

Senator REED. If that was done, what would be the effect on business?

Mr. BUCHOLZ. It would be bad.

Senator REED. What is your suggestion as to the remedy?

Mr. BUCHOLZ. My suggestion is that the Federal reserve banks do not have any capital stock. I can see no reason why the banks should contribute to the Federal stock. What is proposed to do with this stock of the Federal reserve bank? Why should you have one? That is one thing.

Senator REED. Of course the richer those banks are the more money they have in a time of stress to advance. That is one thing.

Mr. BUCHOLZ. True enough; but if you have impoverished the other banking institutions in the meanwhile, you bring on the necessity for calling on the Federal reserve bank very much sooner; that is all.

Senator POMERENE. You have already in your vaults, I take it, a good many securities that do not pay you more than 5 per cent a year?

Mr. BUCHOLZ. Not a great many. We have some. We have some bonds.

Senator POMERENE. You, I believe, have \$1,000,000 capital stock?

Mr. BUCHOLZ. Yes.

Senator POMERENE. And this would require \$200,000. Of course, you do not take that out of your capital stock?

Mr. BUCHOLZ. You pay for that out of your deposits.

Senator POMERENE. And you, as a rule, have a very substantial sum, at least, invested in securities in the shape of bonds, etc., that do not pay more than 5 per cent?

Mr. BUCHOLZ. True; but we carry those because they are convertible if needed.

Senator POMERENE. Now you can go to a bank and rediscount?

Mr. BUCHOLZ. Yes.

Senator POMERENE. And you can do it under the present system; that is true?

Mr. BUCHOLZ. Under the new system, it strikes me, we shall become sort of note brokers and commission merchants, and take money at one rate.

Senator HITCHCOCK. Does your bank frequently rediscount paper now?

Mr. BUCHOLZ. For ourself?

Senator HITCHCOCK. Yes.

Mr. BUCHOLZ. Not at all.

Senator HITCHCOCK. You do not rediscount?

Mr. BUCHOLZ. No, sir.

Senator HITCHCOCK. You do not borrow of other banks?

Mr. BUCHOLZ. No, sir; we have not done so for years.

Senator HITCHCOCK. Is that generally true of any other banks of Omaha?

Mr. BUCHOLZ. I think so. Four or five of the larger banks there have not borrowed any money for quite a number of years—not since 1907, at least.

Senator REED. You really think most of the banks in Nebraska would go out of the banking system?

Mr. BUCHOLZ. If the bill passed in the present form, I am certain of it.

Senator REED. What have we got to do to keep you from going away and leaving us?

Mr. BUCHOLZ. By making it attractive to come in.

Senator REED. How? What is your suggestion?

Mr. BUCHOLZ. In the first place, making it so attractive it won't be considered as compulsory. A man does not like to be forced to do a thing.

Senator REED. You say, "make it so attractive." Of course, a man might say to an ill-favored youth to make himself so attractive that the ladies would all like him. But that would not help out much unless you could give him a recipe. I wish you would tell us how to make it attractive. In all seriousness, what is necessary to make it so that the banks will want to come in?

Mr. BUCHOLZ. It all depends upon what you have in mind as to the purpose of the bill.

Senator REED. What must be done to the bill so as to make you feel you will be justified in coming in, having in consideration, of course, that the bill will have to be just to all other interests in the country?

Mr. BUCHOLZ. Well, it must be workable in all its features. I think there are some—

Senator HITCHCOCK (interposing). Specify. You indicated one objection, that you thought you ought not to be required to subscribe to the capital stock.

Mr. BUCHOLZ. Yes.

Senator HITCHCOCK. Is there anything else?

Mr. BUCHOLZ. I think if the Government receives interest on its Government deposit with that Federal reserve bank the bank should receive interest on its bonds with the Federal reserve bank. That is another point.

And then the main point is that some provision should be made to take up the 2 per cent bonds.

Senator REED. We are talking about what is necessary to do to get you in.

Mr. BUCHOLZ. That is one of the things.

Senator REED. Of course if the Government is going to repudiate its 2 per cent bonds, they can do it just as well with you out as with you in. That, it seems to me, is a sort of side proposition. Not that I am intimating that I am in favor of any such proposition, and I think I can speak for this committee and say that this committee does not propose to try to do anything like that here.

What have you got in the way of Government bonds?

Mr. BUCHOLZ. \$1,000,000.

Senator REED. And you have your circulation on that?

Mr. BUCHOLZ. Yes, sir.

Senator REED. You buy these bonds and have the circulation privilege?

Mr. BUCHOLZ. Yes, sir.

Senator REED. If you are allowed to continue a circulation privilege, you do not want to keep your bonds?

Mr. BUCHOLZ. No, sir. If we are going to have a new system, I would like to start new.

Senator REED. Suppose we do have a new system which provides that there can be other money issued, and yet suppose, as a part of

that system, we were to maintain substantially the present system and build upon it, allowing the national-bank notes to still continue to exist, issuing to them as we do now. Do you think that we ought, under those circumstances, compel you all to surrender your bonds?

Mr. BUCHOLZ. That would be an entirely different matter.

Senator REED. That is what I am speaking about.

Mr. BUCHOLZ. If you build upon the present system and extend its usefulness and ability to serve the public, certainly I should be glad to continue under it and retain the bonds.

Senator REED. All that it is proposed to do, with the exception of the provision for the retirement of one-twentieth of the national-bank notes each year, is to provide a system by which the bank can get additional currency, which is supposed to be obtained only for a short time, on paper that liquidates itself. That, of course, would not impair the value of your national-bank circulation?

Mr. BUCHOLZ. No; except that the redemption is not in cash, but that is in 3 per cent bonds.

Senator REED. I am talking about leaving out the 3 per cent bonds. You mean the 5 per cent from year to year?

Mr. BUCHOLZ. Yes.

Senator REED. And let you go along as you are now, you would be satisfied, as far as your bonds were concerned. We have about \$700,000,000 of bonds at about \$700,000,000 of circulation.

Now, if we provide that these bonds, when they are redeemed, 5 per cent of them each year, that the Government should take them at par—

Mr. BUCHOLZ (interposing). And pay cash?

Senator REED. And pay cash. That would—

Mr. BUCHOLZ (interposing). That would overcome my objection; yes, sir.

Senator REED. That would overcome your objection?

Mr. BUCHOLZ. Yes, sir.

Senator REED. There is nothing insurmountable in all that?

Mr. BUCHOLZ. Not that I see.

Senator HITCHCOCK. Have you any 2 per cent bonds to secure deposits?

Mr. BUCHOLZ. No, sir. We have threes to secure deposits, if I am not mistaken. I think the United States deposits are covered by 3 per cent bonds.

There is just one more point I wish to discuss, and then I am through. That refers especially to the country banks in Nebraska. That relationship has been built up from early times. For instance, 31 years ago I was a country banker and so remained for 20 years, and I lived in a small town, grew along with it, brought together the local capital that could be obtained, and borrowed from the outside all we could, so that that meant building up a town and a community. It is an agricultural community. It has been very prosperous. If the people have surplus money, the banks will reflect that condition. The paper that is made there, to a large extent, consists, for instance, of paper given by cattle feeders—steers to be put in a feeding lot and fed—which will take perhaps four or five or six months to mature. That is a very important part of Nebraska's industry, and such paper as that would not be eligible under this proposed law.

Senator POMERENE. Take the average country banker, such as you have out in your agricultural communities. What portion of their loans would you say were made each month?

Mr. BUCHOLZ. New loans?

Senator POMERENE. Yes; new loans.

Mr. BUCHOLZ. Well, a very small per cent at certain seasons, and a very large per cent at other seasons.

Senator POMERENE. Can you give us any estimates?

Mr. BUCHOLZ. Probably 80 per cent of the loans in the country bank, normally, are made in the fall of the year.

Senator POMERENE. During what months of the year?

Mr. BUCHOLZ. From September to January.

Senator POMERENE. That is four months.

Mr. BUCHOLZ. Yes; and they run over until the spring months.

Senator POMERENE. Yes; I understand. You say 80 per cent of the loans are made in four months. What portion of that 80 per cent is made in each of those four months?

Mr. BUCHOLZ. I am not able to say.

Senator POMERENE. Of course, it would be distributed along during all of that time?

Mr. BUCHOLZ. Yes.

Senator POMERENE. That would be gradually maturing?

Mr. BUCHOLZ. It would, depending a good deal on conditions. Some years a farmer will hold his wheat and will not sell it in August; he will sell it perhaps in December, and he may hold it until March, and borrow the money to hold the wheat.

Senator POMERENE. All of which would seem to indicate to me, at least, that the notes held by the bank were constantly maturing.

Mr. BUCHOLZ. Certainly, but they are renewed. They renew them; they are not paid.

Senator POMERENE. Very well. There would not be any time during the year, would there, when the bank would not have a considerable amount of paper that was maturing in from 90 to 120 days?

Mr. BUCHOLZ. Yes; it would mature right along, but the country banker knows to a certainty he can get that money at that time.

Senator POMERENE. That paper then could be used for discount purposes, or rediscount purposes under the provisions of this bill?

Senator HITCHCOCK. I think not, Senator Pomerene. The definition of commercial paper is paper which grows out of the commercial transaction. It liquidates automatically. This paper which Mr. Bucholz refers to does not liquidate.

Senator POMERENE. I had in mind that there might be some possible change in the definition of commercial paper here. I was addressing my questions rather to the fact that your paper was maturing from month to month.

Mr. BUCHOLZ. In my own bank, for instance, our paper is paid off at the rate of \$1,000,000 a month. That has been the record for three years; that amount actually paid, and we would take care of ourselves very nicely under this provision.

Senator POMERENE. I would like to ask you another question. Have you figured out the advantages and disadvantages of the proposed measure, as compared with the present system, so far as they relate to your own bank?

Mr. BUCHOLZ. Yes.

Senator POMERENE. Have you those figures with you?

Mr. BUCHOLZ. No; I left them at home.

Senator POMERENE. I would be very much pleased to have you furnish them, and have them incorporated in your testimony.

Mr. BUCHOLZ. I would be very pleased to do that. Unless you have some other questions, gentlemen, that is all I have to say.

Senator BRISTOW. I would like to inquire what defects do you think we have in our present system that ought to be remedied?

Mr. BUCHOLZ. Well, on the whole, I think we have a very good system. We have a system where the circulation of the banks that passes as money. No one questions it, and has never questioned it, to my knowledge. The only possible criticism I can think of would be that at certain periods, either by unusual business expansion or overspeculation we find a rigidity in the volume of money we have to use, and of course my own idea would be to follow out the natural consequences of an expansion of the national banking system to the extent of having a central credit reservoir where temporary additional money might be obtained.

Senator BRISTOW. What you would like, as I understand it, would be to have some provision made whereby you could get additional currency when it is needed?

Mr. BUCHOLZ. Yes.

Senator BRISTOW. On the assets of your bank?

Mr. BUCHOLZ. Yes.

Senator BRISTOW. And then when it was not needed that would normally retire?

Mr. BUCHOLZ. I would fix it so that the retirement—

Senator BRISTOW (interposing). And you think it would be much better for the business of your part of the country if a provision of that kind could be made without breaking up the present banking provisions that have grown up in the past half century?

Mr. BUCHOLZ. You have explained my idea exactly, I think.

Senator BRISTOW. Suppose that a provision was made so that your bank could go to the subtreasury, that a subtreasury should be located at Omaha—I believe you have no subtreasury there now—suppose a subtreasury was established there and during these periods of stress you could take the assets of your bank there and upon your own credit, hypothecating your assets, get the credit you needed by paying a certain tax on it while it was used, and when it was through this would come back into your bank and be retired and your assets would be returned to you. Would that relieve you of the embarrassment you have now?

Mr. BUCHOLZ. Yes; I think so; and if you extended the present central reserve cities to five instead of three and confine the privilege to just the central reserve cities under certain restrictions it would accomplish the purpose, in my judgment.

Senator BRISTOW. Suppose we had just one regional bank and we had a Federal bank which received the Government deposits and which would be a bank of issue and discount and that bank would have branches located in the various commercial centers of the country and you could go to your branch of that bank and get currency upon your assets?

Mr. BUCHOLZ. I do not like that idea so well. Perhaps that is due to some prejudice I have had for years against the Government engaging in the banking business. My belief is that the Government should pass the laws, provide what kind of banking business should be done, and let individuals do the banking business under proper regulations.

Senator BRISTOW. But the Government then would be running only 1 bank instead of 12. The Government now is establishing 12 banks and is going to run 12 banks.

Mr. BUCHOLZ. I think the fewer it runs the better it will be for the country.

Senator BRISTOW. If this board created here or this board in Washington has 12 banks scattered all over the United States at long distances—suppose we had one bank here in Washington which they managed and which performed all the functions that these 12 would perform, and that was done without requiring the banks to put up any capital stock, and any bank that kept its reserve there could get relief whenever it wanted it, as I have stated, do you not think that would simplify this very much?

Mr. BUCHOLZ. I do. That is in line with the expansion of our present system, with some additional safeguards.

Senator BRISTOW. And you think that strengthening the present system takes care of this apparent defect?

Mr. BUCHOLZ. Yes, sir.

Senator BRISTOW. We have had quite a discussion here in the last few days in regard to these country checks. The gentlemen who preceded you, and one or two gentlemen who were here yesterday, are anxious to have the check system discredited, to a certain extent, in order to reduce the number of the checks. You say you have been a country banker and now you are a reserve banker?

Mr. BUCHOLZ. Yes, sir.

Senator BRISTOW. Let us have your opinion about the method of banking by country checks, of refusing to give the customers of country banks the use of country checks. What do you think the general effect is on the business of the country in a case of that kind?

Mr. BUCHOLZ. I think the general effect is very good.

Senator NELSON. You mean the general effect of having a lot of checks afloat?

Mr. BUCHOLZ. Of using checks—

Senator NELSON (interposing). Instead of drafts?

Mr. BUCHOLZ. Yes. That practically amounts to the same thing, checks or drafts, because it is not always convenient to get a draft.

Senator REED. I want to ask this witness one more question. Take the banks in your town; is the amount of their capital stock any real index to the size of the bank?

Senator NELSON. You mean the volume of business they do?

Senator REED. Yes; the volume of business they do, and the profits they make.

Senator NELSON. Any real or certain index?

Mr. BUCHOLZ. Yes; I believe the capital and surplus would be.

Senator REED. The capital and surplus?

Mr. BUCHOLZ. Yes, sir.

