK. As a practical matter it sends it out to you, and you pay it when it gets to you, or it sends it to another bank

in your town and is paid at your counter. All the testimony here has indicated that no reserve bank has any right to charge to the account of its country correspondent a check drawn against that country correspondent.

Mr. INGLE. Senator, that is a question of practice.

Senator HITCHCOCK. Can you tell me of any bank in New York which reserves the right to charge its country correspondent with checks which it may receive—individual checks?

Mr. INGLE. Yes; we have four reserve agents in New York which charge promptly against our balances in their hands not only checks on us, but any business they choose to send us in Baltimore.

Senator HITCHCOCK. That is an exceptional arrangement, is it not?

Mr. INGLE. I believe that is because we are a very good bank. [Laughter.]

Senator HITCHCOCK. That places you at the mercy of all of your depositors.

Mr. INGLE. We try to be prepared for that, sir.

Senator HITCHCOCK. Then, a man might overdraw his account and it would be charged to you in New York.

Mr. INGLE. That would make no difference, in practice.

Senator HITCHCOCK. I think that might open the door to fraud.

Mr. INGLE. I can not see that it would.

Senator HITCHCOCK. If a man might present a check in New York against you when he had no account at all and get money on that—

Mr. INGLE (interposing). That can be done anyhow; it is done every day.

Senator HITCHCOCK. But it would not be charged to you?

Mr. INGLE. I would just as leave have it charged to my account as to send it on for collection and the New York bank has parted with that money.

Senator HITCHCOCK. I want to know, seriously, whether a country bank doing business with a reserve center is compelled to have checks which individual depositors draw against it charged to the account of that country bank in New York or Chicago or anywhere else. You say that is the practice now?

Mr. INGLE. No, sir; I do not say it is the practice. I say, unfortunately, it is the growing habit of the interior banks to insist upon what we call double accounts in the transaction of their business.

Senator HITCHCOCK. What is the practice now? Tell me frankly what is the practice now.

Mr. INGLE. I can only state for ourselves. I assume that we now have about 800 out-of-town bank accounts on our ledger, and we charge against the credit balances all of our business in fully 600 of those accounts. On the other 200 accounts, they are double accounts, you understand, where they will not let us do that.

Senator HITCHCOCK. We are talking about different things. Are you talking about checks drawn by another bank upon you?

Mr. INGLE. I am talking about in Baltimore the checks drawn on Salisbury, Md., or any town, I do not care where, where the practice prevails with us.

Senator HITCHCOCK. Let me give the same illustration I have. I am asking you whether an individual citizen of Baltimore—Baltimore is your place, is it not?

Mr. INGLE. Yes.

Senator HITCHCOCK. Whether an individual citizen of Baltimore draws a check on your bank which goes to New York and gets in the hands of your New York correspondent, does that New York correspondent charge that check to your account?

Mr. INGLE. If in connection with it or any one of the four New York correspondents we have, it does it that very minute.

Senator HITCHCOCK. What do you mean by any one of your New York correspondents?

Mr. INGLE. I have different arrangements, sir, with different banks.

Senator HITCHCOCK. You mean to say you have four New York correspondents—

Mr. INGLE (interposing). And they will charge that check on Baltimore, or any other check they choose to send up drawn on Baltimore, direct to our balance in their hands.

Senator HITCHCOCK. If John Smith, in Baltimore, draws a check on your bank, your correspondent charges that up to your account?

Mr. INGLE. Up to my account.

Senator HITCHCOCK. Without submitting it to you.

Mr. INGLE. I get it the next morning, and I am given a debit for it.

Senator HITCHCOCK. Let me ask, when is it charged to you?

Mr. INGLE. The very moment he gets it; the very moment he gets it he debits it.

Senator HITCHCOCK. I say is that the practice of country bank correspondence?

Mr. INGLE. I say I can only tell you from our experience. I say it is a growing and vicious practice, in my judgment.

Senator HITCHCOCK. Which is the vicious practice?

Mr. INGLE. This thing of permitting the maintenance of those double accounts.

Senator HITCHCOCK. What do you mean by maintaining double accounts?

Mr. INGLE. I am speaking of that situation which you pictured, where we have a balance in New York, and where New York will send us business from day to day for collection and remittance either upon receipt, or after three days, or next week, if you choose. Now, what does that practice result in? We are assumed to keep 25 per cent reserve. Can't you see, if any bank has a balance to its credit in New York of \$500,000 it will also have \$500,000 cash in its vaults. The two sums together may represent the 25 per cent on that bank's deposits. Now, if that New York bank sends its out-of-town bank business from day to day, for remittance twice a week, let us assume the paying bank may accumulate from the New York bank \$250,000 worth of business to be remitted for twice a week. Now, in practice, what do many banks do? They continue to count as reserve the full debit balance of \$500,000. And, as we all know, a reserve is only maintained at all with a view of protecting depositors of a bank in case of failure or liquidation—if we never failed we would not want any reserve. You see that means our reserve the moment the bank fails; it is not our total debit balance in New York; it is that total debit balance less the balance we may have on our books from New York for remittance at any particular time in the future. So that instead of having \$500,000 reserve, we, as a matter of fact, only have \$250,000 reserve.

Senator HITCHCOCK. You mean New York has sent you \$250,000—

Mr. INGLE (interposing). For collection and remittance once a week, if you choose—an accumulating balance. The practice is, where it is done for accumulating balances it sends a very small balance the first three or four days and a very large one on the fifth or sixth day to save the New York bank.

Senator HITCHCOCK. To save the New York bank?

Mr. INGLE. The New York bank gets its return quickly. For instance, one bank in Baltimore will arrange to remit for a certain New York bank on Wednesdays and Saturdays each week. That New York bank will arrange with another Baltimore bank to remit it twice weekly, on Tuesdays and Fridays, and so on, possibly with a third bank on Wednesdays—on the other two days. Now, in sending their deposits they so arrange it that their money will be away from them the shortest possible time, which is a very excellent idea from their point of view.

Senator HITCHCOCK. You mean New York does that?

Mr. INGLE. New York does; yes. The idea that I insist upon in opposition to this double-account business is this: That a bank which keeps its reserve honestly, which tries to keep a reserve of 25 per cent—and if it does not it can not help itself, it is gone, in tight times or for some other reason—such a bank, in trying to keep its reserve, only figures as its reserve its actual balance in New York plus its cash on hand. Now, if those full debit balances are permitted to be counted, can't you see that the bank which does that and makes no deduction for offsetting balances has a very superior advantage over a bank which insists upon a single account, in which is always reflected the actual amount of money the owning bank can draw for in case it has to have it.

Senator HITCHCOCK. You say you have \$7,000,000 of country-bank deposits?

Mr. INGLE. Yes.

Senator HITCHCOCK. Suppose you receive a batch of checks against one of those country banks in a country town in your State; do you charge those checks to the account of that country bank when you receive them?

Mr. INGLE. I think so, in our case in 75 per cent of our accounts.

Senator HITCHCOCK. Does that depend altogether on the arrangement between the banks?

Mr. INGLE. Altogether on the arrangement between the banks, and sometimes they are changed.

Senator HITCHCOCK. Suppose you send that country bank collection items; when do you charge them with those items?

Mr. INGLE. Only upon receipt from that bank of advice of their payment. We charge them, as a matter of fact, one or two days after they have the money.

Senator HITCHCOCK. Do you charge to their accounts such checks drawn by their individual customers as soon as you receive them?

Mr. INGLE. That is right.

Senator HITCHCOCK. That is at variance with the custom as stated to be by all the bankers who have testified before this committee. They have all testified that no correspondent was permitted to charge up items against its country correspondent until they had been collected.

Mr. INGLE. I think they made awfully poor arrangements.

The CHAIRMAN. It is a very common practice for people traveling in Europe. They draw on their letter of credit against the country bank's correspondent in Europe, and it is charged against the home bank.

Senator NELSON. That is why the country bank makes a profit; they want something for making that collection.

Senator HITCHCOCK. You say with 75 per cent of your country bank customers you charge checks to them just the minute you receive them?

Mr. INGLE. I think I am approximately correct there, sir. I say it is substantially so in the case of 800 correspondents; I do not follow it personally, but I feel I know it.

Senator HITCHCOCK. Why do you discriminate in that way?

Mr. INGLE. Simply because one arrangement is satisfactory to one man, and another man won't do it the same way, but some other arrangement would suit him better. With our New York correspondents we make that arrangement; we insisted upon the arrangement.

Senator HITCHCOCK. Why?

Mr. INGLE. Because we felt it was not a fair thing for us, when our Government statement was called for, to swear our reserve was a certain average for a 30-day period when we knew during that 30-day period we might have had offsetting credits on our books from New York banks which would probably deplete our reserve 4 per cent.

Senator HITCHCOCK. For that reason you should always make an allowance for checks drawn against you and floating around in transit?

Mr. INGLE. Oh, no; I think it is a perfectly fair proposition there. We do not want to lean backward because—out of sight, out of mind. We have no knowledge whether the New York bank has \$100,000 or \$1,000 on that day.

The CHAIRMAN. And it is a matter of saving in bookkeeping?

Mr. INGLE. Altogether. It is a matter of protecting the bank.

The CHAIRMAN. What bookkeeping does it save you?

Mr. INGLE. It does save us bookkeeping.

The CHAIRMAN. I would like to have you explain to me what saving there is in it.

Mr. INGLE. Well, in the actual bookkeeping it simply saves the difference in time it requires to keep two accounts—

The CHAIRMAN. Instead of one.

Mr. INGLE (continuing). And one account. It all goes into a common account. Further than that, in maintaining these two separate accounts there are numerous times in which all kinds of irregular things happen, and we are eternally being mixed—an entry in one account is intended to go into another account.

The CHAIRMAN. And you have a whole lot of trouble in reconciling the accounts.

Mr. INGLE. Yes; in reconciling the accounts. I think the practice is wrong, Mr. Chairman, because the balance due in any situation should reflect the net balances due.

The CHAIRMAN. It avoids double-heading—what they call double-heading—does it not?

Mr. INGLE. Double-headers. It has led up to this: Our figures in all of our statements do not reflect the real thing at all, when we take all of this pyramiding of reserves where one item of \$5,000 may be reflected for a period of a week in the statements of five other banks all over this country before that item is liquidated. And, in connection with these double accounts, I think it is fair to say that probably 25 per cent of the amount of our statement footings represents wind. It does not mean anything at all. It is gratifying to report \$50,000,000 of deposits rather than \$40,000,000 or \$35,000,000, the real deposits you can loan.

Senator POMERENE. Let me see if I understand your statement in reference to the bookkeeping. Under the present arrangement that you have with your New York correspondent your account is charged with a check which they have paid and sent to you. If that was not done, they would have to have the same account with you and also a collection account with you, would they not? Do I make myself clear?

Mr. INGLE. I think I follow you, Senator.

Senator POMERENE. That is, for instance, I draw a check upon your bank—I have an account there—and it was sent to New York. Now, of course, I am not a depositor in your New York bank, and when they received my check there, if they adopt the other system, they would have to send that on to you as an item for collection, and that would necessitate the double bookkeeping you are speaking of.

Mr. INGLE. Double bookkeeping. There is one thing I ought to explain in that connection, sir. You appreciate this arrangement with any number of New York banks—I think we deal with about 9 or 10 New York banks—they will differ. The purpose we had in mind was the avoidance of an appearance on our books of an item due to reserve agents. You will frequently see in statements, if you will look at the publications, "Due from reserve agents, \$750,000," "Due to reserve agents, \$430,000," as a deposit. Now that is only a bookkeeping entry for convenience, if you choose, or for profit, if you choose, but it serves to artificially swell the deposit line and it always exposes the bank so carrying its account to count the full debit balance as a reserve rather than \$200,000 as the actual reserve in case he fails, because that is all he has.