Senator REED. You frequently find a bank, do you not, with a small capital and a large surplus, which is really a bigger bank and makes more money and handles more business than another bank with a larger capital and without a surplus.

Mr. BUCHOLZ. That is quite true.

Senator REED. Now, if the capital stock of this central bank is to be contributed by the banks, should it not be based upon capital and surplus, instead of upon capital alone?

Mr. BUCHOLZ. I think it would be very unjust to base a contribution of capital merely on the capital of the bank contributing.

Senator BRISTOW. I think this matter of country checks is a very important matter, and you seem peculiarly fitted to discuss it. Now, if you will, tell us in what way it has been a good thing for the country and for the banking business as a whole?

Mr. BUCHOLZ. When I was a country banker, I would tell the farmers, when they came in to buy some goods, that they ought to leave their money at the bank, deposit it in the bank, take a check book and pay their bills in that way.

Senator BRISTOW. With checks?

Mr. BUCHOLZ. With checks. That is about the only thing that appealed to the farmer. He did not have to carry the money in his pocket and take a certificate and come to the bank every time he wanted a little money. That has been generally done throughout the agricultural West. That is a part of the development of that country.

Senator NELSON. But you overlook the point we are after. This inquiry does not cover that kind of check. That is the other class of checks. For instance, the merchant in Nebraska, in an interior town, goes to Chicago and buys a bill of goods there, and instead of remitting to the wholesale merchant in Chicago by draft he sends his check on his local bank, and that is the kind of check we refer to.

Mr. BUCHOLZ. Of course, the ideal condition is for a merchant to go to his bank and buy a bill of exchange payable at the place where he owes the money. But we do not come to that. We do not approach the ideal condition. For instance, in Omaha some of our large accounts are 10 blocks away from us. They do not want to come to the bank and buy a draft. They make out a check and send it away.

Senator NELSON. When that check comes back what do you do with it? Do you charge for remitting that money?

Mr. BUCHOLZ. Yes; we make a charge of one-tenth.

Senator NELSON. A merchant in Chicago has a check from one of your Omaha merchants upon your bank, the Chicago bank sends it to you, and you charge for that?

Mr. BUCHOLZ. Yes; we do.

Senator NELSON. And does that charge come out of—it comes out of the bank that sends it to you, primarily?

Mr. BUCHOLZ. Primarily, and sometimes ultimately; sometimes they absorb that exchange.

Senator BRISTOW. That is their business; that is not the Government's business.

Mr. BUCHOLZ. Not a bit.

Senator BRISTOW. Not any more than to fix a law which would fix a limit as to the time for giving a cash discount, if payment is made in 10 days?

Mr. BUCHOLZ. It has not a thing to do with a Government regulation.

Senator BRISTOW. The Government has not a thing to do with it.

Mr. BUCHOLZ. This exchange charge ultimately comes out of the man who owes the money. It comes out of him ultimately, anyway, and it ought to.

Senator BRISTOW. My office is across the hall in this building. I may owe somebody in New York. He may have on his letterhead "Country checks not received," but I do not want to go down town and buy a draft, and so I write a check and let him turn it down—it is not convenient for me to go down town—and if he does not want to do that he may send it back.

Mr. BUCHOLZ. Certainly; that is a matter between you.

Senator BRISTOW. If we should undertake to make it impossible for me to write that check we would interfere with a development which has accommodated itself to the convenience of the entire business public of the United States?

Mr. BUCHOLZ. So much so that 92 per cent of it is done that way.

Senator NELSON. Go a step farther in that direction. This bill proposed in its original form to have the regional banks clear those checks as a clearing house; that is, those checks would be taken there and deposited, coming from a member bank. They are to be deposited in the regional bank and credited as cash and immediately charged up to the member bank. What have you to say about that?

Mr. BUCHOLZ. The effect of that is to penalize the members of the Federal reserve bank and put them in competition with other banks.

Senator NELSON. The effect of it is to deprive you of your exchange fee?

Mr. BUCHOLZ. Exactly; and it also puts a penalty on our belonging to the Federal reserve bank.

Senator BRISTOW. That is, if you did not find it convenient to permit your customers to pay these accounts by check on your bank the tendency would be for them to do business with a bank that would permit them to do business in that way?

Mr. BUCHOLZ. Exactly.

Senator NELSON. Suppose a merchant at Fairbury, in your State, wants to buy a bill of goods in Omaha; he issues a check on his local bank at Fairbury and sends it to the merchant in Omaha. The merchant deposits it with you. How do you collect that?

Mr. BUCHOLZ. Our practice is to collect direct.

Senator NELSON. Do you charge it to the bank in the first instance?

Mr. BUCHOLZ. No, sir; we do not.

Senator NELSON. You collect it direct?

Mr. BUCHOLZ. Yes, sir.

Senator NELSON. In what way?

Mr. BUCHOLZ. We have a transit account that runs from \$800,000 to \$1,200,000. We charge it to the transit account, and we send it to the bank direct, and the bank remits in Omaha exchange, and we credit it to the transit account, and thus the transaction is closed.

Senator NELSON. That is, less the exchange?

Mr. BUCHOLZ. Yes, sir; and we charge back the exchange to the man who deposits the check. We do not absorb the exchange.



Senator NELSON. And the local banker at Fairbury gets that exchange fee?

Mr. BUCHOLZ. Yes, sir.

Senator NELSON. And it comes out of the merchant who has deposited it with you?

Mr. BUCHOLZ. Yes, sir.

Senator BRISTOW. You do not absorb that charge?

Mr. BUCHOLZ. No.

Senator BRISTOW. Many banks do?

Mr. BUCHOLZ. Yes; but we do not.

Senator NELSON. Do you charge even where your customer has a good account with you?

Mr. BUCHOLZ. Absolutely.

Senator NELSON. You charge in every case?

Mr. BUCHOLZ. Yes, sir.

Senator BRISTOW. In my little town in Kansas they never charge, none of the banks.

Senator NELSON. What profits do you get out of that kind of business?

Mr. BUCHOLZ. It is a loss to us, as a reserve bank for other bankers.

Senator NELSON. In what way is it a loss, if you charge up the fee to the merchant?

Mr. BUCHOLZ. We are obliged—we give him credit for that, and he has a balance to check against up to a certain day, and we are out the use of the money.

Senator NELSON. Do you give that merchant the credit on the check before you collect it?

Mr. BUCHOLZ. Yes, sir.

Senator NELSON. Immediately?

Mr. BUCHOLZ. Immediately, when he brings it in.

Senator NELSON. And you are out the use of it until you get the money?

Mr. BUCHOLZ. Yes, sir; the postage and the work and labor in sending it out.

Senator NELSON. The only man who makes a profit out of that is the little banker on which the check is issued?

Mr. BUCHOLZ. He is the man who gets the profit.

Senator NELSON. He gets the profit?

Mr. BUCHOLZ. Yes, sir.

Senator HITCHCOCK. If that is all, Mr. Bucholz, we will excuse you, and we are obliged to you for appearing before us.

We will hear Senator Thomas now.

**STATEMENT OF HON. CHARLES S. THOMAS, A UNITED STATES  
SENATOR FROM THE STATE OF COLORADO.**

Senator THOMAS. Gentlemen, I want to call the attention of the committee as briefly as I can to a phase of the currency problem that I do not believe has received much consideration so far, but which seems to me to be one of sufficient importance to justify me inflicting myself upon your consideration for a few minutes.

I have reference to the matter of the United States bonds drawing interest, not only those which form the basis of bank circulation, but

all interest-bearing bonds and the manner in which they should be disposed of in connection with the general scheme of currency legislation.

I think I may safely assume at the outset that the payment of the interest-bearing national debt is very remote, and that is true not only of our own but of all the nations of the world. We are not making any provision for it to speak of, and we are living up to our income. And the consequence, the bonded debt of the Government is, for all purposes of currency legislation, at least a permanent condition.

Now, one of the most serious objections or criticisms that I have heard relating to the Glass bill is based upon the effect of that bill on the values of Government bonds held by the bankers and used by them to secure circulation, and the loss which they must sustain in the event that provision is destroyed and a different system of currency is adopted without reference to the bonds themselves.

It is true that in 1900, by the act of March 14 of that year, the Government paid the banks the difference between their face value and their premiums, up to a certain amount—I forget just now what—when that bill was amended, and certain changes made in the national banking act. And it is equally true that now the Government does not want and will not inflict any loss upon the banking fraternity. At the same time there is, in my judgment, a very deep objection, a popular one, to the substitution of a 2 per cent for a 3 per cent bond. Whatever may be said concerning it, the fact remains that it does increase the rate of interest upon a majority of the bonds of the country. And while there may be compensating advantages, the average man knows that if he exchanges a 2 per cent note for a 3 per cent note he is paying more interest than he was before. I confess that is an argument which appeals to me with a great deal of force, and is aimed at a condition which, if it can be avoided, ought to be avoided. A good deal of criticism against this bill, too, has been aimed at the possible effect it will have, the probable effect, as a great many believe, and the way of contracting the currency, and necessitating the resort to a reduction of loans, of discounts, for the purpose of securing sufficient money to meet the requirements of this measure, and particularly with reference to the matter of reserves. Now, if those objections can be met by introducing in this bill an amendment which will take care of the bonds, which will not affect, principally at least, the reduction of the currency, and which at the same time will keep the bonds at par and reduce the interest upon them, that is certainly something that ought to adjust itself at least to the serious consideration of this committee.

Senator NELSON. You do not mean reduce the interest on the 2 per cent bonds?

Senator THOMAS. Yes; I mean precisely that.

Senator NELSON. Reduce the interest on the 2 per cent bonds?

Senator THOMAS. Yes; even to reduce the interest on 2 per cent bonds.

These preliminary remarks lead up to the proposition of providing for an interconvertible bond, which in the hands of any one bank or citizen or business corporation may be exchanged and reexchanged at any time at the pleasure of the holder for bond certificates or

Treasury notes, and which at the same time would enable the bonds themselves to be used for the reserves required to be kept by the banks.

Now, I am not going to advocate——

Senator HITCHCOCK (interposing). You mean the bonds to be kept as reserves?

Senator THOMAS. Giving the bonds the——

Senator HITCHCOCK (interposing). The power of gold?

Senator THOMAS. The power of gold, so far as the reserves of the national banks are concerned. I think that irrespective of any particular opinion concerning the wisdom or unwisdom——

Senator POMERENE (interposing). Do you mean the new bonds we are to issue instead of the twos?

Senator THOMAS. Yes; and any new bonds that are proposed to be issued in place, not only of the twos, but of all other outstanding bonds. I am coming to that later on.

Senator HITCHCOCK. You would have them payable on demand?

Senator THOMAS. Yes. I have to say before unfolding the scheme, that while I have always been a believer, as long as you are going to have a bond currency, in extending the right to issue currency upon bonds to all individuals or corporations owning such bonds, and while I believe, and I think popular opinion justifies it, that the most popular currency we ever had in this country are the greenbacks issued by the Government without the interposition of any other agency whatever, and it has manifested itself by the impossibility of this retirement, although nearly 50 years have elapsed since the close of the war.

There is something in a currency which issues directly from the Government. That brings me to another objection that I have heard, and about which a good many of my constituents have written me, and which you have at least heard by way of criticism of the proposed currency system in this bill, and that is it is confined to the banks and is not general in its character. In other words, the bill proposes to and does lend the credit of the people to the people's creditors, instead of lending their credit impartially, both to those who are in and those who are out of the banking system.

This plan of this proposed change, which, as I say, has already appealed to me, was called to my attention very early in the session of this Congress by a pamphlet upon the subject, written by Mr. William A. Amberg, of the city of Chicago, which includes a proposition of Hugh Hanna, who, a great many of you gentlemen will remember, was the chairman of the National Monetary Conference at Indianapolis in 1900. As a result of my reading this proposed amendment of Mr. Amberg's and by rereading of it and digesting of it, I wrote him and asked him to prepare an amendment to the pending bill embodying his views in proper legislative form, and also giving the various things which, in his judgment, would accomplish, together with the method of its accomplishment. He has done this so well and so completely, in my judgment, that I think I am justified in taking my time and yours in referring to that rather than by attempting to explain it all.

Senator NELSON. Is it very long?

Senator THOMAS. It is not very long.

Senator NELSON. I do not think there would be any objection to reading it.

Senator THOMAS. I am going to read it. It is not as long as it appears, because it contains the proposed amendment which I shall not at present read. Mr. Amberg says that he proposed the original pamphlet in response to a general invitation for communications to be prepared and presented concerning the general subject of monetary legislation, and in response to this invitation he published last May a pamphlet entitled "Outline of a Plan for Funding the National Debt and for Maintaining an Elastic Reserve Currency," which attracted some attention because of its novel treatment of the subject and for the advantages insured by its adoption, which he states to be the following:

The saving of millions of dollars in interest.

The means of determining at regular intervals a proper interest rate on bonds.

An equivalent to the Government of the profit on the circulation privilege in the form of a low interest on its bonds.

Taking the Government out of the banking business.

Independent of syndicates in the citation of its funds.

An automatic sinking fund.

The maintenance of the gold standard.

I may say that that does not appeal to me at all. It is a matter of total indifference to me whether the gold standard is maintained or not. Other advantages which he states are:

The simplicity of the system; the freedom of competition in regard to Government bond issues; the ultimate increase within certain limits of available money; its adaptability to expansion in the event of war; the means of accelerating or retarding the process of funding to the best advantage; and introduction of a short-term gold bond, bearing a low competitive rate of interest, which is made available for money reserves for banks because exchangeable in that emergency for correlated legal-tender bond certificates at any sub-treasury on demand.

I think it will be conceded, gentlemen, that if this proposition accomplishes one part of that which is claimed for it by its sponsors it is very desirable that it should be incorporated in this measure, whether as a substitute for section 19 or as suppletory to it is a matter for further consideration.

Of course this idea of a convertible bond is old. I think a number of propositions have been made during the past 25 or 30 years for the convertibility of all interest-bearing bonds into currency and reconvertibility at the pleasure of the holder.

Senator SHAFROTH. There was a bond carrying interest with it which circulated as money during the war.

Senator NELSON. They were what we called the "seven-thirty notes"; they were not bonds.

Senator THOMAS. They were not bonds, strictly speaking, but in their legal sense I presume they were.

Senator NELSON. They circulated as money, but they went out of circulation and immediately retired?

Senator THOMAS. Now come to a consideration to a proposed amendment itself, which I will not read.

Senator NELSON. You might give us the outline of the plan.

Senator THOMAS. That is given in what I will call attention to.

Authorize the funding of the public debt and the issue of short-term, 10-year renewable term bonds in an amount to fully cover the principal of the entire debt and the premium on outstanding bonds. There should be, say, 20 issues of equal amount maturing six months apart.

Let us assume that the total authorized is \$1,500,000,000; this would make each issue \$75,000,000.

Senator HITCHCOCK. How do they figure such a large amount as that?

Senator THOMAS. That is simply to present the plan. It is somewhat larger than the total amount of the interest bearing and the noninterest-bearing debt, and at the same time it is contemplated that a possible emergency may arise which will require more.

The interest rate on the bonds, which may vary with each issue will be discussed later; for the present, it will suffice to state that the interest rate is to be determined for each issue when made.

With the complete funding of the debts will mature \$75,000,000 of bonds every six months, and the interest rate should be fixed on each renewal issue. The purpose of that is to regulate an arranged legal rate and to enable the bonds to bear interest at less than 2 per cent, as I think will be the case.

Senator NELSON. Who would take the bonds?

Senator THOMAS. Well, anybody would take them; everybody would take them, and be glad to get them, and the national bank particularly. [Reading:]

It would not necessarily take 10 years to refund the debt. Refunding can proceed as rapidly as desired, or as may be found economical. The first issue would necessarily be for 10 years; other issues after the lapse of every six months would also be for 10 years, but accelerating issues can be made for shorter periods, each timed to mature six months earlier than the earliest maturity of bonds previously issued, as 9½ years, 9 years, 8½ years, etc., from the date of the first issue.

The renewal of the serial issues begins with the earliest maturity and renewals will come regularly every six months thereafter, provided all the 20 serial issues are out. If the debt be not entirely funded by the time the earliest maturity arrives, there will be other "open" maturity dates besides the two provided for emergencies. If the time required for funding could be predetermined the earliest maturity date could be fixed for the first serial issue, all subsequent issues expiring six months later than the preceding one. The object of all this will appear later, when we come to apply an interest rate.

On the back of each bond should be printed a table showing the accrued interest (according to the interest rate it bears) for each given day in the year between coupon maturity dates.

We then have a bond representing a specific amount and showing the amount of accrued interest on any given day.

We now come to the bond certificates; that is, the name given to the notes that are to be exchanged. [Reading:]

The bond certificates, as stated in the bill, are practically the same as our present United States notes, and need only an added clause to the effect that they are exchangeable for the new interest-bearing bonds at par, upon payment of the accrued interest on the day the exchange is made. These certificates alone are exchangeable for the bonds. This is an absolute requirement, and suggests the desirability of exchanging all the various kinds of certificates now issued, in kind only, as gold for gold certificates and silver for silver certificates only.

Senator NELSON. Let us see if I understand you, Senator Thomas. These certificates are, in substance, to be the paper money that is issued upon those short-time bonds?

Senator THOMAS. Precisely.

Senator NELSON. It is to be the paper currency of the country?

Senator THOMAS. Exactly.

Senator HITCHCOCK. Let me ask you a question.

Senator THOMAS. Certainly.

Senator HITCHCOCK. Is it proposed that the Government shall issue \$75,000,000—

Senator NELSON (interposing). Ten-year bonds.

Senator HITCHCOCK. Ten-year bonds?

Senator THOMAS. Yes.

Senator HITCHCOCK. And offer them to those who now hold Government bonds?

Senator THOMAS. Yes.

Senator HITCHCOCK. Then they are exchanged on an even basis for the present bonds?

Senator THOMAS. Yes.

Senator HITCHCOCK. Those who receive these new bonds will draw what rate of interest, if they hold them?

Senator THOMAS. Two per cent.

Senator HITCHCOCK. Two per cent. And if at any time they desire currency for them they can turn them over to the Treasury and secure currency to the amount of the face of the bonds, plus the interest accrued?

Senator THOMAS. Yes. [Reading:]

Each issue of bonds, when ready, is to be delivered to an official of the Treasury Department whom I will designate the "custodian," whose duties are practically the same as those of the officer who now exchanges gold for gold certificates and vice versa, the only difference being that he is provided with an interest fund.

He has to give out the bonds for bond certificates only, collecting the accrued interest shown on the back of the bonds, and when the operation is reversed and bonds are presented for certificates, he pays the accrued interest.

Senator HITCHCOCK. Well, they deal out bonds as long as anyone presents them, to the entire issue of bonds, if they are presented?

Senator THOMAS. Yes; in the first instance.

Senator HITCHCOCK. In the first instance; and that goes on for how many years?

Senator THOMAS. Assuming that there is \$1,500,000 of the whole thing—

Senator HITCHCOCK (interposing). Twenty years?

Senator THOMAS. The bonds could be reissued every 10 years, upon interest dates. I think you will find, Senator Hitchcock, that you are anticipating what Mr. Amberg has outlined in his scheme.

Senator POMERENE. You would expect to retire these national-bank notes under that scheme, would you?

Senator THOMAS. Yes; that would come as a matter of course; and the consideration of that would be the reserve quality of the bonds. [Reading:]

He is not to part with bonds for any other form of money.

Senator NELSON. What is that?

Senator THOMAS. [Reading:]

He is not to part with bonds for any other form of money.

I am not now talking about the redemption of the bonds, but the exchange of the bonds, when an exchange is desired. [Reading:]

There will always be the same amount of certificates in his possession as there are bonds outstanding.

I assume that the legal tender character now attaching to greenbacks will apply to bond certificates which replace them.

As a currency, it is better, because secured by interest-bearing United States bonds.

They are never to be paid out by the Treasury before the new bonds are in the hands of the custodian, nor in excess of the amount of bonds so placed.

No additional certificates are required for renewals of bond issues; they are paid out only for the principal of the debt and premium on certain bonds now outstanding, and for other items recognized as a part of the national debt, which includes greenbacks.

Now, I come to the new bonds as bank reserves. [Reading:]

The bonds, being instantly convertible into legal tender bond certificates, are especially adapted for bank reserves, not only for national banks, but all other banks, trust companies, and all classes of investors who have idle money awaiting investment. The sum of all these combined is so large that the demand for bonds can be met only in part, which will enable the Treasury to secure a very low interest rate on bonds, virtually a Government "call-loan" rate. Banks could keep a large part of their money reserve in these bonds, because they could be converted any day into bond certificates at any subtreasury, and conservative bankers could therefore increase their present reserves without loss.

There is no way of determining what the money reserve of all the banks and trust companies aggregates. It can only be conjectured.

And then he makes the conjecture upon some figures which he gives, that the amount in reserves is probably, all over the country, \$2,500,000,000; and assuming that to be the amount, the total issue of the new bonds could be held by the banks alone as a part of their reserves, because instantly convertible into currency.

Now, these bonds have that quality. They certainly will not fall in value, and there can be no loss in that way.

Senator HITCHCOCK. Does that mean they would get 2 per cent interest on the reserves?

Senator THOMAS. It would virtually mean that, as long as the bonds require a reserve. The bonds and the money into which they are convertible are both available as reserves; and the effect of that, of course, is to release, to the amount of the bonds in reserves, all this currency and all other currency for circulation.

Senator HITCHCOCK. Of course, as far as the national banks are concerned, the \$700,000,000 would be retired in currency.

Senator THOMAS. The \$700,000,000 would be retired in currency, or the same amount would be issued for the bonds. It would be an exchange. There would certainly be no contribution by the banks of currency.

Senator BRISTOW. Now, Senator Thomas, I should like to see if I have the correct idea. You proposed to issue these bonds, and they may be exchanged at any time for what you call a bond certificate?

Senator THOMAS. Yes; you may call it anything.

Senator BRISTOW. It is a currency which is equivalent to the greenback, or the national-bank notes?

Senator THOMAS. Yes.

Senator BRISTOW. And whenever anyone wants currency they take the bond to the Government and get it?

Senator THOMAS. Yes.

Senator BRISTOW. And if they prefer the bond to the currency, they take the currency and get the bond?

Senator THOMAS. Yes; they are interchangeable, with the added element that the bond is available for reserves.

Senator SHAFROTH. It makes it a somewhat automatic regulation of the currency.

Senator POMERENE. Well, if I had one of these bond certificates and took it to the Treasury or a regional reserve bank and got the currency—

Senator THOMAS (interposing). You mean the bond, not the certificate. The certificate is currency.

Senator POMERENE. Well, get the certificate—would that end the matter, so far as the bond is concerned?

Senator THOMAS. No.

Senator POMERENE. Or could it be reissued?

Senator THOMAS. No; it must be reissued if anybody comes and asks an exchange of the bond for other certificates or greenbacks.

Senator BRISTOW. While the Government has the bond it does not cost the Government anything?

Senator THOMAS. It does not cost the Government anything.

Senator SHAFROTH. When there is a redundancy of currency, these bonds could be drawn out.

Senator WEEKS. I understand the plan prohibits the redemption of the bonds or certificates in gold?

Senator THOMAS. No, not the bonds; the bonds are to be paid out only for the certificates and the certificates redeemed in bonds; but the bonds are gold bonds.

Senator WEEKS. If I had the certificate and wanted gold, I could go to the Treasury and get the bond and immediately convert that into gold?

Senator THOMAS. Oh, yes.

Senator SHAFROTH. Well, is the bond payable on demand?

Senator THOMAS. The bonds are payable every 10 years. I suppose the bonds would be the equivalent of gold now. But you could get gold by as easy a process as you can get gold now under the national-bank act.

Senator WEEKS. That is simply two processes, exchanging it into legal tender and exchanging the legal tender for gold?

Senator THOMAS. Yes; because you can do that you do not want to. [Reading:]

The recent circular of a firm making a specialty of Government bonds gives a table showing high and low prices during certain years of bonds available as security for national-bank notes. This shows a mean average interest yield on 2 per cent bonds ranging from 1.68 in 1901 to 1.96 per cent in 1912.

This low rate arises from the competition of national banks alone. How much lower the interest rate might be if they were sought in universal competition, coupled with facilities for instant conversion into currency, may be imagined.

Regarding the rate of interest which the Government may secure on the new bonds, it is my firm belief that as low as 1.2 or 1.4 per cent may suffice under this plan. These conclusions rest on the fact that as national banks investing capital in the present bonds to secure circulation (which capital might be fully loaned at 5 per cent) have a net income derived from circulation



(over and above 5 per cent) after paying taxes on circulation, etc., of only 1.25 to 1.4 per cent, whereas under this plan they could invest a part of the idle money they are required to keep on hand as a reserve in convertible interest-earning bonds.

That is to say, bonds on deposit as part of the reserves would pay something more than they are making upon their bonded investment now. [Reading:]

When the funding is practically completed, and we reach the renewal stage, our experience will have been such that there will be but slight changes in the interest rate. Just now we can not estimate positively how low an interest rate will still command a slight premium for the bonds.

To be absolutely on the safe side, let us assume that the first issue of \$75,000,000 10-year bonds bears interest at the rate of 2 per cent. If that proves too high, considering their desirability, it will manifest itself by the bonds commanding a premium in the open market, which will be a gold market when our present United States notes are exchanged, and will remain so unless subsequent legislation should change the character of our currency, which is not likely.

With open-market quotations at hand, it is easy to determine what lower rate of interest will suffice to keep them at a little above parity with gold.

He suggests that interest rates be always fixed at a multiple of one-fifth of 1 per cent, as 1.6, 1.8, 2, 2.2, 2.4, etc., per cent, because, even if bonds should be issued in denominations as small as \$50, there will be no fractional cents in the semiannual coupons. Of course that is for convenience. [Reading:]

So far as the Treasury is concerned, it recognizes no premium or discount in making exchanges of bonds and certificates, regardless of whatever the "open market" may be. But in order that parity with gold may be maintained, and also that the certificates may be a real reserve currency ordinarily withheld from circulation, the interest rate on each series of bonds when issued or renewed should be such as to command a very slight premium for the bonds.

Bond certificates immediately exchangeable for bonds bearing even a very low rate of interest will be withheld from general circulation by banks, and gold and silver and their certificates will be paid out instead. The above ideas being followed, it is evident that these bonds will never be at a discount.

And there is where it seems to me that the holders of these vast bond issues should be fundamentally interested in this plan. Temporary aberrations in the money market will correct themselves, and the system will have a steadying influence on the "value of gold," just as an idler pulley has a steadying effect on a leather belt transmitting power. [Reading:]

The question as to what the denominations of the bonds should be can be determined by experience gained from the first issue.

However, to insure perfect equality and no special privilege to any class, it seems desirable that some bonds as small as \$50 shall be issued. [Reading:]

The custodian's duties are substantially these:

He must give out bonds for bond certificates only, and bond certificates for bonds only. The interest, either way, is to be paid in gold or its equivalent; hence, if he be given a certain amount of the new bonds, he will, whatever the exchanges may be, have always the same total amount in bonds and bond certificates. Custodianships may be established in other than subtreasury cities to give the benefit of quick exchange to smaller geographical divisions.

Of course that was written before the Glass bill was passed. [Reading:]

An economical feature of the plan is that it saves interest on the bonds while the certificates are outstanding, and even while the Treasury has possession of them. If the Treasury receives bond certificates as currency in the regular

course of business it will naturally retain them as banks would, and thus save interest.

A permanent holding of bond certificates by the Government is automatically, the equivalent of a sinking fund to the extent to which they are so held. They are simply an "offset" to the bonds which are held by the custodian.

As the Government maintains parity with gold on the new bonds by fixing the interest rate on one serial issue every six months, it does not concern itself with premium on bonds, as it never sells them—unless necessary to replenish the gold reserve fund as stated in the bill, which would be an unlikely occurrence. It holds them merely for the purpose of exchange for the only thing which will command them, and that is bond certificates. The reason for exchanging bonds for bond certificates only is to prevent contraction in the currency and to make the certificates more valuable than any other circulating medium.

And I may say right here, gentlemen, that one of the criticisms that I have seen made of this bill is that the manner in which redemptions of the new currency are to be had may operate as another endless chain—the drawing of gold out of the Treasury. That danger is absolutely eliminated in this system of currency expansion. [Reading:]

It is possible to delay the determination of the interest rate on each of the serial issues to within 30 days of their several dates. While the bonds are printed by hand from steel plates, which is a slow process, the date, interest rate, and interest table can be quickly printed from type on ordinary printing presses.

This gentleman suggests a smaller bond in size. He says [reading]:

While the bonds would have to be printed for each particular issue, the certificates, which may be of any denomination desired, are general and command any bond issue, or any particular issue designated by the Secretary of the Treasury, as deemed advisable. They will last indefinitely, not being subject to the wear and tear of ordinary currency.