Senator REED. Mr. Ingle, you have gotten into a line of discussion here that several times I have tried to get some light on. I think you are inclined to deal with this subject frankly. I would like to talk with you a minute about it. To begin with, and rather aside from what I have in mind, I want to ask you this: If a citizen of Baltimore, having an account in your bank, draws a check payable to a merchant in New York City, let us say, for \$10,000, and the check is deposited in his bank and credited to him, what protection does your bank have provided that check should happen to be a bad check? How does that bank know he has a balance of \$10,000 in your bank?

Mr. INGLE. That bank is not concerned to know, sir. That bank, in accepting a check for \$10,000 does so from one of its customers, and it is assumed he would be a reputable merchant. Obviously that bank would not accept from a merchant in whom he had no confidence, any one's check for \$10,000.

Senator REED. In other words, it knows its depositors, and if a depositor puts in a bad check the depositor makes it good.

Mr. INGLE. There it has recourse upon him, and if it is returned the depositor makes it good.

Senator REED. The protection rests upon the fact that the depositor is known to it, and if he is not a reliable man, and a solvent man you simply send it for—

Mr. INGLE (interposing). For collection.

Senator REED (continuing). For collection, which obviates that difficulty.

Mr. INGLE. Exactly.

Senator REED. Now, I want to come to this question of pyramiding reserves for a minute. Assuming a bank must keep $12\frac{1}{2}$ per cent of its deposits in its own vault and $12\frac{1}{2}$ per cent of its deposits in some other reserve bank or banks, is it not a fact that those funds thus deposited with other banks are frequently so deposited with other banks so that as a matter of fact that $12\frac{1}{2}$ per cent ceases for all practical purposes to be a reserve at all?

Mr. INGLE. I entirely agree with you, sir. As a matter of fact, the actual cash, gold—let us call it gold, if you choose, for the sake of letting you understand what I mean—the actual gold reserve or the actual legal reserve in money, in lawful money, against a deposit line of \$100,000 in a country bank is just about \$7,500 in money by the time that the reserve in the secondary reserve city is further split up by being transferred, a respectful portion of it, to the reserve city. You understand what I mean, sir?

Senator REED. Yes.

Mr. INGLE. If a country bank deals with a reserve city of the second class, which city in turn deals with a central reserve city, the original deposit of the country bank is represented by just $7\frac{1}{2}$ per cent in real money.

Senator REED. Yes.

Mr. INGLE. Now, mark you, here is another question there, sir. Very unfortunately, in the case with a very generous share of these reserves they are made up not of cash, not of demand paper payable in a reserve city, but of miscellaneous checks and drafts listed on slips a yard long many times, scattered all over the known world, I might almost say.

Senator REED. You mean to say, instead of carrying cash they carry something in lieu of cash and count it as cash?

Mr. INGLE. No, sir. I mean this, that a bank in the interior and also many banks in the reserve cities of the second class, will have its correspondent in either a reserve city of the second class or a central reserve city. That interior bank will send to Philadelphia, if you choose, a long letter made up of items, 10 per cent of them on Philadelphia and 90 per cent of them on other points within the territorial limits of the United States, very often. The moment the interior bank charges Philadelphia with the footing on that letter, it looks like money to that interior bank, and it proceeds to draw against it as money. You should say competition should prevent all of that. That is very true, but the practice is horribly abused.

Senator REED. The fact is, then, if I understand you (and I am going to put it in my own words to be sure I do), we will say that a bank in Indiana has an account with a bank in New York and uses it as its reserve agent. It gathers up a lot of collections scattered broadly over the United States and sends them down to the bank in

New York, in the aggregate amounting to \$500,000, and the bank in New York at once credits to the bank in Indiana \$500,000. The bank in New York, however, does not have \$500,000 in cash, but has \$500,000 in collection items.

Mr. INGLE. A certain percentage of it, anyhow.

Senator REED. Yes. And therefore the bank in Indiana credits itself in its reserves with \$500,000 in cash in the reserve in Philadelphia and treats it as though it were cash when in fact it is a liability.

Mr. INGLE. Unliquidated business.

Senator REED. That is practiced extensively?

Mr. INGLE. Most extensively. And anything in the world, as, for instance, this bill, which will compel or induce the prompt presentation of those checks at a minimum cost would be a step in the right direction and get things down to a dollars and cents basis.

Senator REED. Now, you stated a moment ago that as it worked out with an ordinary country bank having deposited a portion of its funds in a reserve bank, and then that money can be redeposited, etc., there was an actual reserve of about $7\frac{1}{2}$ per cent. Now, do you deduct from that $7\frac{1}{2}$ per cent a further sum on account of the system you have just explained of sending in checks and drafts, etc., to be collected and credited?

Mr. INGLE. No, sir; I am afraid if we did that, in many cases we would have a minus quantity.

Senator REED. That is what I want to get at. You mean that the $7\frac{1}{2}$ per cent exists because as a part of that $7\frac{1}{2}$ per cent is counted the credits which the banks obtain when they have not deposited their cash but have deposited items for collection.

Mr. INGLE. I think that statement is true, sir.

Senator REED. And that the items for collection are so great in the aggregate as to wipe out the entire reserve of $7\frac{1}{2}$ per cent?

Mr. INGLE. Yes. But it differs with different banks, if you please, Senator.

Senator REED. I am asking about the general custom.

Mr. INGLE. I am speaking about the abuses which have grown up by reason of the practices that have grown up under the present law.

Senator REED. I understand some bankers do not do it but that this is a general custom.

Mr. INGLE. I think it is quite general.

Senator REED. Then, as a matter of fact, our reserve system, with the exception of the money actually held in vaults in the banks, is a good deal of a—

Mr. INGLE (interposing). Of a delusion and a snare.

Senator REED. Yes. Now, if that is true (I am coming to another question) and this bill changes the aggregate of the reserves by reducing them in various amounts, depending upon the class of banks, and yet compels the actual keeping of the money, the effect will be to really increase the reserves—the actual reserves.

Mr. INGLE. That would be my judgment, Senator.

Senator REED. So that in the change which we are putting in operation, applying it not to the law as it now exists, but to the custom which has grown up under the law, there would be actually more money tied up in reserves under the new system than under the old,

although we have reduced the amount in percentages in this bill? Putting it in another way—

Mr. INGLE. I think I catch you, sir, but you must remember this, Senator, that a part of the 18 per cent reserve which we will be required to keep under this law will not be money at all; it will be a credit on the books of the Federal reserve banks, of which only one-third is held in cash.

Senator REED. Yes.

Mr. INGLE. So that we will then have, under the new law, roughly speaking—I have not a blackboard here, sir—about the same amount of actual money reserve as we now have.

Senator REED. But, of course, you have introduced into your last answer a further provision; that is to say, that the bank, as soon as it deposits its reserve with the regional bank, will then borrow it back?

Mr. INGLE. It will be borrowed back. It is not material to us whether we earmark it or not. It will be borrowed back by some one, and that bank will only hold, as a matter of fact, 33 per cent of its liability to us in cash.

Senator REED. But, omitting that last transaction, which may or may not take place, and putting this thing, if I am able to do it, in a sentence, the 15 per cent reserve required of a country bank and maintained, as you say it is maintained under the present system, actually demands less cash as it is worked now under the present system than would be required under the new bill in actual cash, although the reserves are reduced to 12 per cent? That is, now, up to the time that the regional bank rediscounts.

Mr. INGLE. Senator, I am just running it through my head as you are asking it. My impression is it will require a very slight increase in the actual cash held in the reserves in the country bank, either one place or another. But here against this in this law is the wonderful compensating advantage—

Senator REED (interposing). I am not speaking of the advantage now; we are coming to that in a moment. I am not contending against the bill. The present system is so run that that part of the reserve which is deposited in other banks is practically wiped out as a cash reserve. Under the new system the cash is actually put in the vaults of the bank, or would be in the vaults of the reserve bank, as far as the reserve part of this system goes. Then, of course, the reserve bank is permitted to loan all of the reserves that have been put up with it except a 33 per cent reserve, which it must hold. That is the situation as it works out.

Mr. INGLE. Yes.

Senator REED. And I take it from that the central reserve bank has actually loaned out the money that has been put up with it, and there is more money in cash in the banks under the new system, although the reserve is less, in figures—that is, in percentage—than there is in cash locked up now in reserves with a larger percentage.

Mr. INGLE. Senator, I have not attempted to work that out, and I must confess I have looked at this subject more from the viewpoint of a banker in a secondary reserve city, of course, more or less in its related aspect.

Senator REED. We can figure from your previous statements, but of course you can supplement this by any statement you want to make,

in writing or otherwise. Now, let me ask you about another matter that is not, perhaps, exactly germane to this question: To what extent is this practice followed by banks, namely, a bank likes to have a showing of a large amount of deposits; it looks good. To what extent do they practice this system of bank No. 1 depositing \$100,000 with bank No. 2, bank No. 2 depositing \$100,000 with bank No. 3, bank No. 3 depositing \$100,000 with bank No. 4, and bank No. 4 depositing \$100,000 with bank No. 1—to what extent is that sort of scheme worked?

Mr. INGLE. Senator, I have never had much personal experience in those directions. I have heard of that and I probably have known of two or three concrete situations of just that sort, where a bank, for instance, will at a given moment want to replenish its reserves, if you choose. A bank in Baltimore may draw on, shall I say, Cincinnati for \$100,000. At that time it will not have a penny to its credit in the city of Cincinnati. It will send that draft so drawn out to Chicago. It is a central reserve point. By the time that draft on Cincinnati will have reached its destination the drawing bank, the initial bank, will send to Cincinnati, maybe, a draft on Pittsburgh, and so on, and in that way deliberately proceed not only to build up its deposit line but at the same time to build up its reserves.

Senator REED. That is kiting?

Mr. INGLE. Exactly so; pure and simple. There is quite a little of that done. In a city, for instance, with a dozen banks I will assume that probably no more than two or three banks will do that. The other banks will not do it, but they recognize they are handicapped in not being moved to do it. They swell their deposits otherwise artificially in many ways. For instance, there was offered me for discount only last week a certificate of deposit drawn by a bank for itself for some thousands of dollars. That bank will loan its customer, will accept a customer's note for \$5,000. It has not the money; it has exhausted its credit in the shape of bills payable or rediscounts, if you choose, direct, but it will give that customer its time certificate of deposit payable three, four, or five months after date. That customer will take that time certificate of deposit and, through some other channel, discount it. In the meantime such time certificates will appear as deposits in the statement of the issuing bank. There are all kinds of devices, sir, which we can not recall on the spur of the moment, but it gives us pause as we meet with them from day to day.

Senator REED. There is a good deal of that done, you say?

Mr. INGLE. Quite a little of that done.

Senator REED. I had in mind a different transaction from that and a transaction which could not be said to be dishonest, but simply a bank's desire to have it appear they have a large amount of deposits. And of course in the illustration I used, bank No. 1 could have actually deposited with bank No. 2 \$100,000; bank No. 2 could actually deposit the \$100,000 with bank No. 3—not the same, but another hundred thousand—and that could be carried on until it made the circle and got back to bank No. 1. And if there were 10 banks there would be an aggregate of a million dollars of deposits and yet each bank would owe as much as its deposits, and there would be an apparent increase of a million dollars in the aggregate in those banks, and yet not an actual increase of a penny.

Mr. INGLE. That is exactly what I suggested about the 25 per cent of the total statement footings of the country representing air.

Senator REED. So that you think the aggregate deposits of our banks to-day, if they were gotten down to what they actually are, would shrink very largely?

Mr. INGLE. If boiled down to a condition which would be brought about under the terms of this bill by the clearance of the checks as promptly as possible and not as great a delay as possible, I am inclined to think the statement footings under the present system would probably shrink to a loss of 20 to 25 per cent. It would not mean the loss of a penny except pride.