The daily summarized reports of the custodians showing the relative amounts of bonds and bond certificates on hand would be a better barometer of local and general currency conditions than are now the clearing-house reports of business conditions.

He says that bond certificates can be issued of any denomination, even \$1, \$2, and \$5 bills being practicable. My own idea is that they can be larger than that, and that the smaller currency should be entirely confined to silver certificates. This gentleman, in the preparation of his bill, prohibits the legal-tender character of these bond certificates from applying to interest on the public debt and the payment of customs dues. My own idea would be to make them universal legal tender, although he gives a good reason for it.

Senator BRISTOW. Senator THOMAS, let me make this suggestion, and see what effect it would have. Suppose I have \$1,000 that I do not want to use. I take it down here to a bank and I probably put it in a trust company, where it will bear 2 per cent on a monthly balance or a weekly balance, perhaps 3 per cent, depending on where I place it. And it stays there and it is loaned out to somebody else. There are a large number of people who do the same. And that makes the bank's balance.

Now, suppose instead of that I go and get a Government bond and put it away and get 2 per cent. That is as good as anything could be. I would know that I could get cash for it when I wanted it.

Would not that fact have a tendency to take away all these bank deposits? And now somebody else goes and borrows this \$1,000 of mine, who needs it, and he pays 4 per cent or 5 per cent on it, as the

case may be, and the bank keeps it there for that purpose and deals in this surplus currency that is in the country—collects it and loans it out.

Now, that is a good thing. Somebody can get the money that otherwise could not. If I go and get one of these bonds and put it away, that currency would be gone and nobody could get it. I would get 2 per cent on it, but the other man would not have the opportunity of borrowing it.

Senator THOMAS. You can do the same thing with gold. You can do the same thing with any other sort of currency. The fact that you could do that is, to my mind, one of the best arguments in favor of the genuineness of the scheme.

Senator BRISTOW. Well, it is a very important thing to the business of our country as it is now that we should have banks.

Senator THOMAS. Certainly.

Senator BRISTOW. So that men who need money, who have not got it, who are carrying on business with large capital—and the vast majority of our men are doing that—can borrow it.

Senator THOMAS. When that demand comes there will be rapid exchange of these bonds for currency. It will work automatically.

Senator SHAFROTH. When money is worth more than 2 per cent money comes out and the bond goes to the Treasury.

Senator THOMAS. Yes. That, if I may be allowed the expression, is the beauty of the proposition.

Senator BRISTOW. The banks would have to pay more than 2 per cent, then, to get this currency, instead of its being put into bonds.

Senator THOMAS. As a matter of fact, it would reduce the actual income on the bonds, because the bonds would go to a premium in proportion to the demand for that bond currency.

Senator WEEKS. Senator Thomas, what makes you think those bonds would go to a premium?

Senator THOMAS. They are at a premium now, are they not? Because they have the quality of basis for currency issue.

Senator BRISTOW. They were before this bill was introduced.

Senator NELSON. They are about 94½ now.

Senator SHAFROTH. Mr. Vanderlip said they were worth 3.18 interest, and therefore they were more valuable than the 3 per cent bond; and for that reason the national-bank circulation would retire.

Senator THOMAS. Well, assuming that they are now below par, it is because of the probable effect of this bill upon them. But with that quality and requirement they are worth a premium, are they not?

Senator BRISTOW. Well, they have been; yes.

Senator THOMAS. I mean with this qualification, and with the added qualification of being receivable for reserves for bank deposits.

Senator HITCHCOCK. It is proposed to have the Government issue \$75,000,000 of these bonds a year, is it?

Senator THOMAS. Every six months.

Senator HITCHCOCK. Every six months?

Senator THOMAS. Or so that each \$75,000,000 will fall due at intervals of six months.

Senator HITCHCOCK. Well, that would be \$150,000,000 a year.

Senator THOMAS. That would fall due every year?

Senator HITCHCOCK. In five years, then, we would retire all the present national-bank currency?

Senator THOMAS. Upon the assumption that they were issued every six months, as well as falling due every six months.

Senator HITCHCOCK. Well, after you had accomplished that, would they be in the form of bonds, in your opinion, or would they be in the form of outstanding currency?

Senator THOMAS. Well, my own opinion is that these bonds would be used for the most part for reserves.

Senator HITCHCOCK. They would be in the form of bonds in the vaults of the banks?

Senator THOMAS. They would be in the form of bonds in the vaults of the banks, and in the vaults of the reserve banks.

Senator HITCHCOCK. The banks would be using those in the place of gold?

Senator THOMAS. In the place of all sorts of reserves.

Senator HITCHCOCK. In the place of all kinds of reserves. What would become of the gold and other forms of money which the banks now hold as reserves?

Senator THOMAS. It would give them circulation in the banks.

Senator HITCHCOCK. Well, they would not be in the banks if they were displaced by those hands.

Senator THOMAS. Not as reserves; but they would be in the banks just the same.

Senator HITCHCOCK. Well, banks do not hold ordinarily more than their reserves.

Senator THOMAS. When I say "in the banks," I mean in the business of the country.

Senator HITCHCOCK. Well, then it is proposed to issue another \$75,000,000—

Senator NELSON (interposing). Every six months for 10 years.

Senator HITCHCOCK. So that we would have outstanding, approximately, \$1,500,000. Would that be in the form of bonds, or would it be in the form of currency?

Senator THOMAS. Both, and interchangeable.

Senator HITCHCOCK. Well, if it was in the form of currency it might lead to an inflation.

Senator THOMAS. How?

Senator HITCHCOCK. Because it would provide much more currency than we have at the present time.

Senator THOMAS. Well, would that be inflation? Do you not think that we need more currency?

Senator HITCHCOCK. The testimony here indicates that at certain seasons of the year it is too little, and at other seasons of the year it is redundant.

Senator THOMAS. Yes; and I can understand that the present system prevents expansion.

Senator NELSON. Our bonded debt now is between \$900,000,000 and \$1,000,000,000.

Senator SHAFROTH. That does not take in the Panama bonds.

Senator NELSON. I think it includes all the outstanding bonds now that are charged against the Government.

Senator THOMAS. I have a statement here that I could read on that subject.

Senator HITCHCOCK. Let me put this case to you, Senator Thomas.

Senator THOMAS. Certainly.

Senator HITCHCOCK. If the result of this change were to be the issue of the same amount of currency that we have now——

Senator THOMAS (interposing). Plus the amount of the debt of the United States not represented by any currency at the present time.

Senator HITCHCOCK. Yes. That would result in giving us an expansion, if not an inflation of currency, would it not?

Senator THOMAS. We want an expansion of the currency; and that is just one of the merits of this proposition.

Senator HITCHCOCK. Well, it is estimated that we want it at certain seasons of the year, and at other seasons we want it retired. My point is this: Are you sure it would result in a reduction of the interest on bonds?

Senator THOMAS. I do not think there is any doubt about it; and that is the reason the six months' intervals are provided for, so that the interest could be regulated.

Senator HITCHCOCK. It seems to me that you only accomplish a reduction of the interest by contracting the currency.

Senator THOMAS. I do not see how, if I understand your argument.

Senator HITCHCOCK. Well, by expanding your currency——

Senator THOMAS (interposing). Well, I understand that one purpose of this bill, and one of the demands for it, is that we need more currency.

Senator HITCHCOCK. Not more currency; we need an elastic currency.

Senator THOMAS. That means we need more at intervals. This is a loan for securing that currency and at the same time arranging it automatically.

Senator WEEKS. Yes; but you might need very much less than we have now at intervals.

Senator THOMAS. That does not worry me much. I do not think this country has been in such a position for 25 years—that we have more currency than we need.

Senator NELSON. The difference would be between bonds outstanding now and the national-bank circulation now——

Senator WEEKS (interposing). Let me finish my statement, please. I think it is a fair assumption that we have had too much. If there were not too much, the interior banks would not be dumping their circulation into New York a great deal of the time, which circulation is coming back here to the Treasury for redemption frequently. There are bales of that circulation coming back to the Treasury for redemption that have never been opened.

Senator SHAFROTH. Because it can not act as a bank reserve. Not a dollar of it would come back if it could act as bank reserve.

Senator WEEKS. I am not discussing what can be done with it. But is it not a fact?

Senator THOMAS. But a great deal of this goes to New York to be put into call loans.

Senator WEEKS. Not at all. That money is coming to New York like a stream of water over a dam, and coming here to the Treasury; and there are over \$44,000,000 of it here now.

Senator THOMAS. Then I should think you would have a currency that had elasticity now, so that you do not need any additional legislation.

Senator WEEKS. Well, that is not a question of elasticity. The circulation is put out again.

Senator SHAFROTH. The reason of that is that we have got too little money that will act as reserves.

Senator NELSON. You see the value of the system is that if you have \$100,000 of these bonds you could go to the Treasury and get the money and turn the bonds in; and then when you got through with using the money you could turn the money in and get back the bonds.

Senator WEEKS. You can do the same under the present system.

Senator THOMAS. Yes; but everybody can not do it.

Senator NELSON. This is for everybody; not only the banks, but for you and me.

Senator WEEKS. Well, I suppose as a practical proposition everybody would do what the country bank does not. If the country bank wants to take out more circulation, it sends to its reserve agent and its reserve agent does it for the country bank.

Senator THOMAS. It may be that it is generally done through the agency of the banks. But this system meets the fundamental objection that the present system is designed for the banks, and not for the whole people.

Senator NELSON. The beauty of this system is that whenever your money is idle you convert it into a 2 per cent bond; and the moment you want money you convert the bond into currency.

Senator WEEKS. I am not discussing or raising any point about the fundamental objection of making additional circulation a Government note, in the first place, and making it a legal tender, in the second place. That is a matter that, of course, would be involved in this proposition.

Senator HITCHCOCK. Senator Thomas, there would be no time when the banks would keep this currency in reserve, because they would be drawing no interest on the currency. They would keep it in the form of bonds in order to get the interest. It would count as reserves just as much in bonds as it would in cash.

Senator THOMAS. Yes.

Senator HITCHCOCK. And during that time the Government would be paying interest on those bonds.

Senator THOMAS. Yes.

Senator HITCHCOCK. Now, the reserves held at the present time by national banks are something over \$1,000,000,000.

Senator THOMAS. Yes.

Senator HITCHCOCK. Then, how can you accomplish a saving of interest, when it would be to the profit of banks to keep these reserves in the form of bonds, because they would count as cash and draw interest at the same time?

Senator THOMAS. I do not assume that these bonds would be constantly in reserves to the extent which you suppose.

Senator HITCHCOCK. I am putting this case to you: That at the present time there is a minimum of reserves which the national banks hold amounting to 1,000 millions of dollars in round numbers. Now, that is bedrock. The banks do not go beyond that. They do not use that. They keep that as a standing reserve. They naturally want interest on it. So they keep it in the form of bonds instead of in the

form of currency. And if they do so, would not the United States Government be paying interest on it during all that time?

Senator THOMAS. Not those bonds deposited with the Government—with these regional banks. Of course, if it were sent by one of the banks from Omaha to New York it would draw interest.

Senator HITCHCOCK. It would keep the bonds in its own vault.

Senator THOMAS. It would keep the bonds in its own vault.

Senator HITCHCOCK. And they would count as cash there.

Senator THOMAS. But the Government now pays interest on the bond just the same, and pays a good deal more than 2 per cent. And right there there would be the difference in interest between the  $4\frac{1}{2}$  per cent bond and 4 per cent bond and the 2 per cent bond.

Senator WEEKS. Let us take this as an illustration: Suppose you went into a bank for \$1,000, and you would get that \$1,000 in such denominations as you wanted it in. You take that circulation and use it in your business. Later somebody pays you \$1,000 of that circulation. What would you do with it? Hold the debt or hold the bond?

Senator THOMAS. If I should answer you truthfully, I would say I would give it to my creditors, no matter what kind it was.

Senator WEEKS. Would not everybody do it?

Senator THOMAS. They would if they were in my position, because they could not do anything else.

Senator WEEKS. Would any individual receiving such circulation voluntarily exchange that into a bond paying  $1\frac{1}{2}$ , or even 2, per cent?

Senator THOMAS. Yes; I think so.

Senator WEEKS. Why would not a man take a Massachusetts State bond paying  $3\frac{1}{2}$  or  $3\frac{3}{4}$  per cent instead?

Senator SHAFROTH. A Massachusetts bond can not act as a reserve.

Senator THOMAS. The convertibility of the bond and the fact that it can be used for reserve would make it an attractive bond, I think, even to the individual.

Senator WEEKS. I would not invest in a  $1\frac{3}{4}$  per cent bond when I could get a  $3\frac{3}{4}$  per cent bond.

Senator NELSON. You see, the beauty of this system is that it makes every individual who carries those bonds a sort of movable bank.

Senator BRISTOW. Senator Weeks, you say you would invest in Massachusetts bonds. In the first place, they are in denominations you can not get very well; and then you can not sell them readily. You may say to me—I have \$1,000 here in the Washington Loan & Trust Co., which draws 2 per cent—"Why do you keep that \$1,000 there when you could get a Massachusetts bond that draws  $3\frac{1}{2}$  per cent?" I do it because I can get it when I want it.

Senator THOMAS. Gentlemen, if you will allow me, I think some of these things are discussed in the paper further on.

Senator NELSON. As I understand you, you say that by and by they can issue these bonds at rates lower than 2 per cent?

Senator THOMAS. Yes; that is the reason six months' intervals of maturity have been provided for.

Senator HITCHCOCK. It is the habit of this committee to jump right into the middle of a thing before it has been discussed in order.

Senator THOMAS. I am not objecting, but I do not want to detain the committee. [Reading:]

The clause in the bill relating to customs dues is the same as that which now appears on the backs of United States notes. It will never be necessary to make it operative except in the event of a prolonged and costly war.

Gold certificates have a 100 per cent gold reserve. Bond certificates will have a 100 per cent serial gold bond reserve, which bonds have a \$75,000,000 gold reserve to meet an entire serial issue as it falls due. That is what the amendment provides. And there is ample provision for replenishing the gold reserve if drawn upon to meet the next serial issue at its maturity six months later.

Silver certificates have a 100 per cent reserve in silver dollars. By congressional act the Government must maintain parity. The bill directs the Secretary of the Treasury to issue \$1, \$2, and \$5 silver certificates in lieu of those of the denominations of \$10 or more, which amount to about \$22,000,000. That is in order to make silver bear the burden of the small currency of the country. When the funding is completed over \$320,000,000 of gold certificates of the denominations of \$5 must be provided to meet the requirements of trade for this denomination.

Bond certificates will not ordinarily serve the purpose, as they will be withdrawn from circulation to command bonds and create a scarcity of small bills, which are absolutely required. He reaches the conclusion that as these smaller silver certificates are needed they will never be presented for redemption in gold to any extent; so that a gold reserve of \$25,000,000 is ample, making \$100,000,000 in all, thus releasing \$50,000,000 of the present reserve.

He says he realizes that some persons will question the necessity of maintaining any gold reserve, but he looks upon it as a possible necessity; it gives assurance to the world of the character of our money.

From the standpoint of economy alone it is a good investment. The loss of interest on \$100,000,000 will be more than offset by the lower rate of interest our bonds will command, because of the maintenance of the fund. A borrower at a bank soon realizes the fact that the average balance he maintains with it has a very decided influence on the interest rate demanded.

Senator HITCHCOCK. What is that reserve for? These bonds are payable in certificates and the certificates exchangeable for the bonds.

Senator THOMAS. The reserves are for the bonds.

Senator HITCHCOCK. You mean as against their maturity?

Senator THOMAS. Yes.

Senator HITCHCOCK. Then it should be a sinking fund, not a reserve.

Senator THOMAS. Well, it is only the amount of one of the issues. It is not probable that, with these attributes, the redemption of the bonds will be desired or demanded; but provision should be made, of course, for raising the money in the event that it should.

Senator WEEKS. If an issue of bonds were presented for payment you would have reserve enough to pay that, and you would proceed to replenish your reserve, would you not?

Senator THOMAS. Yes; at once. That is provided for. The plan as outlined limits the bond certificates to the amount of the national debt, in round numbers about \$1,350,000,000, while the full cycle of 20 \$75,000,000 issues of bonds maturing six months apart would amount to \$1,500,000,000. This leaves two issues, and consequently two maturity dates, free for emergencies, which is a very necessary precaution not only for preliminary war preparations, but also for many other purposes. It may be necessary to provide for Panama bonds, not yet issued, to reimburse the general fund. It might be profitable to have an open maturity date for a shorter time bond when the interest rate manifests an upward tendency.



He then gives the interest rate of the available paper currency, as follows:

From bonds not now available as a basis for circulation.....	\$213, 000, 000
Premium on 4 per cent bonds at about 10 per cent, say.....	12, 000, 000
National-bank redemption fund, treated as a liability by the Treasury, say.....	25, 000, 000

Which is an increase of..... 250, 000, 000

Another form of presenting the increase is that on March 1, 1913:

Interest-bearing debt.....	\$965, 706, 610
Debt bearing no interest.....	1, 677, 650
United States notes of all kinds.....	376, 460, 242

Total..... 1, 343, 844, 502

There is a considerable amount of the national debt included in the above which will never be presented, having been lost or destroyed; for example, fractional currency, \$6,854,865. Therefore the final limit of bond-certificate issues, after adding premium on bonds now outstanding, can not exceed the sum of \$1,350,000,000.

The currency in circulation which would be retired on March 1, 1913, was as follows:

Treasury notes of 1890.....	\$2, 742, 000
United States notes.....	346, 681, 016
National-bank notes.....	751, 117, 794

Total..... 1, 100, 540, 810

Which leaves about \$250, 000, 000 as the increase.

Senator NELSON. This presupposes the retirement of the greenbacks, too?

Senator THOMAS. Oh, certainly. [Reading:]

So that the available increase in the circulating medium will be about \$250,000,000 independent of the release of fifty millions of the gold reserve, and if the Government deposits its money in the national banks on security other than these convertible bonds, another one hundred millions can be fairly relied upon, thus making a total of \$400,000,000.

#### THE STEADYING EFFECT OF AN ADJUSTABLE INTEREST RATE.

When the premium on bonds goes up in the open market the interest rate will go down, and when the bonds command no premium the interest rate will go up. This idea, which is economically sound, is applied every six months to \$75,000,000 of bonds. It will have a steadying effect on the value of bonds as a whole, and the temporary "aberrations" of the money market will affect them but little. This is another argument for limiting the term of the bonds to 10 years.

#### BANK-RESERVE REQUIREMENTS.

The money-reserve requirements of all bonds, trust, and other companies (though no data is available) I estimate at nearly double the amount of serial bonds. Would not a big bank having ten or twenty millions of gold certificates locked up in its vaults which must be kept there idle and earn absolutely nothing gladly substitute all the bonds they could get that would earn even as low a rate as their investment of bonds for circulation has yielded them, say, 1.2 or 1.4 per cent, especially when they could exchange them for legal-tender currency (on a gold basis) on an hour's notice?

Think of the enormous expense of all the engraved plates, the printing, the signing of bills, the red tape, and the delay, to say nothing of the capital they have to put into bonds and the trouble of getting circulation money, under the present system.

Under this system their capital is not touched. Their money reserve is a fixed per cent of their depositor's money which they are obliged by law to keep for their protection in times of emergency. What better emergency money can you provide than bond certificates?

Consider also the enormous expense the Government will save by dispensing with the present system and adopting one so absolutely simple.

## WAR BONDS.

In case of war the serial issues could be increased, and so long as the bonds do not approach the full requirements for bank reserves the rate of interest will be low. It is well to recognize the fact that the nearer the amount of bonds approaches the total bank-reserve requirements the interest rates will rise on account of decreasing competition for them in the open market.

## ADDITIONAL CURRENCY REQUIREMENTS.

I disclaim any purpose to limit the paper money of the country to gold, silver, and bond certificates. These appeal to me because they will all be operated on the same principle—that of immediate interchange, the last to the mutual benefit of the banks and the people.

The bond certificate idea is exceedingly simple once we divest ourselves of our "habit of thought" regarding paper money.

Fortunately we have had a long experience with national-bank issues and can estimate very closely what a currency issuing privilege is worth to the people. We are perfectly willing to give them an equivalent in different form because we impose on them the arbitrary requirement of a money reserve for our deposits. In doing this as herein outlined, the people will get a low interest rate on the debt and the banks and others who want a like interest on money necessarily idle can invest it in convertible bonds.

**STATEMENT OF N. F. BANFIELD, VICE PRESIDENT FIRST  
NATIONAL BANK, AUSTIN, MINN.**

Senator HITCHCOCK. Will you state, please, your banking connections?

Mr. BANFIELD. I am vice president of the First National Bank of Austin, Minn.

Senator NELSON. What is the capital and surplus?

Mr. BANFIELD. Capital, \$100,000; surplus, \$150,000; undivided profits, \$20,000; average deposits \$1,100,000; circulation secured by bonds \$100,000.

The bank has been established for 44 years. I have been connected with it for 34 years and an officer for 31 years. I wanted to say just a word about the farm-loan proposition. We are interested in that. We are in an agricultural and dairying section. At the present time the farm loans are mostly carried by the insurance companies and the eastern savings banks, and are negotiated mainly through the local country banks with those companies, involving considerable time in the way of preparation of applications, submitting them for approval by the trustees of the companies and of the saving banks, causing delay and uncertainty, and the loss of considerable time before a loan can be closed.

Now, there is in this bill a provision for farm loans to the extent of 25 per cent of the capital and surplus of the banks, limited to one year. Now, that limitation of time is somewhat like the oyster stew that was brought to the man who found only one oyster in it. He complained to the waiter that there were not enough oysters in it to give it a flavor, and the waiter replied, "That is not put in there to give it a flavor; that is only put in there to christen it." That is

about like that one-year period as to the required time for farm loans. To make that practical and of service to the Northwest section of the country for which I am speaking particularly, that should be at least a 5-year period. It makes it practically unavailable to have it for only 1 year.

Senator NELSON. What proportion of your deposits are time deposits?

Mr. BANFIELD. Our deposits consist of \$600,000 in time deposits, upon which we pay interest, and \$500,000 in individual deposits.

Senator WEEKS. Is not the basis we should use in determining the amount of money which may be loaned on lands the percentage of time deposits, rather than the capital of the bank?

Mr. BANFIELD. I was just going to come to that in a moment. I was going to suggest that this provision is all right as far as it goes for certain banks—25 per cent of the capital and surplus of the banks. Then follow that with the words:

*Provided*, That in the cases of banks having time certificates or savings deposits, or both, in excess of their capital and surplus they shall be allowed to loan 25 per cent of the amount of their outstanding time certificates and savings deposits.

On account of that being somewhat fluctuating, I would have that determined by the amount of those time and savings deposits as shown in the last published statement to the Comptroller of the Currency as a guide to fix that at a definite amount. I think that would be practicable.

Now, in our case the present phraseology of this bill would permit us to loan \$62,500 out of our \$600,000, or about one-tenth. Now, that is not enough; we should be allowed to loan one-fourth of the aggregate amount of our time and savings deposits, which would be \$150,000.

Senator POMERENE. Do you think that would be wise, to extend that privilege to all commercial banks?

Mr. BANFIELD. This bill limits it to the banks outside of reserve centers.

Senator NELSON. That means country banks.

Mr. BANFIELD. Country banks.

Senator NELSON. Now, here is another thing, if the committee will excuse me. Don't you find that these farm loans that you take—farm mortgages—are easily discounted and sold—that there is a market for them?

Mr. BANFIELD. I should like very much to answer that question. I remember distinctly going through the panic of 1893; that is 20 years ago this past summer. I remember it with a great deal of vividness. We had some farm-mortgage loans that we had as collateral that were owned by myself and our president as partners in a firm that we have to carry on that business, and out of all the paper that we had we found our mortgages the best and the only thing upon which we could realize or get any money during that period.

Senator WEEKS. You mean locally?

Mr. BANFIELD. Locally; well, we could not get any outside.

Senator NELSON. You must remember these country banks do not carry these bonds.

Senator HITCHCOCK. To whom did you sell those mortgages?

Mr. BANFIELD. We sold those mortgages to clients that we had scattered throughout the country; some East and some in the West

were glad to get them. They were somewhat timid about banks, and were very glad to be able to get those mortgages in which to put their money, and if we had only had a larger stock of them our condition would have been more comfortable.

Senator HITCHCOCK. They took the money out of banks that they were a little afraid of and put it into these mortgages?

Mr. BANFIELD. They got the money somewhere. I do not think it all came from banks; I think it came from hidden places where they had it.

Senator HITCHCOCK. You sold them at some discount, I presume?

Mr. BANFIELD. No, sir; we did not have to do that.

Senator NELSON. What interest were those mortgages paying?

Mr. BANFIELD. I have forgotten now.

Senator NELSON. Probably 6 or 7 per cent at that time?

Mr. BANFIELD. In 1893, I should say, certainly 6 per cent and possibly 7 per cent; I think very likely 7 per cent at that time. So this argument we hear at times that farm mortgages tie up your money in a fixed long-time security does not, to my mind, follow, for this reason, that we found them the most liquid form of asset we had.

Now, another thing: The present national banking law permits us to take bonds of almost any description, provided it is named a bond. Nearly all of those public-utility bonds and many other forms of bonds that are carried by banks as investments are now secured by an underlying mortgage, but just because they are called a bond they go with the department and we can carry any number we want to.

Senator NELSON. They are nearly all secured by underlying mortgages or a trustee?

Mr. BANFIELD. Yes. I claim we should have the same right to carry our first-class farm mortgages as this bill provides, not to exceed 50 per cent of the actual value of improved farm lands.

Senator NELSON. Not on city property?

Mr. BANFIELD. Not on city property; I am not asking that. I do not recommend that, but I do recommend loans on improved farm lands not to exceed 50 per cent of their actual value.

Senator NELSON. And 25 per cent of both time and savings deposits?

Mr. BANFIELD. Yes, sir.

Senator BRISTOW. Such a privilege as that would have a tendency to make farm mortgages sought after more than they are now.

Mr. BANFIELD. It certainly would. It would bring the country banks throughout the Northwest—now, I am speaking from actual knowledge of the desire of the country banks of Wisconsin, Minnesota, North and South Dakota, and Iowa, and I know they all think highly of this privilege in this bill, and it would rub off that rough spot of antagonism to the bill if you will just make those amendments I have suggested.

Senator SHAFROTH. What limit would you fix as to the maturity of the notes secured by deed of trust?

Mr. BANFIELD. Five years; that is our usual time.

Senator BRISTOW. This one-year proposition is a hypocritical pretense.

Mr. BANFIELD. It is just put in there to christen it.

Now, another matter: While I am talking as a banker, I believe bankers as a class are patriotic, and when I say I am saying this in

behalf of the farmer, I am telling you the truth, because he can come in there and sit down next to me and tell me what he needs and I can fix him up just as quickly as we can make out the papers without any delay, without any red tape, and you by amending this bill as I have indicated will please and accommodate and help a large class of northwestern farmers who want just that very thing. At the same time you will provide the banks with an absolutely safe—and we call it choice—kind of paper, the best kind of paper we can get.

Senator SHAFROTH. Will you write out your amendment, interline it in the bill and forward it to the chairman of this committee, and label it as suggestions with regard to real estate loans made by you?

Mr. BANFIELD. I shall be glad to do so.

While I am here, if I am not trespassing on your time, I want to speak with regard to this commercial paper that this bill proposes to take from banks for rediscount. In our section of the country we are born and bred with an antipathy to rediscounts. It is the last thing that banks up our way want to do, and we have not done it nor attempted to do it since 1893, not once. We regard it as a sign of weakness, as a flag of distress, and would not resort to it except as a last necessity. But, of course, under this proposed measure, if it becomes the fashion and is the custom adopted here, I imagine that the banks will fall into it, although it is something that the conservative bank will hesitate a long time about doing—borrowing money and indorsing everybody's note to hire money on to lend to somebody else.

Senator BRISTOW. Don't you think it will delocalize your business to a certain extent?

Mr. BANFIELD. I do. I think there will be a temptation on the part of the banks to do a class of business they ought not to do. I think that if the Government bank makes a low rate, so that there is a chance for 1 or 2 per cent profit, some of the banks would be led into doing too much of that, and it is going to be too easy for borrowers to get money. That is one of the evils of the present time.

Senator NELSON. Don't you think any bank legislation we enact ought to provide for assistance to the farmers, giving them credit as well as the merchants and manufacturers?

Mr. BANFIELD. I most certainly do, and that is why I am here saying this about those farm loans. They are the backbone of our country.

Senator NELSON. And any system that does not take care of farm loans is an insufficient and incomplete system?