Senator REED. I did not hear all of your testimony, and I may repeat a question that has been asked, but for my own information I want to ask this: If your bank has a part of its reserve in its own vaults, as required by law, a part of its reserve in the regional bank, as required by law, but the aggregate of the two accounts being sufficient to comply absolutely with the law, and one of your customers draws a check and passes it through the regional bank, and it is instantly charged, will that not compel you to keep an amount with the regional bank considerably in excess of your legal reserve, lest the transaction I have referred to would bring you below the legal reserve?

Mr. INGLE. Senator, I referred to that before you came into the room, and I took the liberty of suggesting that this bill be amended so as to allow some little play in a situation which otherwise would inflict a penalty. That reserve account should, without penalty, be permitted to be 20 per cent below the fixed amount, and below that there could be a penalty fixed so as to prevent exploiting that account for profit.

Senator HITCHCOCK. Will you state in a few words your objection to having this provision of the section changed—

Mr. INGLE (interposing). Pardon me, Senator, what section is it?

Senator HITCHCOCK. It is on page 33. Most of the country bankers have urged that that section be changed so as not to require a regional bank to accept checks upon member banks at par. Now, why do you think it would be better to continue to have the regional bank accept those checks at par?

Mr. INGLE. It is probably fair to divide that answer. First, for the reasons I have sought to give, I think it should be almost obligatory to compel the retirement of these checks at the earliest possible moment, in order to avoid this undue and unreasonable expansion of credit, this duplication of credits in the hands of four or five successive banks, by reflecting the credit of a single item in process of liquidation.

Now, the meat of their objection, as I take it, is in regard to the par facilities. Now, of course there comes a consideration which is selfish at both ends of the argument. I have already brought out why I feel that the bank, the paying bank, should honor its customer's checks when they are presented. Here is a thought I omitted. I can not talk very well, and I have to speak rapidly and without any preparation, as you ask questions.

You must remember that if the customer of an interior bank will go into his bank and ask for a draft on Chicago with which to pay

a bill in Chicago, his country bank will probably charge him something for the draft and the Chicago man gets his payment at par. Now, if, instead of doing that, the interior man sends his local check to Syracuse, N. Y., we will say, in payment of a bill, there has elapsed one day; Syracuse will send that to its reserve point, and another day has elapsed; the reserve point will send it to the bank upon which it is drawn, and that makes three days. Speaking in a broad way, checks, handled ever so promptly, will require two or three days to reach their destination, so that the bank upon which they are drawn gets the benefit of the additional time in which to keep its money loaned during the exact number of days in which those checks are required to reach it. They now get the advantage not only of the additional time which now amounts to a week or 10 days many times, but they also get from \$1 to \$2.50 a thousand in remitting for those checks.

But, gentlemen, the devices used by many banks are very ingenious, indeed, when arranging for the best possible results to their profit-and-loss accounts. I do not blame them at all.

Senator HITCHCOCK. I want to refer you to some testimony which has been given before this committee. A very intelligent banker from Peoria testified yesterday or the day before, before the committee, that if the bill as drawn is favorably reported and permits a customer of a country bank to draw his check with the assurance that it will be received at par by the reserve banks, that remittance will be made that way, and the result will be that the reserve bank will have a great mass of checks of that sort to handle. He says, however, if a discrimination is made between bank drafts and individual checks it will require a country merchant who desires to remit to go to his bank and get a draft upon the reserve bank. That draft will pass at par not only in that reserve district, but in all other reserve districts, and as it passes at par, and because of the competition between banks, the country bank will not make any charge for that draft upon the reserve bank, which he says will put a stop to kiting. He says that if this remains as it is the country merchant, knowing that his check sent, say, to Chicago, or, as you say, to Syracuse, will not be charged to his account in his home town until it has made the rounds, and will continue to maintain the practice of paying in checks, the man depending upon his collections to make his money good later on.

Mr. INGLE. On the contrary, sir, I think under the new law he has got to pay the bill earlier than under present conditions. He knows that check is coming immediately back to his home bank.

Senator HITCHCOCK. Suppose this law discriminates between an individual check and a bank draft upon the reserve bank?

Mr. INGLE. I do not see the occasion for it or the merit in it. There, again, comes selfishness, which is altogether a proper emotion in such a case, I imagine. I think our friend from New Orleans is figuring that half a loaf is better than no bread. If he has got to be stripped of part of this, he might as well save half of it out of the wreck. I can not see the difference between a check drawn on any bank by a banking correspondent and one drawn on it by an individual customer. Some individual customers have their checks frequently in the form of an ordinary bank draft, as looking more substantial, if you choose.

Senator REED. The distinction which he made was this: When a man went to his bank and drew his check upon that bank, say, for \$1,000, and obtained a draft, that then that bank knew that that money was drawn out and reduced its account by that much, whereas if he simply drew a check and said nothing to his bank about it and sent it on to New York, and it went to the regional bank in New York, incidentally his reserve in that bank was reduced. He would not know about that, and his reserve might be wiped out without his knowledge, whereas if the bank-draft transaction took place it took place at his counter, and he immediately made his entries. That was one reason he gave.

Mr. INGLE. If you will excuse me, that is a very strong argument, because there is no greater reason to suppose that a merchant in a country town will, under these changed conditions, go to his local bank and get a draft on a Federal reserve bank than he would now go to that bank and get a check on New York to pay a bill. That merchant, speaking generally, wants that check to stay out as long as it can, and the bank upon which it is drawn wants it to stay out, and the member bank is not at all concerned when that check is charged to its account on the books of the Federal reserve bank, assuming that this law can be amended to permit some little play between the 5 per cent definitely and the $4\frac{1}{2}$ to $5\frac{1}{2}$ per cent as the exigencies or delay might possibly demand.

Senator REED. He urged this as a reason: He said if you adopt the system that the bank draft will be credited at once in the reserve bank, that works no harm, because the member bank knows the draft is out and has deducted it from its account. Therefore it must increase its reserve in its own bank, or it must increase its reserve, if necessary, in the regional reserve bank, and that that sort of banking, if that draft would be regularly cashed at par and at once, creditors would demand it and get it. If, at the same time, you provide that a bank check would not be so credited but would simply be accepted for collection and sent on to the bank upon which it was drawn, and that that discrimination in the law between the two kinds if paper would build up the bank-draft system and would circumscribe the check system. Is there anything sound in that?

Mr. INGLE. I can not say it is unsound, but I think it is probably Utopian. I think the competition in the cities to which such checks are sent will also require that they be accepted as cash on the same basis as the check on a Federal reserve bank, and the bank accepting them as cash simply takes its own chances.

Senator REED. It would not be Utopian if the law provided that that check should bear a charge for collection and a draft not?

Mr. INGLE. I will not venture that suggestion. I doubt whether the law could say that.

Senator REED. Oh, yes; the law could easily enough provide that if we wanted to have it do so. It could provide that the regional bank would cash the draft, and the regional bank would send the check on for collection, and that there should be a collection charge.

Mr. INGLE. The trouble would be that the check would not go to the regional bank; it would go direct to its destination, as is done now, or there would be some other rearrangement.

Senator REED. Through some other bank?

Mr. INGLE. Yes, sir; I take it so. It would be like New York—
Senator REED (interposing). That would put it at some disadvantage?

Mr. INGLE. The customer would not care a rap about it if he gets a credit upon the books of the bank. He does not care what happens.

Senator REED. He would just go to his own bank, and his own bank would give him credit and put it through?

Mr. INGLE. The customer would not care how. You know in drawing cotton drafts, as is done on the New England States, where three days' grace is always not only allowed but taken on drafts drawn at sight, the owners of those cotton drafts at the initial point puts them in their banks as cash. Then the initial bank, unless we have prearranged it, immediately begins to quarrel with its corresponding bank, because it declines to accept as a cash credit an item which will not be paid until the lapse of four or five days thereafter, but if that fellow has a good account, well, we swear in private and properly credit it up to him and say nothing about it. If he has a bad account, we will simply forward it for collection and give him credit upon its actual payment.

Senator REED. How would it strike you if all checks used in interstate commerce—private checks—had to have a stamp upon them, the proceeds to go to the supporting of this banking system?

Mr. INGLE. Well, I would rather—

Senator REED (interposing). I am not committing myself upon that proposition; I am just asking you about it.

Mr. INGLE. I suggested here that it is a pity that some way under the interstate clause of the Constitution could not be found to nationalize the whole business, and then you would relieve all of us of a great deal of worry and trouble, and we could all take the same dose of medicine or tonic, as you please.

Senator BRISTOW. I started to question you on this check business sometime ago, and I want to proceed with it.

Senator REED. I beg your pardon for interrupting you, Senator.

Senator BRISTOW. That is all right. There is one important matter that has not been brought out, which I would like to have brought out. You seem to be opposed to the present system of remittances by checks. I want to ask you—

Mr. INGLE (interposing). No, Senator, I would not like to be so set down. I am opposed to the present handling of the checks which are remitted. I think checks, local checks or checks of any kind, are proper methods of remitting, if you choose, under our development, as we view it. I think there should be some way provided to quickly get those checks back to their paying banks; get them back as promptly as possible.

Senator BRISTOW. That is a question for the banks to consider as to how they will handle the checks. But you criticized the remittance which I suggested I had made to Chicago by check to pay an account there, because you said that was paying a \$1,000 account with \$999.50.

Mr. INGLE. That was the effect upon the party of the second part who gets your check.

Senator BRISTOW. I understood from your general attitude you thought this system of remittances by checks was a bad one, and then I suggested that the country bank had encouraged it; that they had solicited and asked, or recommended that their depositors use checks.

When you go to a bank and deposit, say, \$1,000, they present you with a check book and prefer that you check that out rather than that you draw it out and disburse it that way.

Mr. INGLE. For purely selfish reasons, of course.

Senator BRISTOW. That leaves the money in your bank?

Mr. INGLE. Exactly.

Senator BRISTOW. If you have a pay roll, small or large, say with only 15 or 20 employees, your bank prefers that you pay your employees by check rather than going to the bank on Saturday afternoon, if you pay on Saturday, and drawing out the money and paying them cash, because it keeps the money in the bank, and the checks go around to the various merchants and finally come in. That is a practice which country bankers have encouraged and developed, have they not, for a series of years?

Mr. INGLE. Unfortunately, they have.

Senator BRISTOW. Why do you say unfortunately? What does that do? As a matter of fact, does it not bring the money that otherwise would be in the safes, or in the desks, or in the bureau drawers, in the community, or out on the farms, into the bank? Does it not increase the reservoir of money there for the use of that community and has it not resulted in the establishing of banks in communities where 30 years ago would have been regarded as ridiculous to undertake to establish one? Has it not resulted in drawing out of the hiding places millions of dollars for the use of American people in their commercial transactions?

Mr. INGLE. Senator, I guess I will have to say yes to that. I do not know whether that is altogether a proper answer, whether it has been so much the use of the checks as it has been the solicitation of deposits which otherwise had been concealed within the stockings and cupboards, I do not know. The money has come from the solicitation; the checks follow afterwards, and operate to keep the money more or less in the banks.

Senator BRISTOW. Now, say there is a farmer out here in Maryland, and he may be growing his crops and he is paying his hired men. His banker would prefer that he keep his money which he has in the bank and take a check book. It is safer. It is not lost. If the check is lost and it does not turn up, that is better than to lose the money and have it destroyed. The result has been that the farmer has written checks. We will say he wants to pay a bill in Baltimore instead of at Marlboro, we will say, and so he sends a check to Baltimore. The merchant takes that check and deposits it in his bank. If you take from him this convenience of paying these bills with checks, and make it so he can not do it, you will destroy a system and a custom which has been built up, and which, it seems to me, has added very greatly to our commercial activity.

Mr. INGLE. We will never do that. We have no desire to do that. On the contrary, once that check is issued, I do not believe it should circulate as currency for 10 days before it is redeemed. Before it gets back to its paying bank it may have traveled 2,000 miles if you choose, all around the country, before it reaches its destination.

Senator BRISTOW. There may be an occasional abuse in this, the same as in almost everything else.