Mr. BANFIELD. It is, I believe. I think that is an essential part of this proposed bill, and I hope, gentlemen, you will see to it that there is an amendment made along the lines I have indicated.

I thank you.

Senator HITCHCOCK. We will take an adjournment until to-morrow at 11 o'clock. That will enable us to hear Mr. Milliken from 11 to 12, and in the afternoon the representatives of the Chamber of Commerce of the United States.

(Thereupon at 5.45 o'clock p. m. the committee stood adjourned to meet Thursday, October 16, 1913, at 11 o'clock a. m.)

THURSDAY, OCTOBER 16, 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), O'Gorman, Reed, Pomerene, Shafroth, Hollis, Nelson, Bristow, and Weeks.

STATEMENT OF R. C. MILLIKEN, MONETARY STATIST, BOND  
BUILDING, WASHINGTON, D. C.

The CHAIRMAN. Mr. Milliken, we would like you to address yourself to this bill, and tell us what you think its defects are and what its advantages are.

Mr. MILLIKEN. Before attempting to discuss any change in our present banking and currency system I beg your indulgence while I make a few observations. First, let us see what the principal object of banking is; second, how a bank accomplishes that object; and third, what constitutes safe banking.

The principal object of banking is to economize capital and that object is attained by furnishing a mechanism for the exchange of credits. A bank raises its borrowed capital in three ways, namely, by issuing notes, by receiving deposits, and by accepting bills. If a person will lend me \$100 for nothing and I lend that \$100 to another person at 6 per cent interest, then in the course of a year I shall gain \$6 by the transaction. Again, if a person will take my promise to pay and bring it back to me at the end of the year and pay me 6 per cent interest for it, just as though I had lent him \$100, then I shall gain \$6 by that transaction. That is a fair representation of the operation of banking and of the way in which a banking capital is created by deposits and notes.

Now, it is obvious that those two methods of banking are adapted to produce precisely the same effects. In each case a banking capital is created, and each capital is employed in precisely the same way, namely, in the discounting of bills or making loans. To the parties who have their bills discounted, it matters not from what source the capital is raised, the advantage is the same to them, the mode in which they employ the money is the same, and the effect upon trade and commerce will be the same. In the case of the bank issuing notes it increases the amount of money in the country. But the bank receiving deposits will not have increased the amount of money one iota, but it will have given increased motion to money, and the effect upon trade and commerce will be the same. The enormous increase in deposit banking in this country has virtually supplanted the necessity for bank notes.

At the present time our bank deposits aggregate \$20,000,000,000. or more than \$200 per capita. When a man speaks of his cash he always includes his bank deposit, because under ordinary occasions it is equivalent to cash. In 1860 the total bank deposits of New York were only 15 million, whereas at present they exceed \$5,000,000,000. Let me further illustrate this by directing attention to the national banking system for 42 years, from 1867 to 1909. I have drawn a

chart showing the principal resources and liabilities of those institutions for that period, which I will insert at this point.

The chart which faces this page represents the principal resources and liabilities of the national banks for a period of 42 years (1867-1909): The top (heavy) line represents total deposits; the next (zig-zag) line represents loans and discounts; the middle (dotted) line represents capital and surplus; next to the lowest (heavy) line represents lawful money reserve; and the lowest (zig-zag) line represents bank notes.

Senator NELSON. I suppose that could go into the record as a black print, couldn't it?

The CHAIRMAN. Yes; I think so.

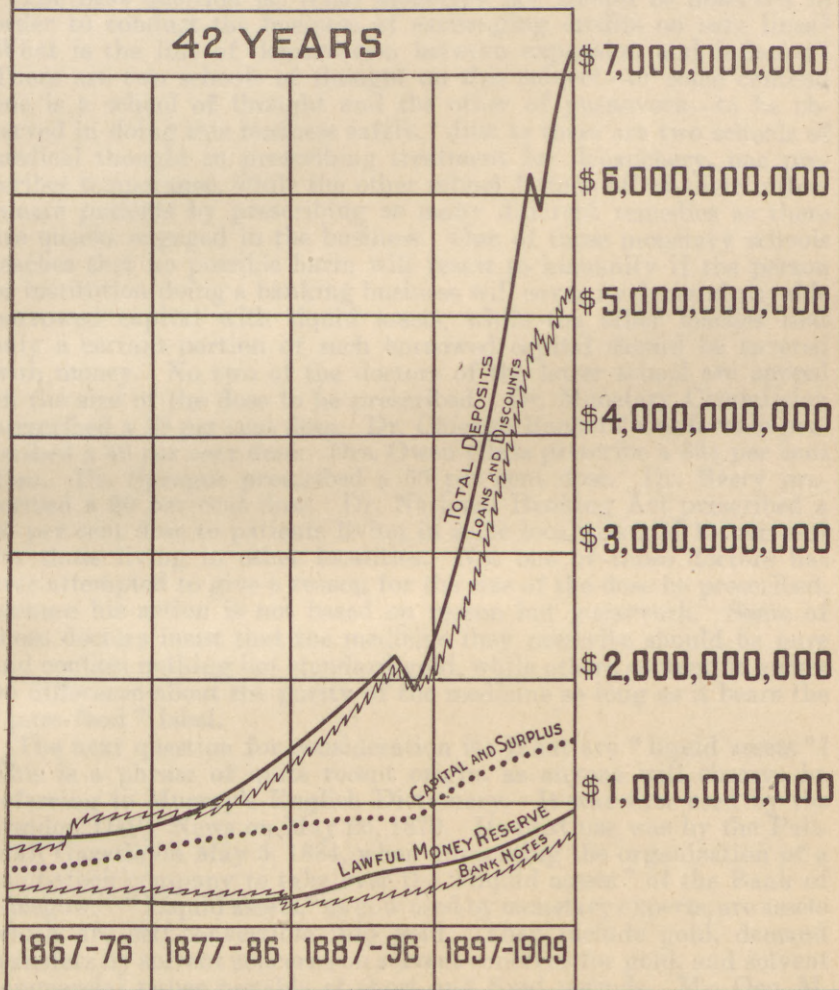
Senator NELSON. We better have that go in with his remarks as they are printed.

Mr. MILLIKEN. It will be observed that the increase of deposits during the first period of 30 years (1867-1897) was from 750 million to \$2,000,000,000, whereas such increase during the last period of 12 years (1897-1909) was from 2 to 5 billion, or an average annual increase of 793 per cent. Some increase is that. The most important factor of this chart is deposits, while the least important factor is the circulation of those banks, yet the great cry is for currency reform. All are crying about curing an insignificant corn on the toe while a malignant cancer is eating out one of the patient's most vital organs.

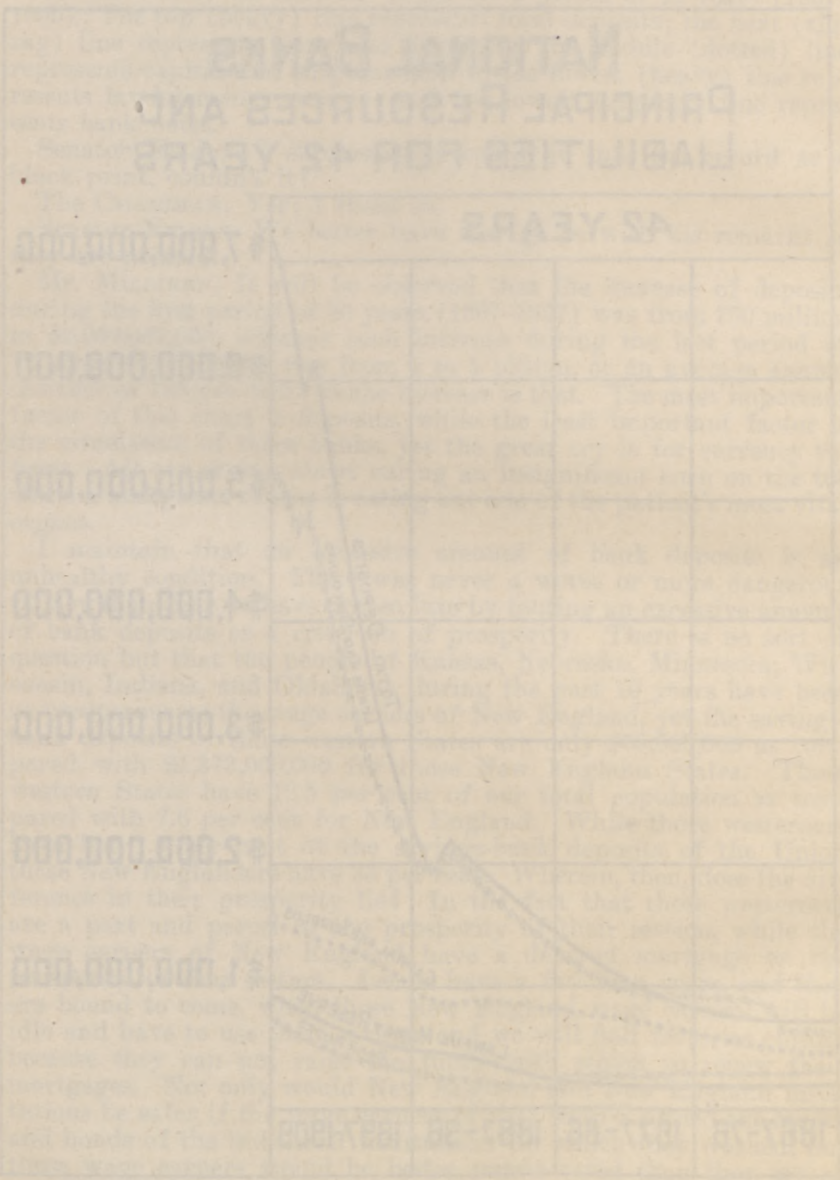
I maintain that an excessive amount of bank deposits is an unhealthy condition. There was never a worse or more dangerous fallacy than that we have gotten into by touting an excessive amount of bank deposits as a criterion of prosperity. There is no sort of question but that the people of Kansas, Nebraska, Minnesota, Wisconsin, Indiana, and Oklahoma during the past 10 years have been as prosperous as the wage earners of New England, yet the savings-bank deposits of those western States are only \$63,000,000 as compared with \$1,373,000,000 for those New England States. Those western States have 12.5 per cent of our total population as compared with 7.6 per cent for New England. While those westerners have but 1.5 per cent of the savings-bank deposits of the Union those New Englanders have 33 per cent. Wherein, then, does the difference in their prosperity lie? In the fact that those westerners are a part and parcel of the prosperity of their section, while the wage earners of New England have a demand mortgage on the prosperity of that section. Let us have a few lean years, and they are bound to come, when those New England wage earners will be idle and have to use their savings and we will find factories closing because they can not raise the funds with which to renew their mortgages. Not only would New England and New England institutions be safer if the wage earners of that section owned the stocks and bonds of the industrial institutions for which they worked, but those wage earners would be better remunerated than they are at present. Such a condition would be a guaranty against strikes and the like.

French statesmanship recognized years ago the danger arising from excessive savings-bank deposits when it created their Caisse—their central bank for savings banks—to which every dollar of French

# NATIONAL BANKS PRINCIPAL RESOURCES AND LIABILITIES FOR 42 YEARS







savings-bank deposits must be sent for investment. Those Frenchmen eliminated the speculator from the control of their Caisse and passed a law prohibiting any person, during a single year, from depositing more than 1,500 francs (\$300) in any one or number of savings banks. French statesmanship encourages the use of savings banks by wage earners until they have accumulated a corporate unit, which in France is 1,000 francs (\$200), and then it encourages those toiling masses to become investors and be a part and parcel of French prosperity, whereas we encourage them to use savings banks as investment institutions.

The next question is, What monetary law should be observed in order to conduct the business of exchanging credits on safe lines? What is the line of demarcation between expansion and inflation? There are two schools of thought on this subject—or some contend one is a school of thought and the other of guesswork—to be observed in doing this business safely. Just as there are two schools of medical thought in prescribing treatment for debauchery, one prescribes temperance, while the other school fattens off of their unfortunate patients by prescribing as many different remedies as there are quacks engaged in the business. One of those monetary schools teaches that no possible harm will result to humanity if the person or institution doing a banking business will cover its demand-payable borrowed capital with liquid assets, while the other teaches that only a certain portion of such borrowed capital should be covered with money. No two of the doctors of the latter school are agreed on the size of the dose to be prescribed. Dr. Monetary Commission prescribed a 50 per cent dose. Dr. Chicago Bankers' Conference prescribed a 40 per cent dose. Drs. Owen-Glass prescribe a  $33\frac{1}{3}$  per cent dose. Dr. Sprague prescribed a 55 per cent dose. Dr. Berry prescribed a 20 per cent dose. Dr. National Banking Act prescribed a 25 per cent dose to patients living in some localities and 15 per cent for those living in other localities. Not one of those doctors has ever attempted to give a reason for the size of the dose he prescribed, because his action is not based on reason but guesswork. Some of those doctors insist that the medicine they prescribe should be pure and contain nothing but standard gold, while others contend it makes no difference about the purity of the medicine so long as it bears the "pure-food" label.

The next question for consideration is: What are "liquid assets"? This is a phrase of quite recent origin, as anyone will observe by referring to Murray's English Dictionary. It was first used by the London Daily News on May 26, 1879. Its next use was by the Pall-Mall Gazette on May 5, 1884, when advocating the organization of a joint-stock company to take over the "liquid assets" of the Bank of Glasgow. "Liquid assets," as now used by monetary experts, are assets which are self-convertible into gold. They include gold, demand transfers by solvent concerns on solvent concerns for gold, and solvent commercial paper payable at short and fixed periods. Mr. Geo. M. Reynolds negatively gave a correct definition of this phrase, which may be found on page 226 of these hearings. This is what he said:

The man who borrows money on stock-exchange collaterals in New York, and who wants to realize on them quickly, must depend on the ability of the borrower to reborrow that money immediately elsewhere or upon the sale of

the same. Now, if the condition is so bad that the banks of the city of New York are unable to extend accommodations, the result is that there is a very violent break in the values of securities, and we are in the midst of a panic.

Civilized man's existence depends upon being fed, clothed, and sheltered, and commercial paper is the credit instrument through which those articles are financed and brought to his door. Man is timid about making permanent investments during panicky times, but he must have raw materials to keep his factory wheels going, and he does make and will continue to make provision for such materials. And so it is in every line of business. Provision is made to meet commercial paper when other things will be passed by; especially will men defer making permanent investments when times are hard. Just here I wish to puncture the misstatement made by several of the witnesses who have appeared before this committee to the effect that you can always raise gold with our Government bonds. I recall very distinctly that Mr. Berry made use of that statement. Nothing could be further from the truth than that statement. You can't draw a dollar of gold from the Bank of England with a permanent investment, but you can draw the last dollar of gold out of that institution with solvent commercial paper payable at short and fixed periods. The same thing is true with respect to the other European central banks, because all those institutions, with the single exception of the Reichsbank of Germany, are controlled by merchants.

To illustrate to you what safe banking is let me quote from the testimony of Mr. A. Barton Hepburn, chairman of the board of directors of the Chase National Bank of New York, before the Glass investigating committee last January. It may be found on page 6 of those hearings. This is what he said:

Some years ago I called upon the Credit Lyonnais, in Paris, one of the great banks of the world. The gentleman with whom I was in conversation passed over to me their last bank statement. I glanced it over and remarked:

"Well, you owe a great deal of money."

"What is that you say?"

"You owe a great deal of money."

"What do you mean?"

"Your deposits are about \$350,000,000."

"Oh, yes, we owe depositors; but we could pay them easily if we had to."

"Could you? How long would it take you to pay them in case of necessity?"

"The element of time would not enter into the matter at all, except in so far as it required time to perform the physical labor."

"But how; tell me just how you would do it?"

Almost thinking I was questioning the condition of his bank, he took the balance sheet and proceeded:

"Well, we have so much cash; let us deduct that."

"Yes."

"Then we have so much due from banks. We could value against that and deduct the same."

"Yes."

"We have so much exchange, acceptances, etc., which have an immediate market. We could realize upon and deduct that."

"Yes."

"Now, we have reduced our obligations in this manner to something less than \$200,000,000, and we have very, very much more than that in commercial paper."

"Yes; but how are you going to pay debts with commercial paper?"

"Take it to the Bank of France and get currency for it."

And he might have said gold, which is the same thing—

"Could you do that?"

"Certainly."

"Is there any law which would compel the Bank of France to discount your commercial paper without limit?"

"Law—yes; the law of its being; that is what the bank was created for."

Before commenting on the statement of the Credit Lyonnais let me direct your attention to the following language on page 24 of House Report No. 69, filed in the House of Representatives September 9, 1913, by Mr. Glass, chairman of the House Banking and Currency Committee. It is this:

There has been a tendency to overestimate the importance of the note-issue function and to treat it as if it were the chief object to be attained in banking legislation. The idea may be attributable to the belief that "emergency currency" is what is needed in order to relieve panics and stringencies, whereas what is actually needed is fluid resources of some kind, whether notes or not.

In an address last winter in this city, before the Chamber of Commerce of America, Mr. Glass, in summarizing our monetary ills, used this language; I quote the first two paragraphs of his address. He said:

I believe that nearly all students of this subject will agree with me in thinking that the main points to be dealt with in any banking legislation that may be attempted are:

1. Provision for rediscounts or sale of commercial paper in a way and to an extent that will enable banks to get fluid resources whenever they or their customers may require.

These are the only two instances in which I have observed the phrase "fluid resources" used. He doubtless used "fluid" as synonymous with "liquid." The two words are synonymous when applied to free-flowing substances, such as water, but never in a monetary sense when applied to assets or resources. It is proper to say you have assets or resources which you can convert or liquidate into cash, but it would be improper to say you could water them into cash. [Laughter.]

I make these quotations not only to show that the author of the House bill does not understand the most important phase of his report, but that he is laboring under a misconception as to the purpose of the institutions his bill proposes to create; that is, he labors under the delusion that if the banks of deposit can have a place where they may secure "fluid resources" for themselves and their customers, everything will be all right and we will be free from panics. Nothing could be further from the truth. All banks, whether banks of issue or deposit, must cover their demand-payable obligations with liquid assets in order to be solvent and prevent inflation. Is there any wonder, then, that Mr. Glass should not have made any provision to prevent inflation on the part of the banks of deposit? The Credit Lyonnais is solvent, per se, and not because the Bank of France will supply it with "fluid resources."

Having shown that in order to do a safe banking business a bank must cover its demand-payable obligations with liquid assets, and that the principal item of liquid assets is solvent commercial paper payable at short and fixed periods, the next question is, What portion of such demand obligations should be covered with gold and what portion with such commercial paper? That depends on several things; first, upon the maturity of the commercial paper; second, upon the expansion of the bank's credits; third, upon the manner in which capital and labor are rewarded, etc. In 1810 the British Par-

liament appointed a committee of 15 monetary experts to investigate and report the conditions under which the Bank of England could issue notes or circulation currency, and their report has become famous as the "Bullion committee law." That law is as follows:

There can be no possible excess in the issue of Bank of England paper \* \* \* so long as the discount of mercantile bills is confined to paper of undoubted solidity, arising out of real commercial transactions and payable at short and fixed periods.

This same sound principle was announced six years before (1804) by a committee of experts appointed by Parliament to ascertain the state of the bullion of the Bank of Ireland, and report the conditions under which it could safely issue notes. Each committee was composed of 15 experts, only two of whom served on both committees. But the Bank of England committee, known as the bullion committee, has been generally credited with announcing that sound philosophy. This committee also reported that the directors of the Bank of England did not know the other committee had announced such truth. It must be borne in mind that the Bank of England then and until the bank act of 1844 enjoyed a monopoly, those in control being actuated by a banker's profit. It is no easy thing to induce business men to adopt a philosophy which may mean loss of profit to themselves. When those in control of the greatest bank in the world refuse to adopt a philosophic truth and do business in accordance therewith, is there any wonder that the nonmonetary experts of Parliament should go to the other extreme and require the bank to cover their notes, dollar for dollar, with gold?—the very thing done by the bank act. The British public had lost all patience with the Bank of England after the disastrous panics of 1825 and 1837. For one-quarter of a century, 1797 to 1825, the notes of the Bank of England were below par most of the time.

The first instance in which an American Congress has announced that the world is round, monetarily speaking, was the passage of the Glass bill recently by the House. But the bill did not repudiate the "flat system of geography," for it adheres to the fixed gold reserve principle embodied in our present national banking system, the most dangerous feature of that system. To illustrate my meaning, I wish to read you the last four annual statements of the domestic bills carried by the Reichsbank of Germany. I would like to have them put in the record.

(The statement referred to is as follows:)

*Domestic bills held by the Bank of Germany Dec. 31, 1909, 1910, 1911, and 1912.*

Year.	Less than 15 days to run.	Percentage of total.	From 16 to 30 days to run.	Percentage of total.	From 31 to 60 days to run.	Percentage of total.	From 61 to 90 days to run.	Percentage of total.
	<i>Pounds.</i>		<i>Pounds.</i>		<i>Pounds.</i>		<i>Pounds.</i>	
1909.....	26,285,420	46.9	9,286,340	16.6	13,485,115	24.1	6,942,990	12.4
1910.....	26,956,920	46.2	9,747,415	16.7	14,173,070	24.3	7,507,675	12.8
1911.....	33,408,350	40.3	13,214,610	16.0	20,732,500	25.0	15,494,735	18.7
1912.....	37,254,415	37.3	18,284,650	18.3	25,186,110	25.2	19,115,640	19.2

It will be observed that on December 31, 1909, the Reichsbank had 46.9 per cent of its bills maturing within 15 days, 16.6 per cent ma-

turing within 16 to 30 days, 24.1 per cent within 31 to 60 days, and only 12.4 per cent within 61 to 90 days. Whereas four years later those ratios ran as follows: Thirty-seven and three-tenths per cent, 18.3 per cent, 25.2 per cent, and 19.2 per cent, respectively. There was a decrease of more than 25 per cent in 15-day bills and an increase of more than 50 per cent in 60 to 90 day bills. It would be ridiculous to have required that bank to carry the same amount of gold in 1909 that it had in 1912, and yet that is precisely what this bill proposes. Our present reserve law is unsound and unsafe, and we should discard it. If we should discard that and adopt a true test of bank solvency, we would soon educate the public on the truth.

I wish to thank the committee for permitting me to propound some questions to Mr. George M. Reynolds touching the subject of bank reserves. My questions and his replies will be found on pages 288, 289 of the hearings. I was particularly anxious to be able to propound those questions to him because he is not only a most intelligent man, but a philosopher of credit as well and is to-day practicing in his banking establishment what I am preaching—that is, he is covering his borrowed capital with liquid assets. Let me quote a few lines of that colloquy:

Mr. MILLIKEN. Bank A has in gold 10 per cent of its deposits and 45 per cent of commercial paper maturing within 15 days, 25 per cent within 16 to 30 days, 15 per cent within 31 to 60 days, and 5 per cent within 61 to 90 days, and no commercial paper maturing after 90 days.

Bank B has 20 per cent of its deposits in gold, 15 per cent in commercial paper maturing within 15 days, 15 per cent in 16 to 30 days, 15 per cent within 31 to 60 days, and 35 per cent in 61 to 90 days, and no commercial paper maturing after 90 days.

Now, is it not a fact that Bank A is in a better position to meet its obligations than Bank B even though the latter at the particular time this statement is made has 100 per cent more gold in its vaults than Bank A?

Mr. REYNOLDS. I would say yes. If I understand you correctly, your whole theory or question is as to whether or not a very large percentage of your liabilities covered by short-time maturing commercial paper, with a small cash or gold reserve, is not better than a somewhat larger gold reserve with a very much smaller percentage of short-time commercial paper?

Mr. MILLIKEN. Yes.

Mr. REYNOLDS. I certainly agree with you.

If Congress would repeal our present national-bank reserve requirement and adopt this scientific test of solvency, it would teach the public the truth, whereas the present law teaches them a fallacy. It would not be revolutionary in any sense of the word, for it would merely require those banks to state the important factors constituting their solvency without prescribing a fixed amount of any one of those factors. Let the public read those published bank statements and they will begin to inquire the reason thereof. In time each bank will be vying with each other for the best statement. We must educate the public on what is sound banking, and this is the very best way to accomplish it.

I am an advocate of a sound credit system as distinguished from a banking system. I maintain that there is too much capital and too many persons engaged in the business of exchanging bank credit for profit. Let me call your attention to the fact that the 46 banks of England and Wales have a paid capital and surplus of less than \$400,000,000, or less than twice the paid capital and surplus of the Texas banks, yet the credit machinery of England alone will finance

something like 50 times as much commerce as does the credit machinery of Texas. At least four billions of our foreign commerce is financed through the English credit machinery. Something like three-fourths of the foreign commerce of South America and South Africa, nearly all the foreign commerce of India, a large portion of the foreign commerce of Asia, and much of the foreign commerce of Europe is financed through the credit machinery of England. The commercial credit of England is free and independent of bank credit, because commerce finances itself in that country.

I shall illustrate this by supposing that we were operating under the English credit system. Suppose John Wanamaker, of Philadelphia, should sell a \$10,000 bill of merchandise to Woodward, Wight & Co., of New Orleans. If that was done in England, Wanamaker would draw a bill of exchange on Woodward, Wight & Co. on, say, 90 or 120 time, and the latter would accept it and return it to Wanamaker. Suppose the day Wanamaker received that bill he should need \$10,000 of granulated sugar, and call up the American Sugar Refining Co. and place the order, and at the same time say, "Don't draw on me, I will send you Woodward, Wight & Co.'s acceptance," giving the date and amount of the same. Of course if the American Sugar Refinery would trust Wanamaker it would trust him plus Woodward, Wight & Co. Suppose the day the sugar refinery received that bill it should order \$10,000 of raw sugar from Woodward, Wight & Co., and it should write, "Don't draw on me, I will send you your own acceptance to John Wanamaker." So here would be three instances in which commerce would finance itself and save three banker's profits. It may be said this is theoretical, but I wish to say that similar transactions are done in England every year for hundreds and hundreds of millions of dollars. The bill of exchange is the principal circulating medium in the commerce of England. They have few bank notes, because the Bank of England can not issue a note without covering it with gold, dollar for dollar, except for a small amount to cover an old Government debt. What is best of all is the fact that the English credit machinery does that enormous business on the safest basis as well as in the most economic manner. They have very little gold compared to us. How do they accomplish it?

Let me explain the English credit machinery. In the first place the Bank of England is a real bank of commerce, because it is controlled exclusively by merchants, not for profit but as an aid and adjunct to commerce. And the reason that those bills of exchange circulate as cash in England is the fact that the Bank of England stands ever ready to pay the cash on them at all times. If they have not the gold in their vaults with which to liquidate them when presented they proceed to find the cash for that purpose. "It is the law of its being" to find gold for the liquidation of sound commercial paper, as said to Mr. Hepburn by the officer of the Credit Lyonnais, when speaking of the Bank of France. That is another bank of commerce which is controlled exclusively by merchants as an aid and adjunct to commerce. The fact being thoroughly established in those countries that those two banks stand ever ready to pay the cash on those commercial bills causes them to circulate independent of banks. If the proposed bankers' controlled regional banks are

created, will we have an independent credit system in this country? I say no, for two reasons: First, because they will be controlled by bankers who will be selling credit for profit, and most of them will not care whether the prospective borrowers desire credit for speculative or commercial purposes.

Senator O'GORMAN. You are speaking now of the officers of the regional bank?

Mr. MILLIKEN. Yes, sir.

Senator O'GORMAN. Will not the fact that they are allowed a return of 6 per cent on the capital invested be a protection against that abuse?

Mr. MILLIKEN. No, sir; because those men may use those banks as "feeders" to build up their private banking institutions.

Senator O'GORMAN. Of course, you do not say they will; you mean that possibly they may?

Mr. MILLIKEN. Yes, sir.

Second, because the holders of those bills can not go direct to those regional banks, as is the case in Europe, but must pay two bankers profits. It is simply ridiculous to talk of having an independent credit system when the head of the system is controlled by bankers.

In proof of my contention that the Bank of England is a merchants' controlled institution I offer the statements of Walter Bagehot and Hartley Withers published in their monetary books entitled, respectively, "Lombard Street and the meaning of money," which were read into this record by Senator Shafroth. I also offer the statement of the governor and directors of the Bank of England procured by the Monetary Commission, which was also read into this record by Senator Shafroth. I ask the privilege of rereading them into this record at this place:

Senator SHAFROTH. But I want to read to you a little paragraph from Walter Bagehot's book, Lombard Street, which probably clears the matter up more thoroughly than we did.

He says:

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

Mr. WEXLER. Yes, sir.