Mr. INGLE. I think a usual abuse, if you will excuse me, sir.

Senator BRISTOW. What is the objection? I will give a check for \$10 to some one, we will say, who may be employed by me. I may be a farmer. I may buy something and I give the man from whom I buy a check, and if he thinks it is all right (my reputation may be good in the community) he takes that check, and there is somebody whom he owes something to and he has not the money, and he says to the man to whom he owes something, "I have not the money to pay this, but I will assign to you a check of Bristow's which he gave me for a pig," and he takes it, and in the course of a few days it comes back to the bank. What harm has been done? Is not that a convenience?

Mr. INGLE. That is a convenience. But you will not let a bank do that. You will not let a bank issue its notes by indorsement and pass them around as money.

Senator BRISTOW. We do not let a bank——

Mr. INGLE (interposing). We can not issue our promise to pay and circulate it as money. We do it in times of panic, issue a certificate of deposit or some makeshift-currency device, but everyone looks askance at it.

Senator BRISTOW. If this customer or the employee, or whoever it may be, is perfectly willing to accept that check, because he knows it is good, and can get the money at any time he wants it, and if it is convenient for him to transfer that to somebody else for some other consideration, it gets back to the bank and is then retired. What harm does that do? That is what I would like to know?

Mr. INGLE. No special harm, except that it is a privilege you grant him of circulating his checks as money which you will not grant to the bank. You will probably believe that a note of my bank for \$10 issued outside of the currency act would be a good asset in your pocket. But I am not permitted to issue that note except under a penalty of 10 per cent interest. You expressly say that I shall not do that, and yet you have a provision for the redemption of these circulating checks, and so are in effect making of them a circulating medium.

Senator BRISTOW. You will give a certificate of deposit; you will give a bank draft; that is your check?

Mr. INGLE. Yes.

Senator BRISTOW. If I go to you, if I am a customer of yours in Baltimore, and I ask you for a bank draft instead of sending a check, and get a draft, what is that but your check?

Mr. INGLE. That is, to all intents and purposes, over night if you choose, that is money. That is the transfer of funds, and I want that check to be presented as quickly as possible. It is in the promptness of the redemption of this media——

Senator BRISTOW (interposing). What is the difference between that draft which you give me, which is a check on your bank, issued by your bank, or upon a New York bank, probably issued by you, and a check which I may give to somebody on your bank?

Mr. INGLE. Absolutely no difference whatever. I am not trying to discriminate between the two classes of paper. I am only suggesting that they ought to be redeemed as promptly as may be.

Senator BRISTOW. You give me a draft for \$1,000, and I owe a man \$1,000, and I say I have not the cash, I have not the money

on deposit, but I have a draft in this bank for \$1,000, and I tell him I will turn that over to him. He says that is all right. That is against the law?

Mr. INGLE. No, sir. I entirely approve of the provisions of the negotiable-instrument act under which title can pass by indorsement, but I do not believe in making a circulating medium of checks, or doing anything which will take the holders of checks and keep them away from the paying bank any longer than is possible.

Senator BRISTOW. The law treats your check no differently from the way in which it treats my check, so far as the check goes. When you come to the bank notes that are to circulate as money, that is a different proposition, and there are reasons, wise or unwise, which it is not necessary for us to discuss just now, because we might not be so very far apart upon the advisability of bank notes being used that way, if issued in the right way. That is all. I wanted to bring out this important point which has been overlooked by the bankers in the great cities who are concerned with the crediting of these checks. They overlook the tremendous advantage that they have been to the country, and to the banking business of the country by the development of that system.

Mr. INGLE. By all means continue their use in any volume whatever, but provide by proper legislation to invite rather than discourage their prompt redemption, and I think such an invitation is extended under that particular clause of the bill which permits us to have those checks redeemed at par by the Federal reserve banks.

Senator NELSON. You have only given us a little part of your statement. Suppose you finish your general statement.

Mr. INGLE. I will do that.

It must be assumed that section 4 in permitting removal of directors in class B intends only to give the Federal board a weapon of defense for use only upon occasion, and does not mean to suggest that removals are to be the rule. If Congress in section 7 could say 6 per cent rather than 5 per cent as dividend rate the bill would be much more acceptable to many banks, and especially the interior institutions which earn more on their money than the rate suggested in the act.

Senator NELSON. What do you think of increasing it to 6, and then having the excess go directly to the Government?

Mr. INGLE. There again, Senator, it would depend upon how this Federal bank was to be managed.

Senator NELSON. The theory of some people is that it should be used for the purpose of aiding our system rather than as a money-making institution.

Mr. INGLE. If that is followed out, if that is to be done, if an underlying thought is in evidence, or may be in evidence, that it is a money-making proposition to the Treasury Department, it would obviously compel us to view it differently. For instance, one provision—

Senator NELSON (interposing). The argument is made that to give the member banks an interest in the surplus revenue would tend to arrange it for the purpose of merely making money. If you take away the surplus of the interest and leave it so that they will simply get their dividends, it would be more apt to be run for the good of the cause, rather than as a purely money-making institution?

Mr. INGLE. Senator, you must remember that if you could by Federal act compel everybody to assent to these principles they would assent whether they wanted it or not. That will be one situation. Here we want to pass an act which shall invite people to come into it. I said that a 5 per cent revenue will not appeal to a bank which is accustomed to get 6, 8, or 10 per cent revenue from its local loans, and I believe that with 6 per cent instead of 5 per cent, and with the present distribution of the surplus profits, I believe that you would find a very much more ready assent, and you would hear very much less of the confiscatory features of the bill.

Senator NELSON. You are looking at it simply from the standpoint of mammon and not from the standpoint of public spirit.

Mr. INGLE. Purely from a standpoint of mammon, as a practical proposition and in dealing with a new situation.

Section 14 too narrowly defines the classes of paper available for rediscount. While city banks could possibly meet requirements the country banks certainly would not be able to do so. In this connection it may be proper to say with respect that the Secretary of the Treasury did not draw proper deductions from the information derived from the last reports made to the comptroller in response to that officer's request for a statement of maturities of paper held by the banks.

At almost all interior points the actual maturity of a note bears little relation to the date at which its payment is expected, and to attempt to collect such paper in accordance with its terms would be futile. In the cities paper drawn by the best people is frequently made with the idea of renewing it at the mutual convenience of those directly concerned. It probably is fair to say of maturities in any given month, excepting possibly October and November, when the percentage is greater, that not more than 20 per cent of maturing obligations are paid on their due dates, while in connection with so-called demand loans payment is made at the pleasure of the borrowers, excepting the "street" loans made in New York. If this section of the law could be better worked out in detail, its beneficial provisions would atone for much in the act to which such ready assent can not be given.

Senator NELSON. You would extend the maturity limit of the paper?

Mr. INGLE. Not so much that. I would have it more nearly conform to the present practice. The city bankers and the banks in the larger communities have paper acceptable under the terms of this law, either commercial paper or paper which could be by interpretation made commercial paper. But, I take it, that this law, in saying 90 or 120 days, has in mind paper which it is expected will be paid.

Now, the average interior bank, particularly in agricultural sections, has one pay day a year; it may lose that for two or three months, and after that the paper may not be made during the remaining nine months. That bank, in borrowing, if it makes a note for three or four months, does it with the palpable intention of having it renewed for another period of three or four months, so that it will be paid finally after the expiration of eight or nine months.

I do not see why it would not be altogether competent for an interior or any other bank to follow the present practice, and in addition to rediscounting straight paper with indorsements to make

its own obligations and pledge with that its customers' bills receivable in such volume as was done during the recent panic. In doing that you would not only be following a usual practice but one which would permit very much better protection to the Federal reserve bank, because in the absence of very close investigation it goes without saying that no Federal reserve bank, for instance, in Columbus, Ohio, could possibly know anything about the small bills receivable, collected, and eligible under the letter of this act by some bank in some small interior Ohio town. They are tenant notes, country notes, perfectly good to the holding bank, but altogether unknown outside of its own district. So I think it would be wise to make more explicit the provisions of your law and not leave so much open to the interpretation of the Federal reserve board, and say that the banks can borrow from the Federal reserve bank on their own notes, secured by the pledge of their customers' paper issued for all these purposes as prescribed in the act.

Senator O'GORMAN. Would that afford ample security to the Government?

Mr. INGLE. I think it would afford better security than the Federal reserve board could receive under a strict interpretation of this law. The affairs of a country bank will entirely be known under this new order of things to the Federal reserve bank with which it is connected. That Federal reserve bank can not know anything of the individual notes held among the assets of those banks, except in a general way, in connection with the larger obligations, if you choose.

Now, when such an interior bank pledges its miscellaneous bills receivable or rediscounts simply upon its indorsement, the Federal reserve bank will stand or fall by that obligation itself, with, of course, the protection given it by the law, as to the liens, and so forth. But if that interior bank could give its reserve bank its direct obligation for \$10,000, and with that note pledged \$12,000 or \$13,000 or \$14,000 worth of its customers' miscellaneous paper, the Federal reserve bank would have 140 per cent to protect the 100 per cent of the bank's assets, and that is the way in which business is usually done, and it would seem to me we want to make things easy for the country banks and not hard, not too much disturbing their accustomed methods of doing business.

Senator NELSON. You mean the practices when a bank wants to borrow from another bank, the borrowing bank gives its own notes, and does it with the notes of its customers as collateral?

Mr. INGLE. Exactly, with a proper margin.

Senator NELSON. Is that practice more general than the other practice of getting money simply on discounting notes?

Mr. INGLE. Oh, my dear Senator, I think my bank, if you will excuse the reference, to illustrate the point; we have loaned \$5,000,000 to interior Southern banks, for instance. I do not believe we have under rediscount \$300,000 worth of paper. I think the rest of the direct obligations of the banks, all with the pledge of collateral. We then have better protection, and when we want to make a loan we can say we will not lend a man \$10,000 with only a 10 per cent margin of collateral; that he has got to give us 50 per cent margin, and so we will lend him \$10,000 if he gives us \$15,000 of paper. That permits some sliding scale and to reflect our judgment of his solvency.

Senator NELSON. Under this system in the bill, you must remember that the member bank who seeks to discount must indorse the paper and be responsible?

Mr. INGLE. Exactly so.

Senator NELSON. So that in the one case you would have him held as an indorser, and in the other case you would have him held as the maker, with the notes as collateral.

Mr. INGLE. We take all these things upon the assumption that a bank may do a great many things.

Senator O'GORMAN. I move that the committee take a recess until half past 2 o'clock.

(Thereupon, at 1 o'clock and 5 minutes p. m., the committee took a recess until 2.30 o'clock p. m.)

AFTER RECESS.

Senator HITCHCOCK. Mr. Ingle, will you proceed with your statement?

Mr. INGLE. I suggest that the law should contain some provision under which it would be impossible for any bank to assume liability of any nature, whether for deposits, notes, acceptances, or bills payable, beyond the amount of some agreed multiple of its own capital responsibility.

It is altogether gratuitous; but it has just occurred to me that it would be a wise provision, as every bank, in loaning its money to any customer always requires that that customer shall furnish it with, certainly, 10 per cent margin to protect it against possible loss. The margin may or may not be good. The security may or may not be good. But the bank always feels that it has that margin, either in the value of securities or in the value of a man's stock in trade, whatever it may be, to protect it; and it seems to me that anyone dealing with a bank has a right to demand that that bank shall furnish him with the same measure of protection, or some percentage of it, at least, as the bank itself requires at the hands of customers.

Senator NELSON. Suppose you limited it to capital and surplus?

Mr. INGLE. Well, I would just amend the percentage. I would say 10 per cent, 15 per cent, or 20 per cent of capital, or 8 per cent, 10 per cent, or 12 per cent of capital and surplus—whatever was thought desirable.

Again, section 17 provides machinery for what must become a most useful agency and one which in its workings must relieve business of an onerous tax now laid upon it.

That is the section which we discussed here a little ahead of its order. But I will repeat it for the purpose of making a consistent statement.

Obviously any objection to this section must be selfish in its nature. Banking is the solicitation of deposits to be protected by shareholders' capital, all to be loaned in proper directions at current rates of interest, and checks drawn against such deposits should be paid without discount. A bank makes more profit in interest for the time in which its customers' checks are outstanding in process of collection than the cost to such bank of furnishing exchange if indeed it is required upon occasion in making such exchange to ship currency. When a bank claims that the loss of its exchange charge,

oftentimes \$2.50 per thousand and even more, deprives it of its living it is furnishing the best argument that no bank is needed in its community.

Senator HITCHCOCK. Let me interrupt you there. I have seen something of small European towns where they have no banking facilities; and I think it is one of the very satisfactory conditions in the United States that almost every town, however small, has banking facilities; and I am disposed to ask you to demonstrate that a community, a small community of 2,000 or 3,000 people, would be better off without any banking facilities at all, provided a bank could not live wholly by the small loans it could make there?

Mr. INGLE. Well, I do not think any situation is justified, sir, when, in order to keep such a situation alive, a special tax is laid upon a community not attached to that situation. You know, in talking this way, Senator Hitchcock, I would not have you think that I desire to place myself in a position of antagonism to interior banks. Far from it. I have tried, in three or four directions here, to point out defects in the bill, in my judgment, in which the country banks are not fully served.

Senator HITCHCOCK. Let me take an illustration, so that we will have a concrete case. A town of 2,000 population with a small bank that has, say, a capital of \$15,000—I do not know what would be the proportion.

Senator NELSON. It would not be less than \$25,000.

Senator HITCHCOCK. Well, let us say \$15,000. That bank furnishes a place where people can deposit funds; it furnishes a place, where people can get exchange; it furnishes a place where those in need of money can borrow; and, as far as these loans are concerned, the bank is not able to loan enough money to operate profitably; and in order to eke out what it is not able to do through loans it makes a certain amount upon exchange in this way, by charging a discount upon checks.

Now, the result is that that community has a little bank, and if deprived of that opportunity to make that little profit upon checks, that community would be without that bank, and the money that would be saved there would be put in stockings, mattresses, and under carpets, and the people would have no facilities for doing business. Do you think that community would be better off under those conditions?

Mr. INGLE. Well, I do not know that that situation would justify taking up a contribution throughout the country to support a bank in that community.

Senator HITCHCOCK. Let me put this case to you: Suppose there were no bank there and there were collections against people in that town. They would have to be sent to a lawyer, and he would make a charge for them. Why not have a bank to make the collection?

Mr. INGLE. Very true. But you must remember that this law does not undertake to interfere with the daily operation of all of our banks in and out of town, in so far as it refers to the collection or handling of any business other than negotiable checks. We would still have our commerce of the country, as represented by bills of lading and shipment of cotton and grain, etc. That would still be handled through ordinary banking channels. This machinery pro-

vided in this act has reference only at the moment to checks and not at all to drafts or notes or other evidences of indebtedness; so that a bank would not be handicapped at all in that way.

Senator HITCHCOCK. Perhaps I misunderstood you. I understood you to say that if a bank could not live in a community without making those charges upon checks that was complete evidence that no bank was needed in that community.

Mr. INGLE. I think that is a fair statement, sir.

Senator HITCHCOCK. Well, I will not interrupt you any further.

Mr. INGLE. Well, I would not like that statement to go out without a word of explanation, because it would leave me in a rather equivocal situation, possibly. Before the multiplication—or the extraordinary multiplication—of banks that this country has seen during the past 10 or 15 years it was altogether possible to very comfortably serve a community within a radius of 10 miles, let us say, of Raleigh, N. C., by one, two, or three banks in Raleigh. Everyone mailed their checks, as they are invited to do now, to the city banks for deposit. They took care of current business transactions in that way.

Suppose a merchant had a bill against a man outside of Raleigh. He would send him the bill to his post office. The man would send the merchant from his local post office, 5 miles away from Raleigh, his check on Raleigh; or, if he happened to be going into Raleigh on court day, he would get in a piece of exchange on some northern point, if you choose. His business was fairly well served.

Now, we have in all of these relatively very small places not one bank, very often, but two or more banks in small communities of anywhere from 500 to 1,500 people.

Now, one bank will start in such a community. It will make a success, in one way or another, by altogether legitimate business; do not misunderstand me. Suppose it has made such a great success, if you choose, that competition turns up. There will be another bank. In a little while you will find a third bank.

Then competition becomes very severe, and what is the next step? Those banks get together and they agree upon a tariff schedule for exchange charges.

Now, if they would make a tariff which would reflect the expense that those banks were put to in making that exchange, plus a fair fee for their clerical work, their postage, and such matters, no one would have any objection to urge, I imagine. But it unfortunately is the case that in very many and an increasing number of cases those two or three banks in those small communities will make some such agreement as this:

We will unite and say that we will all make a charge of one-eighth or one-fourth of 1 per cent on all business reaching us.

And no matter to which bank is sent business on that community that bank in collecting those items would pay its neighbor the agreed rate of exchange. So that each bank gets its own exchange on its own customers' checks.

And there you have as arbitrary a trade-union as can be well conceived of. There is no escape from that. It is the abuse of that thing that is onerous.

Senator BRISTOW. Well, now, that is done by the merchants.

Mr. INGLE. Pardon me, I do not understand.

Senator BRISTOW. The same plan is carried out by the merchants in that community frequently. There is not any other line of business in which the same processes are not in operation.

Mr. INGLE. Well, that does not justify it. Two wrongs are not supposed to make a right.

Senator BRISTOW. But why should we legislate to prevent the banks from charging this exchange, or against there being more than one bank in a town, any more than against there being more than one store?

Mr. INGLE. Because you are legislating on the subject of banks now. One of these days, possibly, you will legislate against dry-goods stores.

Senator BRISTOW. Would you limit the number of dry-goods stores in a small town?

Mr. INGLE. I do not know. You may get to that point. I am only suggesting that that is the reason—that you are now dealing with banking.

Senator BRISTOW. I am very much interested in this. Do you think we ought to prevent a bank from starting unless there is enough business there, according to your notion, to justify it?

Mr. INGLE. Not at all. I think a bank should start wherever it is practicable. I am a great believer in the virtue of individual initiative. But I believe if a man makes a mistake and starts a bank that can not succeed without having the rest of the country contributing to its support it is a very undesirable condition.

Senator BRISTOW. Please tell me how the rest of the country is contributing to its support?

Mr. INGLE. Well, on every exchange charge that is levied, sir, the man away from that community pays it.

Senator BRISTOW. Well, he may or he may not. Now, we will say that a merchant in that community has an account for a bill of goods in Baltimore, and this merchant sends a check to the wholesale house in Baltimore to pay his account.

Now, the wholesale house sells this man goods. He makes his own charge. The charge which he makes is sufficient so as to justify him in accepting a check in payment. He does not refuse it. He says, "That is all right. That is entirely satisfactory to me." The wholesaler deposits this check with his bank. The bank there in Baltimore says, "This wholesaler's account is sufficient so that we are perfectly justified in handling this business for him without charging him anything for it. We are making money out of his account." If it did not make money out of it, it would turn him down; it ought to. It is optional with the bank whether it accepts the wholesaler's account or not. It is optional with the wholesaler whether he accepts the merchant's check or not. The wholesaler is glad to do it, and the bank is glad to do it.

Mr. INGLE. But the bank's enthusiasm is more or less modest and moderate.

Senator BRISTOW. But it does it of its own free will. There is no law compelling it to do so.

Mr. INGLE. Oh, no, sir.

Senator BRISTOW. Then that check comes back. Now, the merchant pays enough for his goods in this transaction to take up these incidental expenses, or the price of the goods would go up so that he would pay enough. The community bears the burden. The country does not bear it.

Mr. INGLE. What is the difference between the community and the country?

Senator BRISTOW. Well, the difference between the community and the country is that the community is a part of the country, as I use the term.

Mr. INGLE. Oh, I beg your pardon.

Senator BRISTOW. Nobody else bears the burden of this except that community itself where the bank is located, and the bank is a part of the community.

Mr. INGLE. That particular community bears the burden of these transactions in that case. In another case another community would bear it. And, as I said, the country as a whole is levied upon in order that a bank in a community which would not otherwise support a bank may make its living.

Senator BRISTOW. Now, it seems to me that your argument is that instead of a little bank here with deposits of \$50,000, as many of them have, and a capital of \$10,000—that serves a very useful purpose, in my opinion, in the community, and is very beneficial not only to that community but to every other community that it touches, if it is run honestly—and we presume that they are—

Mr. INGLE (interposing). May I interrupt and ask you a question there?

Senator BRISTOW. Certainly.

Mr. INGLE. Where would you draw the line of capital responsibility in arguing for the multiplication of these small banks?

Senator BRISTOW. Just as many banks as the man wanted to put the money in to start.

Mr. INGLE. Well, let us take a bank of \$10,000 capital. Would you say that that would be wise?

Senator BRISTOW. Certainly.

Mr. INGLE. Take a bank with \$5,000 capital. Would that be wise?

Senator BRISTOW. Surely.

Mr. INGLE. Well, if there is no limit, then a bank with \$1,000?

Senator BRISTOW. \$1,000 is getting a little low.

Mr. INGLE. There must be some limit; there must be some margin which you would want there to protect business that would seek that bank. Now, there was a provision in the national banking act limiting the capital to not less than \$25,000. In your view would that be proper?

Senator BRISTOW. Well, we will say \$25,000. We will say that is a proper limit in a national bank. In the State banks they run down to \$5,000. But say \$25,000 for a national bank. Now, I believe that wherever there are men willing to put up the \$25,000 and willing to go into the banking business they ought to have the opportunity to go in.

Mr. INGLE. Certainly. And wherever you will find enough men to start with a capital of \$25,000, you will find enough men to deposit in that bank to make it self-supporting without "Passing the hat around."

Senator BRISTOW. Nobody wants to "Pass the hat around." If there is no bank there, you send the business to a justice of the peace or some other officer.

Mr. INGLE. Excuse me, sir, I will have no account on that particular place. Checks are drawn only on places where there are banks.

Senator BRISTOW. But some other communities would have an account out there.

Mr. INGLE. I may have an account against a dry goods man or a country merchant at a crossroads store where there is no bank.

Senator BRISTOW. Yes.

Mr. INGLE. And if that is a good account, my statement to such a man will quite as effectively bring a remittance from him in the shape of some sort of a check as if he lived in a town where there were a dozen banks. If, on the contrary, he was not ready or willing to pay that account, I will have no more difficulty with him, practically speaking, because he lives in a country town, if I am obliged to send it to a lawyer. A lawyer would simply get in his automobile and go out there and serve a notice and hale him into court to defend his suit. That would make no difference.

Senator BRISTOW. If you send it to him by bill, if he has not an account at home, he has an account away from home?

Mr. INGLE. Five or ten miles away.

Senator BRISTOW. Five or ten miles away; and you would insist on him going there and letting that man collect the fee?

Mr. INGLE. Not at all "insist," Senator Bristow. I would only suggest that that would be a fairer proposition than levying a toll upon the country as a whole, as would be necessary otherwise to support that bank.

Senator BRISTOW. I can not understand how you would levy a contribution upon the country as a whole where the community that supports the bank pays the toll.

Mr. INGLE. I am speaking of this community one day and the next community the next day, and so on.

Senator BRISTOW. But it is another transaction then.

Mr. INGLE. And the country as a whole supports this proposition. I must be extremely poor on using language if I have not made myself clear.

Senator BRISTOW. I think I understand. To sum up, you are opposed to so many of these country banks being established?

Mr. INGLE. No, sir.

Senator HITCHCOCK. I got the impression that you think there are too many of these country banks and that they ought not to exist unless they are able to exist without making charges on their checks.

Mr. INGLE. If you will disassociate those two thoughts. As to country banks, I think the more there are the merrier. I am in hearty accord with the multiplication of country banks.

Senator HITCHCOCK. Let me quote you again. You said, in substance, that if a country bank could not exist without making charges on its checks and collections that was the best evidence that that community was not entitled to a bank.

Mr. INGLE. That is right; I think I can affirm that.

Senator HITCHCOCK. Well, I think we understand your position, then. Perhaps you had better go on with your statement.

Mr. INGLE. As deposits of public funds are now placed there is little profit to the banks holding them. I am speaking of the normal deposits as they are usually distributed and not any special deposits for particular purposes.

The bill in requiring that such deposits be transferred to reserve banks will work no real injury beyond some momentary inconvenience. Here, again, the board, in naming an extravagant rate of interest to be paid on such deposits by Federal banks, could do member banks an injustice; but it must be assumed that no such intention is held.

In other words, the proposed law says that the Federal reserve board shall name the rate of interest to be paid by the Federal reserve banks on public deposits. That rate of interest paid is now 2 per cent. If, for instance, the Federal reserve board should say that the idea of profit to the Government, or for any other reason, for these Federal reserve banks shall pay to the Treasury Department 6 per cent on those deposits—and there is nothing in the law to prevent it—you can see that the Treasury would reap the benefit of a 6 per cent investment on its funds in the Federal reserve banks for distribution as dividends or otherwise. That is possibly a little far-fetched, but I just suggest it because there is no limitation.

Senator BRISTOW. Why should the Government receive money on its deposits any more than the banks receive money on their deposits?

Mr. INGLE. Because the Government—I do not say that it should. I am dealing with a condition not a theory. I am trying to justify the presence in the law of that special provision.

Senator HITCHCOCK. I want to remind the committee that it is 3 o'clock now, and that Senator Thomas has an appointment with the committee for half past 3. Are you likely to be through at half past 3, Mr. Ingle?

Mr. INGLE. I will be through at any time that the committee will be generous enough to dismiss me. The Government will contribute to the working capital of these Federal reserve banks some sum of money between \$150,000,000 and \$200,000,000.

Senator BRISTOW. That is not capital; that is deposits.

Mr. INGLE. I did not say it was capital. That money will be loaned by these Federal reserve banks at whatever rate is determined upon—4 per cent, 5 per cent, or 6 per cent. It seems fair to give the Treasury 2 per cent, or some fair rate of interest on that contribution—very generous contribution of capital—and a permanent contribution you might assume, as the member banks will, either in the dividends or in their share of the 40 per cent excess earnings to be divided in lieu of interest on deposits, receive a certain part of the money earned by the Treasury deposits.

Senator BRISTOW. Suppose the surplus earnings all go to the Government and the banks do not get any of it, then what?

Mr. INGLE. I would not like to express my opinion on that in this company. I think that would be very arbitrary and unfair.

Senator BRISTOW. That has been advocated by nearly every witness we have had here who represented a large bank.

Mr. INGLE. I am sorry; I am out of touch with that.

Senator BRISTOW. That the bank should not be a money-making institution, and that any profit over the 5 per cent or 6 per cent, which ever is allowed, ought to go to the Government as an evidence

that the banks are not to make any money out of this regional reserve bank.

Mr. INGLE. Then, again, sir, it depends upon the shape that the law finally takes. I say if you have a 5 per cent dividend only, that is a very moderate contribution, with the interest the banks are all making. If you say 6 per cent dividend, it would be more attractive.

Senator NELSON. Suppose all the rest of the revenue went to form a sinking fund to take up the 2 per cent bonds?

Mr. INGLE. Well, Senator, I do not know that the banks would have much care as to what happened to the rest of that money, although it would be nice to feel that some definite provision was made for the redemption of these 2 per cent bonds at some time. I do not think the banks want the reserve banks to be a money-making institution. On the contrary, I do not think they should be, because they would be tempted to always charge more than was fair for rediscounts. But they ought to give such a return for the contribution made by the member banks as to make those member banks want to go in and not make them hesitate and go in simply because they feel they are obliged to.

Senator REED. Mr. Ingle, how much interest do you think, or upon what basis do you think the reserve bank should fix interest charges to member banks, either for funds or for money issued; I mean funds on hand or money issued?

Mr. INGLE. I am glad you asked me that question. I think that the Federal reserve bank should, in fixing its discount rate, have respect for the local interest rate permitted by law in the particular State or territory from which the application for funds shall come. In other words, I think that it would not be fair for the Federal reserve board to charge a bank in a State where 6 per cent was the legal limit of interest, to charge that bank 5 per cent, if you choose, for money; and on the same day charge only 5 per cent to a bank located in a State in which the legal rate of interest was 8 per cent.

I think that the rate fixed at any given day should be so adjusted, on a sliding scale, as, having 6 per cent for a normal rate, because it is the common rate, and 5 per cent as the rate quoted—that where you are dealing with, let us say, 8 per cent territory, you should charge banks for funds in that 8 per cent territory 5 per cent, plus one-third of 5 per cent. So that the money shall be gotten out on these terms from these Federal reserve banks; as otherwise you can see that there will always—if money is plentiful and the reserve board chooses to charge, say, 4 per cent discount rate, that rate probably would not tempt a bank in territory in which a $4\frac{1}{2}$ per cent rate was then prevailing to borrow money, but it would very easily tempt a bank where loans were being made currently at 8 per cent; and it might be continuously borrowing and borrowing beyond the limit of safety.

Senator HITCHCOCK. If that was put into force, would not the effect be to lower the rate of interest from 8 per cent?

Mr. INGLE. Absolutely; and that is why I advocate it. You would find, before a great while, that instead of finding here 6 per cent territory and there 8 per cent territory, and 10 per cent contract rate, you would soon have a 5 and 6 per cent current rate all over the country.

Senator HITCHCOCK. If the banks were able to borrow at $4\frac{1}{2}$ per cent, they would not charge their customers 8 per cent, 9 per cent, or 10 per cent, would they?

Mr. INGLE. Were you ever a customer in such territory, Senator Hitchcock?

Senator HITCHCOCK. I have been for the last 30 years. I suppose there has not been a period in the last 30 years in which I have not been a customer in such territory.

Mr. INGLE. Well, I can only say—

Senator HITCHCOCK (interposing). My experience has been that, as the banks got easier in money interest rates fell in the community; and I feel that if the banks in the West were able to rediscount their paper on the same terms as in the East we in the West would be able to borrow money on as good terms as in the East.

Mr. INGLE. You would in Kansas City, St. Louis, Wichita, and cities with 100,000 or 200,000 people or more; yes. But where you get into the interior, into the country where they have smaller banks; where they are wanting more capital all the time, and will always need all they can get and take all they can get, you will find that those banks will look upon the difference between the rate they pay and the rate they can get, and the rate they do get, as profit. It is perfectly legitimate profit.

But we are constantly being quarreled with now, when we in tight times have charged an interior bank 6 per cent; we are reproached with the suggestion that in charging them 6 per cent we do not permit the borrowing bank to make any profit that is material—a mere 1 or 2 per cent on the transaction. So I suggest that as furnishing a means by which the interest rates throughout the country will be brought to a parity.

Senator HITCHCOCK. Well, has the Government any right, in establishing a great facility like this, where it is laying a burden upon all the banks substantially equal, in proportion to their size; has it any right to discriminate against the customers of one bank and in favor of the customers of another bank?

Mr. INGLE. Yes; because that is one of the strongest arguments used in advocating 12 regional banks rather than 1 big bank, because those 12 banks are assumed to be 12 banks in order that they may safely respond to the needs and wishes of their own community; they know what their community wants and when they want it; and it is not proposed in this law, if I understand it correctly, to always have a uniform rate of discount.

Senator HITCHCOCK. That is one of the big questions before this committee.

Mr. INGLE. And I thought that this law was so drawn, because it was suggested that this central board had power, in fixing rates, to discriminate, if you choose to use that word, among different sections of the country.

Senator HITCHCOCK. Well, there is going to be a very strong opposition to that doctrine. We think out West that it would be just as reasonable to compel us to pay more for our postage stamps than the people of the East as it would be to compel us to pay a higher rate of interest on the money we use than the people in the East.

Mr. INGLE. There is this broad difference, I suggest: In the new and undeveloped parts of the country there is no limit to the demand

for capital—essentially so. Everybody in some of the new sections of the country is living as if they had only 30 days to live and after that the deluge. They want to do everything in the next three or four months. If they can get hold of that money in any way, they will get it, and they will at once spend it.

Senator HITCHCOCK. That is a very popular idea among people that have not been out West; but I assure you that we have banks which are just as conservative in their dealings and business men who are just as conservative in the West as there are in the East, and we feel that we are entitled to the same protection from the Government that the people in the East receive.

Mr. INGLE. What makes the difference in the interest rate between Idaho and New York is the demand. That does not mean, because of the difference in interest rate, that the banks in Idaho are not in the hands of people as thoroughly competent as those in New York.

Senator HITCHCOCK. I do not know what the difference in the interest rates between Idaho and New York is; but I know that we often have interest rates lower in Omaha than they are in New York.

Mr. INGLE. But Omaha is very close to the center, not of civilization, but of population—well, I want to withdraw that first suggestion. [Laughter.]

Senator NELSON. Call it the center of gravity.

Senator HITCHCOCK. Well, I will not interrupt you too much.

Senator SHAFROTH. Have you finished your prepared statement?

Mr. INGLE. Yes, sir; and I appreciate very much your consideration.

Senator WEEKS. I want to ask you two or three questions. If we pass a bill similar to the House bill, can you think of any good reason why a bank in Omaha, or Idaho—as you have used that illustration—having paper that conformed to the provisions in the bill, should not be able to get its accommodation on exactly the same terms as the bank in New York, or Boston, or Baltimore?

Mr. INGLE. The only reason I can think of—and that is the controlling reason—is this: That that bank in Idaho—I am speaking impersonally now, you understand, of course—that that bank in Idaho is using the facilities of a bank serving other portions of the country, is supposed to make out of those facilities more profit than the bank in the more thickly settled and more thoroughly financed sections of the country, if you choose to put it that way.

Senator WEEKS. Now, let me suggest this to you: Of course, Idaho is developing more rapidly than New York or New England.

Mr. INGLE. Exactly.

Senator WEEKS. And there is more opportunity for development there, and more money is needed for that development. But we are establishing a national system now; and a national system should be national in every respect, it seems to me; and I believe that if the rate for rediscounts were made the same for banks in every section of the country, it would take money from the older sections into the parts of the country which need to be developed, and would bring about that development very much quicker than if the present high rates of money are going to continue; that it would bring down the rate to every borrower in those sections.

And it does seem to me that there is no economical or sound reason why, if we are establishing a national-banking system, the same rate of interest should not obtain in every section of the country.

Of course, that does not mean that private joint stock banks may not loan at a higher rate to their customers in Idaho than a similar bank does in New York. But the rate to the Idaho borrower is going to come down as a result of that policy; and the rate to the New York borrower probably will not increase.

Mr. INGLE. If that should prove to be true, sir, the result would be in line with the wishes of all of us, I am confident.

Senator WEEKS. Undoubtedly.

Mr. INGLE. We want to attain the situation in which the rate will be uniform the country over. After that has been done, then all banks alike will reap approximately the same profit from their membership in the Federal reserve banks.

Senator WEEKS. Well, I have not any doubt that that will be the result.

Now, let me ask you, were you in Boston at the convention the other day?

Mr. INGLE. Yes, sir.

Senator WEEKS. You testified this morning that you had bank deposits aggregating, perhaps, \$7,000,000. Are they generally from the South?

Mr. INGLE. It is pretty hard for me to give you exact figures; but if you will permit me to approximate, I will do so. Bank deposits in any reserve city other than the central reserve cities are certainly of two, and possibly of more, kinds.

We first have reserve deposits proper. Speaking in a general way and as of Baltimore or any other secondary reserve city, those reserve deposits proper come from the territory immediately tributary to such city, from interior Maryland, northern Virginia, and lower Pennsylvania, if you choose, in the case of Baltimore. So it is with every city. Our bank will clear the miscellaneous business for that territory in connection with the reserve account, which is more or less generous in relation to the volume of country checks handled for such interior accounts. Now, another class of bank balances is made up of deposits from cities like Chicago, New York, Philadelphia, Cincinnati, or Pittsburgh, if you choose. Those are balances and they are very material balances. In fact, the balances, in the matter of figures, are very much larger than the reserve balances proper. But those balances simply represent a method of payment for services rendered in the collection of interior checks for account of all those banks in these larger cities. So I say that out of a \$7,000,000 bank deposit line probably half of it is made up of reserve balances proper and the other half of balances from the reserve cities or central reserve cities of the country for which a direct service is performed.

Senator WEEKS. That answers my question. How many banks deposit with you?

Mr. INGLE. We have 800 out-of-town accounts.

Senator WEEKS. You are in fairly close touch with those banks?

Mr. INGLE. They are largely through the South.

Senator WEEKS. Have you talked with them about this legislation?

Mr. INGLE. Only incidentally, sir. I have not had the opportunity, sir; only as they came in and out on their way down.

Senator WEEKS. Have you tried to influence them either in support of or opposition to this bill in any way?

Mr. INGLE. Absolutely no. I have written one letter, and that was in response to an invitation.

Senator WEEKS. Did you vote for the resolutions that were adopted by the Boston convention?

Mr. INGLE. The resolutions commending the proceedings in the Chicago conference?

Senator WEEKS. Yes.

Mr. INGLE. I did. I will tell you why, if you want me to pursue it further.

Senator WEEKS. I would be glad to have a brief explanation.

Mr. INGLE. I am one of those who think the bill is very largely good. I think, however, it has in it two or three features that are bad from my point of view. When you jumble them up and ask a vote for an entire proposition, in which is to be found imbedded two or three points which economically might appear to you to be radically wrong, you feel you are justified, shall I say, in protesting against the passage of that bill with those elements in it. There was no way provided by which we could separate the questions under discussion. We had to vote aye or nay on a particular offer—Do you or do you not approve the proceedings of the Chicago conference?—which covered, I think, 10 or 12 recommendations on matters of differing degrees of importance. So I think that was responsible for quite a fair number of votes aye.

Senator WEEKS. Do you know Mr. Scudder, of Richmond?

Mr. INGLE. Yes; I saw Mr. Scudder, and I saw him put up his right hand, the one lone man on the premises.

Senator WEEKS. Is he one of your correspondents?

Mr. INGLE. No. I say "No" hurriedly. Is his bank the Richmond Bank & Trust Co.?

Senator WEEKS. Yes.

Mr. INGLE. I think not, sir.

Senator WEEKS. Then you were not in sympathy with his position?

Mr. INGLE. As an abstract proposition, I think yes, because he took his position as a sort of protest, if you choose, against combining in a single vote the approval or disapproval of 10 or 20 different principles.

Senator WEEKS. Do you see anything in the financial situation which looks now like an emergency?

Mr. INGLE. No, sir; I do not.

Senator WEEKS. Do you approve of the course which is being followed to thoroughly thrash out all of the questions relating to this subject?

Mr. INGLE. Most heartily, sir. And I think the better you thrash it out, the more workable a bill you will get, and that is all the banks want.

Senator WEEKS. I think you have assisted us in doing that.

Mr. INGLE. You are very generous, sir.

Senator REED. Now, in a word, your position is this: You think the bill, in the main, has the elements of a good bill?

Mr. INGLE. I do.

Senator REED. And you think it needs some changes in order to make it a better bill?

Mr. INGLE. I do.

Senator REED. And some of those changes you think are very vital and some you think are not so important?

Mr. INGLE. If you will permit me to repeat—the two vital things to which I object, as found in the bill, are, to me, the unnecessary going out of the way to make the Government guarantee the credit instrument, and, second, the placing in the bill of the words “lawful money,” when referring to the redemption of the same credit instruments.

Senator NELSON. You believe they should be redeemed in gold?

Mr. INGLE. Well, I think it means no more to say gold under existing statutes. I think it a pity to have first said “gold,” and then to put the “lawful money” afterwards.

Senator SHAFROTH. Don't you think that putting in the “lawful money” has a tendency to preserve the gold reserve and to preserve, consequently, the gold standard?

Mr. INGLE. I can follow the reasoning adopted by the chairman of this committee. I can understand that to make it a little difficult to get anything is to conserve your store of that particular thing.

Senator SHAFROTH. When it creates 12 distinct centers that will be bidding for gold against the Government, will it not require a great deal more gold to make those redemptions if you have a deposit of 33 per cent in each one of those reserve districts, instead of having the same thing in the General Treasury?

Mr. INGLE. Mr. Senator, I think I ought to say here I am getting on awful thin ice. I am an economist, sir, and I am principally a practical banking man, and I do not know anything about that end of it.

Senator SHAFROTH. Don't you know when money like this is redeemable in lawful money you can save a great deal in the quantity of the reserve? For instance, suppose I have a \$1,000 bank note, United States note, redeemable in lawful money, and I go to a United States bank and say I want gold. The bank says, “No; I won't give you gold; we have not got the gold in the treasury; we will give you lawful money.” I say, “All right.” Then the bank says, “If there is going to be a run on the gold, I will just take that and lock it up.” Then (suppose I am in Baltimore) I take that lawful money and I come to Washington, and I go to the Federal Treasury and present that and say, “I want \$1,000 in gold.” The Government says, “Certainly,” and gives me the \$1,000 in gold. Then the Government says, “If we are going to have a run on gold, we will lock that up.” In that way for \$1,000 in gold the Government has locked up \$2,000 of money payable in gold, and that would have a tendency for the Government not to keep so large a gold reserve, would it not?

Mr. INGLE. As I see it, no. But, as I say, I may be very wrong in anything I suggest along this line. I say this: If we could feel away back in the heads of some of us that there was no idea to enlarge the interpretation of “lawful money” there could be no objection to employing that term. Our present lawful money, while it is safe and good, there is a limit to its value. That very injection of the words “lawful money” in a thing which first said “gold,” which for

one instant would indicate the want of gold dollars, would indicate to a man a kind of apprehensive measure, which would draw the attention of the country to it if there should be proposed some little law adding very largely to the volume of "lawful money." It would be a very troublesome thing to have in the law. Then there would be no gold at all; gold would hide quickly.

Senator SHAFROTH. Don't you think it has been a great advantage for national-bank notes to be redeemable in lawful money? If they had had to keep gold for the redemption of the national-bank notes, it would have required an enormous amount of gold. As it is, \$150,000,000 in gold provides for the redemption of \$346,000,000 of greenbacks, and \$700,000,000 of national-bank notes. That is all the gold that is required. But if you make everything redeemable in gold, you have got to have \$500,000,000 or \$600,000,000 locked up in the Treasury or in these regional reserve banks.

Mr. INGLE. We do not care where it is, as long as it is there.

Senator SHAFROTH. You do not want to make it hard for the Government to maintain the gold reserve?

Mr. INGLE. No. I do not think the Government ought to guarantee the notes; I think the responsibility should rest with the banks.

Senator SHAFROTH. The people do not think the banks ought to have control of the gold reserve as much as the Government ought to.

Senator REED. Let me ask there: Is it not true the safer a currency system is, the easier it is to get gold; and the more unsafe it is, the more likely it is for the gold to run away and hide? Is not that the universal rule?

Mr. INGLE. Here again, Senator, you have got me, I am afraid. I am getting in very deep water on this economic question. I can not see it so. The point I wanted to draw out was that there was no necessity for getting the Government to occupy this situation as a guarantor. We are teaching our people, it seems to me, that there is something peculiar attached to the Government's credit that does not attach to the credit of any individual. That is not true, except in degree. A credit of the Government of the United States is not any better than your credit individually, I take it.

Senator REED. I wish I could convince the people that way.

Mr. INGLE. You can only tax to raise money; you can tax to a certain limit, and beyond that limit the people begin to get restless. Why, then, assume directly a responsibility for 1,000 millions of currency when that currency can be just as good and just as readily regulated in volume and character without that guaranty as with it? That is the only point I make against that, sir.

Senator REED. You do not understand my question I am sure. If you have a large currency resting upon a very small gold basis, is it not very much more likely there will be a discarding of that currency and a raid on the gold than there would be if there was a very large gold basis?

Mr. INGLE. Oh, yes; of course; and we have provided in this act for a 33 per cent basis. I think that is more than enough.

Senator SHAFROTH. But they also provided in the act of 1890 and of March 14, 1900, that there shall be a gold reserve, and the Government is obliged to maintain the parity of all forms of money.

Mr. INGLE. I believe that was put in there in absolutely good faith, and I only say it is a pity to inject that thing, whereas the Govern-

ment could have a reserve by simply leaving the words "lawful money" out of the bill.

Senator SHAFROTH. But it would make an enormous burden on the Government to maintain the reserve in gold.

Mr. INGLE. I would not have the Government have anything to do with it. That is the point I make. The banks should have to maintain that gold.

Senator SHAFROTH. The bill is predicated on a different basis.

Mr. INGLE. Exactly.

Senator NELSON. Ought not the banks to supply the currency to maintain the gold?

Mr. INGLE. It should be their business to maintain it at any price, profit or loss.

Senator SHAFROTH. Do you think the law says those notes are redeemable by gold?

Mr. INGLE. The bank notes are.

Senator SHAFROTH. No; they are redeemable in gold or lawful money.

Mr. INGLE. The lawful money will bring the gold.

Senator SHAFROTH. And the same way under this bill, if you have the gold and lawful money, the lawful money would bring the gold and prevent a raid.

Mr. INGLE. Oh, yes. But if it stays where it is to-day it could do no possible harm.

Senator SHAFROTH. But if it stays where it is it would necessitate the Government maintaining a reserve of four or five times what it does now, would it not?

Mr. INGLE. Yes; but if the Congress shall enlarge the "lawful money" by including everything else we are really in bad shape.

Senator SHAFROTH. You can imagine difficulties; but there is the pledge of the Government against it enacted in this very bill.

Mr. INGLE. I have no selfish considerations to urge here, Senator; you can see they are not.

Senator WEEKS. Mr. Ingle, when a person is entitled to something and understands there is an attempt in some form to prevent his getting it, do you not think it is inclined to make him more anxious?

Mr. INGLE. Altogether anxious.

Senator SHAFROTH. Has there been any anxiety about cashing the national-bank notes?

Mr. INGLE. My recollection is, in the panic in the early nineties, when the people wanted to hoard currency, they went into a bank and, if it was possible for them to do so, they took gold; and in 1907, when they wanted to hoard currency, they went into a bank and took what was given to them, without any difficulty.

Senator SHAFROTH. The reason for that was there was a deficiency in the Treasury and money had to be borrowed under the excuse of maintaining the gold reserve, when, as a matter of fact, it was to maintain the expenses of the Government.

Senator NELSON. Here is another point I want to call attention to—

Senator HITCHCOCK (interposing). Gentlemen, the hour of 3.30 has arrived, at which time Senator Thomas was to appear before the committee. He has stated, however, he will give way to Mr. Bucholz, of the Omaha National Bank, who is compelled to leave,

and Mr. Bucholz expects only to detain the committee about 15 minutes, unless the committee detains him longer. So, if that is agreeable to the committee, we will call Mr. Bucholz.

STATEMENT OF W. H. BUCHOLZ, VICE PRESIDENT OF THE OMAHA NATIONAL BANK, OF OMAHA, NEBR.

Senator HITCHCOCK. Mr. Bucholz, please state for the benefit of the committee your name and your banking connections.

Mr. BUCHOLZ. W. H. Bucholz, vice president of the Omaha National Bank, of Omaha.

Senator HITCHCOCK. How large is the Omaha National Bank?

Mr. BUCHOLZ. It has a million of dollars capital and surplus and profits of \$800,000, and deposits of about 12½ millions of dollars.

Senator HITCHCOCK. What size is Omaha?

Mr. BUCHOLZ. Omaha proper has probably 125,000 people.

Senator HITCHCOCK. Do you prefer to make your statement in your own way, or shall I ask you some questions?

Mr. BUCHOLZ. I would be glad to have you ask me some questions, if I can answer them.

Senator HITCHCOCK. To what extent have you deposits of country banks?

Mr. BUCHOLZ. About between \$5,000,000 and \$6,000,000. It fluctuates between \$5,000,000 and \$6,000,000.

Senator HITCHCOCK. Can you give an estimate of the total country bank deposits in Omaha?

Mr. BUCHOLZ. Yes. Approximately \$33,000,000.

Senator HITCHCOCK. \$33,000,000 of country bank deposits in Omaha?

Mr. BUCHOLZ. Yes; Omaha and South Omaha.

Senator HITCHCOCK. And what do the total bank deposits of Omaha and South Omaha amount to?

Mr. BUCHOLZ. \$55,000,000.

Senator POMERENE. You have more country bank deposits than you have local?

Mr. BUCHOLZ. Yes.

Senator HITCHCOCK. I think you had better proceed with your own views about this bill.

Mr. BUCHOLZ. My statement, gentlemen, will be very short. In justice to myself I should explain I had no opportunity to prepare a regular review of this bill. The request to come here and appear before you came to me at Boston, and that session was very busy there and I had little time to get down and analyze seriously this proposed currency bill as I should in order to appear before so important a body as that before whom I now stand.

It seems to us in the West that we owe so much to the independent banking system, which we have had there, for our development and progress that we can see no good in what seems to us an attempt to destroy the national banking system and substituting some other with the provisions for which we are not in entire accord. In Nebraska the sentiment is very strong against this new currency bill. I might say that in my own contact, through correspondence and personal interview with national banks of that State, I know of many

of them who are preparing now to go out of the national banking system, if this bill becomes a law, and to join the State banking system, and that even in view of the fact that we have a guaranty law there to which we are upon principle opposed as national bankers. But we would rather take that medicine than engage in this system, which we think will do much to retard our development and our growth in Omaha proper. I might mention the Omaha National Bank as an example, because I have made figures on that. Our computation convinces us that we shall lose in our reserve balances something over \$2,000,000—perhaps two million and a half.

Senator HITCHCOCK. Those are the balances with country banks?

Mr. BUCHOLZ. Yes, sir; with us.

Senator HITCHCOCK. What do you mean? That they will lose those balances?

Mr. BUCHOLZ. They will have to withdraw them when they come into the system to place them with the Federal reserve banks; and, of course, if we have to put up money for it, to get that money we will have to contract our loans.

Senator REED. Now, let me ask you a question: Suppose this system goes into effect and suppose the country banks withdraw their deposits from your banks. You, of course, would not like that. How are you going to help yourself on that by organizing a State bank? You will still be out those same deposits.

Mr. BUCHOLZ. We won't have to put up any reserve with the Federal reserve bank nor place 5 per cent of our deposits with the Federal reserve bank.

Senator REED. Don't they keep any reserve under the State law?

Mr. BUCHOLZ. Yes.

Senator REED. How much?

Mr. BUCHOLZ. The same as the national law.

Senator REED. Would you be, then, any better off?

Mr. BUCHOLZ. We would have control.

Senator REED. You do not have control of the reserves; you are obliged under the law to set aside, to segregate that amount and hold it as a reserve.

Mr. BUCHOLZ. Yes; I know. That reserve has been altogether too scattered, and we have only learned in recent years it is there for a purpose, and that purpose is to use in an emergency. We have been taught that by a bitter lesson.

Senator HITCHCOCK. How much capital would your bank have to contribute to the proposed system?

Mr. BUCHOLZ. \$200,000.

Senator NELSON. And how much in the 5 per cent of deposits?

Mr. BUCHOLZ. Approximately between \$600,000 and \$700,000.

Senator NELSON. So you would have to contribute from \$800,000 to \$900,000?

Mr. BUCHOLZ. Yes; in addition to the loss of our deposits. Of course, we have our present reserves, and as to our own contribution to the reserve, it would not make any difference. We would have to draw that from Chicago, St. Louis, New York, and reserve centers.

Senator POMERENE. What are the actual reserves which you carry on an average?

Mr. BUCHOLZ. With our own institution the real reserve will run 30 per cent, and the apparent reserve, made up of float and all that sort of thing, will very often go to 40 or 50 per cent.

Senator POMERENE. You mean real reserve, that which you carry in your own vaults?

Mr. BUCHOLZ. No; what I mean is actual money we carry in our own vaults and real money with our correspondents. It does not mean collection accounts, or anything of that kind.

Senator HITCHCOCK. Mr. Bucholz, the witness who preceded you stated it was his custom to permit his New York correspondent to charge to his account checks which came into his possession drawn by depositors of the Baltimore bank. Do you allow your New York correspondent to charge to your account a check which one of your customers draws on your bank which may fall into the hands of your New York correspondent?

Mr. BUCHOLZ. We do not.

Senator HITCHCOCK. Do you know what the custom generally is with banks?

Mr. BUCHOLZ. I heard the testimony of the gentleman who preceded me, and it is the first time I knew that was permitted.

Senator HITCHCOCK. You never knew of it being done before?

Mr. BUCHOLZ. No, sir. I would like to explain a little further as to that, that the gentleman referred to the fact that some banks carry two accounts, and they remitted weekly or semiweekly or twice a week, as the case might be. We do not do that way. These checks that come to us from our correspondent banks we send them a draft for them on the very day we receive them. We do not place them to anyone's credit, or carry them as a float to bolster up our figures, or anything of that kind, and I believe that is the practice—I know it is throughout the Mississippi country.

Senator HITCHCOCK. Do you see any danger in permitting a correspondent bank, or the proposed reserve bank, to charge against a member bank a check which had been drawn by an individual depositor on a member bank?

Mr. BUCHOLZ. I do. If the New York correspondent paid a check drawn on the Omaha National Bank they would pay that check with our own funds, with the funds of the Omaha National Bank, and send it to us. After having once paid the check we, of course, have no recourse so far as we are concerned whether the check is good or not, or whether it affords indorsement, or anything of that kind. The check is paid and the man has his money.

Senator POMERENE. In that event would your New York correspondent stamp it paid?

Mr. BUCHOLZ. I do not know as to that. But, in any event, if they paid it with our money, the check is paid, and all defense against it, if protested, would be shut off. That is one of the main reasons why that should not be permitted. Aside from that, we could not tell how much money we had with our New York correspondents.

Senator REED. Let me see if you are accurate about that. The Government establishes a Federal reserve bank. That bank is composed of a number of elements, some 600 or 700 national banks constituting its stockholders. It is a separate entity; it is a thing itself; it can sue and be sued. You are a stockholder only. You deposit with it \$100,000, and a man, upon a false check, drawn upon the

bank at Omaha, presented at that counter, receives \$100,000. You say it has been paid out of your own money, and therefore you would have no recourse. I do not agree with you. That bank up there is just as separate from your bank as one corporation is from another, and if it paid a check that was a bad check it would be out, not you; I think you are mistaken about that.

Mr. BUCHOLZ. On that question were discussing the relations between the Omaha bank, for instance, and its New York correspondent. We were not discussing the proposed law.

Senator REED. If your Omaha correspondent puts money in there and it paid your money out, you would have recourse.

Mr. BUCHOLZ. The question is, would you if it had actually paid the money on checks?

Senator REED. Unquestionably.

Senator POMERENE. Every time a man would present a check to your New York bank, that is of itself a representation that it is a bona fide check.

Mr. BUCHOLZ. But that check is not payable in New York.

Senator POMERENE. If it should be, in the instance you speak of, and it would develop afterwards it was a forged check, you would have recourse on that bank.

Mr. BUCHOLZ. Perhaps so—in case of forgery.

Senator REED. And in the case of overdraft.

Mr. BUCHOLZ. Suppose a man in New York who held that check an innocent holder, and when it came back to us we found the bank had paid an absolutely bad check and charged it to the Omaha National Bank; I think they would have a good stand and it would have to stand paid if it was paid out of our funds.

Senator POMERENE. Even if there were no funds in your bank at the time the check was drawn?

Mr. BUCHOLZ. Yes.

Senator POMERENE. Oh, no.

Senator REED. The rule will not be different now, where one of your correspondents pays a check that ought not to have been paid; nor is the rule now different with reference to that correspondence than it is with reference to any other bank with which you have no funds. That bank pays it at its peril. The danger in this system lies in the Federal reserve bank cashing bad checks and itself losing the money.

Mr. BUCHOLZ. Well, according to my information and belief, and according to my recollection of court decisions, a bank check—a check drawn on a bank—is a vastly different thing than a bank draft drawn by one bank upon another. A check is payable at one place. It is an order from one man to another to go to that place to get the money.

Senator REED. That is true.

Mr. BUCHOLZ. And he has no business in going to any other place.

Senator REED. Therefore if a bank takes a chance of cashing it, it does so at its own peril.

Mr. BUCHOLZ. Exactly. But if you arrange, your correspondent may cash those checks and charge them to your account; that is a vastly different thing.

Senator REED. That is a different thing; you have a new element, a contract in which you authorize your correspondent to use your funds to cash that check.

Mr. BUCHOLZ. Exactly.

Senator REED. In that case if it uses ordinary diligence, the same as the law imposes upon anybody except a bailee without hire, it would, of course, go acquitted.

Mr. BUCHOLZ. That was the question under discussion, if a New York correspondent paid your checks and charged them to your account.

Senator NELSON. If the practice which this banker from Baltimore stated did actually exist, the bank paying it would simply be the agent of the other bank, and it would bind its principal.

Mr. BUCHOLZ. That is exactly the point I was trying to make.

Senator REED. It was because they had authorized them.

Senator NELSON. Of course, a different rule would apply if it had no right to do that.

Senator BRISTOW. Senator Reed, that is the position the gentleman has taken from the beginning—that it would be unsafe to authorize the correspondent to charge to his account the checks when they were presented.

Senator NELSON. But that is the principle that is sought to be applied in this bill—to charge it.

Senator HITCHCOCK. For the present, Mr. Bucholz, the practice is that banks do not allow their reserve correspondents to charge to their accounts checks upon them which come in the regular course of business.

Mr. BUCHOLZ. Yes, sir; that is true with our correspondents, and true with those banks that deposit with us.

Senator HITCHCOCK. You started to say when you were interrupted something about the method you would take to raise the necessary money, to raise the contribution you are required to make to the capital stock of the reserve bank, and also to secure the money that will be necessary for you to have in order to transfer the country deposits that you now hold.

Mr. BUCHOLZ. I see no way except to get that money by calling in some of the loans and getting it that way.

Senator HITCHCOCK. Have you made any estimate at all as to the amount of loans that would be called, for instance, in the aggregate in Omaha?

Mr. BUCHOLZ. Yes, sir. Several of us were discussing that matter a short time ago—not with any plan to that effect, but it just came up—and we began to figure there, and it is between \$8,000,000 and \$10,000,000 out of Omaha.

Senator HITCHCOCK. You think the loans will have to be reduced?

Mr. BUCHOLZ. Yes; it will take that out of Omaha. Of course there is some excess reserve in Omaha now. Things are fairly easy there, and there are no signs of a shortage of money, and part of that would be made up from the excess money we now carry. It would not all have to be called, but I think it is safe to say that perhaps \$5,000,000 at least, in that city, would be liquidated in the way of calling in bills receivable.

Senator HITCHCOCK. Do you think that same process would be necessary in St. Paul, Minneapolis, Kansas City, and other reserve cities?

Mr. BUCHOLZ. Most assuredly. I can figure it no other way.