Senator SHAFROTH. Mr. Wade, a few moments ago you made the statement that members of banking houses were in reality members of the governing board of the Bank of England. I had occasion to look at a book entitled "The Meaning of Money," by Mr. Hartley Withers. There he says:

"When we come to consider the bank's organization, its most striking features are the constitution of its court of directors and its system of government by rotation, and these are points on which the bank's critics have fastened with the keenest energy and determination.

"The bank court is a committee recruited chiefly from the ranks of the accepting houses and merchant firms, and its members are nominated by itself, subject to the purely formal confirmation of the shareholders; and it is an unwritten law that no banker in the ordinary sense of the word—that is, no one connected with what we call the check-paying banks—can be a member of it.

"At first sight this is one of those anomalous absurdities so common in England and so puzzling to the intelligent foreigner, who can not understand



why we suffer them. A court of directors ruling the Bank of England, and so performing most important banking functions, and yet disqualifying for membership anyone with an expert knowledge of banking, is a tempting subject for an epigrammatically minded satirist. But, in fact, this anomaly, like many of our others, not only works excellently well in practice, but is, when calmly considered, clearly based on sound common sense. For in the first place it would obviously be undesirable that a member of one of the outer ring of banks should have the insight into the position of his rivals which membership of the Bank of England court could give him unless all the others were similarly privileged. But if all the other banks were represented on the bank court it would become a committee of unwieldy dimensions, perhaps reproducing or reflecting in the bank parlor the rivalries and jealousies that stimulate the outer banks to work against one another but are not conducive to their working together.

"And the question of proportionate representation would be difficult to settle. As it is, the bank court, being free from connection with the outer banks, except by keeping their balances, is able to watch their proceeding with a wholly impartial eye and, on occasion, to make suggestions with salutary effect."

Senator SHAFROTH. I hold in my hand the answer of the governor of the Bank of England and the interrogations of the monetary commission. Let me show you what he says here:

"Q. Is it customary to reelect directors at the expiration of their terms?—A. It is customary for directors to be reelected.

"Q. Is there any custom restricting the class from which the directors may be selected?—A. There is no legal restriction as to the class from which directors may be selected, except that they must be 'natural-born subjects of England, or naturalized,' but in actual practice the selection is confined to those who are, or have been, members of mercantile or financial houses.

"Excluding bankers, brokers, bill discounters, or directors of other banks operating in the United Kingdom."

As tending to disprove the statements of those noted Englishmen, I refer you to the testimony of Mr. Festus J. Wade. The members of this committee who listened to him doubtless recall the intolerance with which he answered those disagreeing with him. When Senator Shafroth read from Bagehot's "Lombard Street" the witness pooh-poohed that author and demanded that the Senator produce the statement of the governor of the Bank of England, repeating that his information was based on the statement of that official to the Monetary Commission. The witness kept bantering Senator Shafroth to produce that testimony, telling him it was in the Monetary Commission's reports and a part of the Congressional Record. Now, those of you who were present will recall that Senator Shafroth left the committee chamber and came back with that evidence, the very evidence the witness demanded and it completely refuted his contention. I never saw a witness whose testimony on a point was so completely destroyed as was the testimony of that witness on that point.

Let me say that 6 of the 24 directors of the Bank of England are members of mercantile houses which do an acceptance business. That is to say, they are members of houses which have a large foreign trade, and that means that they have foreign credit, so much so that foreign dealers with other English concerns require that their names be procured before they will extend credit. They only charge 25 cents per \$100 for selling their names and guaranteeing the prompt payment of those bills, or less than many of our country banks will charge for collecting checks on which they assume no financial responsibility. To illustrate this further, let me say that as we have thrown down our tariff barriers it will be necessary for our merchant princes to go out into the marts of the world and find customers for

our products. Suppose Marshall Field & Co., of Chicago, go to South America and Rice Stix & Co., of St. Louis, go to the Orient. No one firm can cover the whole world, not all at once at any rate.

Suppose that Rice, Stix & Co. should need a cargo of hides in their oriental trade and they should order the same from an Argentine hide dealer. The Argentine dealer would doubtless require them to induce Marshall Field & Co. to become the acceptors of that bill, because he would know the financial standing of the latter, as they would have an extensive trade and credit in South America, but might know nothing about Rice, Stix & Co. Both of these great American mercantile houses to-day have extensive credit establishments to ascertain the financial standing of those to whom they sell. So that they could do that acceptance business without incurring any additional expense whatever. Now, to charge them with being bankers because they did that credit business would be as reasonable as if you were to charge a merchant with being a drayman because he built his warehouses along a railroad sidetrack and thereby eliminate the drayman's expense. Those English merchants charge just the same for accepting a 30-day bill as they do for a 120-day bill. So they are not interest gatherers, as is the case with bankers; on the contrary they are interest payers. Mr. Sol Wexler, of New Orleans, a most intelligent banker who testified before you, did not call those great merchants who control the Bank of England bankers. He does an extensive business with them and knows that some of those in control of that institution do an acceptance business. Mr. Wexler said that we had no such class in this country, and he might have also said that we never would have such a class if the proposed bill passes, because such acceptances would have to pay two bankers' profits before they could be liquidated by the proposed central banks or regional reserve banks.

It is preposterous to suppose that bankers would exert themselves in establishing open money or credit markets and thus lessen the banking business. "It's the law of their being" to increase their business of selling or exchanging credits.

(Thereupon at 11.58 o'clock a. m., the committee took a recess until 1 o'clock p. m.)

#### AFTER RECESS.

The CHAIRMAN. Mr. Milliken, the committee will be pleased to have you continue your remarks.

Mr. MILLIKEN. The fact that the Bank of England is controlled by the great merchants, the very highest grade of interest payers in the world, causes those bills to circulate free and independently of the banks of that country, because the public understand that it is "The law of their being" (the merchants in control of the Bank of England) to find cash for the liquidation of commercial bills, just as our gold certificates circulate until they wear out without ever being presented for payment, simply because the holders have confidence in the good faith and ability of the Government to redeem them in gold coin on demand. But let the Government refuse to redeem one of them and that fact be widely known, and the public would demand the gold.

Napoleon, after listening to the forceful appeal of Mollien, his famous minister of finance, for the freedom of the Bank of France from the Government shackles with which it was then bound, sat silent and then observed:

The world is old; we should profit by its experience. It teaches us that ancient practice is often worth more than new theories.

That is sound advice—something which should be heeded at all times and on all subjects by all lawmakers; but that advice has a peculiar application at this time when the American Congress has assumed the responsible task of attempting to remedy the present evils of our faulty credit system.

It is necessary, therefore, that we take a retrospect of the "ancient practice" of credits, in order that those of this day and generation may know how far from the line of safety the present "practice" deviates from "ancient practice." It is needless to say that the people of the United States learned the practice of banking from the people of western Europe, principally from the mother country, while the people of western Europe learned it from the merchants of Venice, who enjoyed the most extensive trade and commerce during the whole of the Middle Ages.

It is singular, indeed, that the astute and wealthy commercial nations of western Europe should have delayed until the latter half of the nineteenth century the adoption of the philosophy of credit taught them by the Venetian merchants at least six centuries before. This is but another of the many evidences of the oft-repeated adage that history in time will surely repeat itself.

There are three necessary prerequisites to the establishment of a sound and extensive credit system, viz, the possession of ample wealth, the enjoyment of extensive trade relations, and the maintenance of commercial honor. In each of these the Venetians easily excelled the balance of the world during the whole of the medieval period. During that period they had a virtual monopoly of the carrying trade of the world. Even as early as 523 A. D. their river or domestic commerce was extensive and valuable, while in the eighth century their carrying trade and commercial relations with many distant regions were established on a tolerably sound footing.

It is said that—

The Chronicle of the Monastery of Cava relates how in 987 some large Venetian ships stayed at Salerno on their way to Syria, and how not unfrequently the merchantmen of the Republic foundered in that neighborhood with rich cargoes.

From the eleventh to the fifteenth century Venetian wealth was the wonder of the world, and her commerce stood on an unapproachable eminence which extended throughout civilization. Her argosies formed the sole channel of communication between the courts of Germany and Constantinople, and her well equipped and expensively guarded caravans furnished the only connecting link between the Occident and the Orient until the British discovered the Cape of Good Hope route in 1484.

Hazlitt, in *The Venetian Republic*, Volume II, page 554, in writing of Venetian credit and charitable institutions for the sixteenth century, says:

Throughout the Lombard part of the Empire or dominion the same solicitude, however, was shown by the establishment of hospitals and refuges, and by the

loan of money on easy terms, to alleviate distress, provide for old age, and assist traders and agriculturists. The *Monte di Pietà* was a universal institution. \* \* \* That at Brescia advanced to any poor person on adequate security without interest up to *scudi di oro*, and if the money was not returned within a year the pledge was sold and any surplus returned to the borrower, deducting only a *soldo* for the expenses. The *Monte* at Verona was under the management of a committee, which lent on security at 6 per cent to commercial houses or individuals, \* \* \* but to the poor it lent sums not exceeding four lire gratuitously.

It must be borne in mind that the period of Venetian history about which the author writes antedates the organization of the Bank of Amsterdam, the oldest incorporated bank of western Europe (1609).

The same historian, Volume II, page 621, in writing about the poor coinage laws of the Venetians, says:

Of foreign money, in addition to what we have enumerated, there were three other varieties, which Venice, from a lack of sufficient supply of her own manufacture, acknowledged and accepted during the earlier centuries. There were the Arabic dirhem of silver, which conveniently adapted itself to current requirements, being equal to two Lombard or Frankish *denari*; *perpero*; and the besant or bysant.

Continuing, the historian says:

All these devices for obviating the inconvenience arising from a scanty currency might, however, have failed to provide any adequate remedy for the evil, if trade had not been largely conducted on a basis of exchange, and payments in kind had not long remained in universal vogue. We must acquit the Venetians of an ignorance of bills and other substitutes for cash, when such facilities were elsewhere enjoyed in the twelfth or thirteenth century; and while the first explicit reference to such matters is as late as 1405, the passage where it occurs speaks of it rather as a familiar principle than as a novelty in practice, and so much so that we have an actual document of 1326 immediately belonging to Milan, but the counterpart and sample beyond doubt of thousands and hundreds of thousands which once existed up and down commercial Europe. It is in the subjoined terms, and points to a practice of giving six months' credit, or, as it is now expressed, of drawing at six months:

"Pagate per questa prima lettera a di lx Ottobre a Luca de Poro, Lib. XLV. Sono per la valuta qui da Masca Reno al tempo si pagate e ponete a mio conto, e che Christo vi guarde. Bonromo de Bonromei de Milano, lx. de' Marzo, 1325."

The same author tells us, Volume II, page 643, that:

On the 4th of June, 1160, the Government borrowed of half a dozen merchants the sum of 150,000 silver marks.

This was the first instance in history of a government funding its debt, and antedates by more than five centuries the organization of the Bank of England and funding of the first British Government debt. The bill of exchange was, no doubt, the most popular credit instrument employed by the great merchants of Venice, because it was peculiarly adapted to the character of their commercial transactions—the world-wide effort in bringing producer and consumer together.

Add to the international reputation which those pioneers in commerce had acquired for capacity and honor, their vast riches, and we have fundamental conditions underlying a sound and extensive credit system. That those great merchants employed that and similar credit instruments for centuries solely as an aid to their commercial enterprises, and not for profit, there is little dispute, and so long as they confined them to real commercial transactions history makes no mention of financial crises.

As the use of such credit instruments by those merchants as an aid to business antedates the art of printing, it is difficult to designate the

exact period when independent credit or banking institutions were organized to sell credit for profit.

The date of the first Venetian usury law was 1254. It is reasonable to assume, therefore, that special credit or banking institutions did not long exist before the enactment of this law. It was a century after the enactment of this usury law before history gives any account of serious difficulties arising from the failure of private banking firms. Hazlitt, Volume II, page 646, says:

In 1355, October 15, it was resolved by the Pregadi that Ser Marino Baffor of Santa Maddalena, and Ser Marco Trevisano, bankers, having absconded with 20,000 ducats, be cried, and that whoever shall lead to their conviction, and deliver them into custody, shall have 550 lire. In 1390 the private bank of Ser Antonio Contarini failed, and was thus wound up by order of the Council of Pregadi.

It was among the domestic troubles and embarrassments of the Doge Foscari that the bank of Andrea Priuli, his father-in-law, suspended about 1440. In 1502, the general inconvenience produced by insolvencies led to the institution of the *Proveditori sopra Banche*.

From the thirteenth century, the time when it is most probable the Venetian merchants ceased to do a credit business strictly as an aid to commerce, until the first half of the last century, is the dark age of credit.

During those six centuries, no one seemed to know the exact nature of credit, though every class of credit instrument was in general use. During that period every civilized country suffered from the effects of bad legislation and worse banking practices. France was financially ruined on numerous occasions as a result of such practices and legislation.

But the nineteenth century brought forth a vast army of philosophers of credit, and, strange to say, all that philosophy corroborated the "ancient practice" of the Venetian merchants. The first was the "Bullion committee law," which was announced in 1804, and reannounced in 1810.

The next most philosophic truth respecting credit institutions was that the merchant is the permanent regulator of the interest rate (the rate of profit). This truth was announced in 1827 by James W. Gilbart, F. R. S., who was probably the greatest philosopher of credit the world ever produced. He spent 50 years in actual banking practice, and mastered every detail of the business. His opinion on banking and bank credits was more highly respected than that of any person of his age. He did more to destroy the monopoly of the Bank of England and make it a merchants' controlled institution than any other person in the United Kingdom. He did not accomplish that great work by making monetary experts of members of Parliament, though he appeared before more parliamentary monetary commissions during the first half of the last century than any person in the United Kingdom. On the contrary, he accomplished it by organizing the first of the London great joint-stock banks. At that time the Bank of England enjoyed a monopoly of the banking business within a radius of 65 miles of London. Therefore, Gilbart had to fight in all the courts of England to establish his philosophic truths. He lost in the courts, but he so educated the British public that the monopoly of the Bank of England was destroyed by Parliament.

I wish you would bear with me while I read the most important truth announced by Gilbart, namely, that the merchant is the perma-

ment regulator of the interest rate, the rate of profit on money. This is what he wrote:

Sir Josiah Child, in his excellent Essay on Trade, accuses the "new-fashioned bankers" of "being the main cause of keeping the interest on money at least 2 per cent higher than otherwise it would be; for by allowing their creditors 6 per cent they make moneyed men sit down lazily with so high an interest and not push into commerce with their money, as they certainly would do were it at 4 or 3 per cent, as in Holland. This interest also keeps the price of land at so low as 15 years' purchase. It also makes money scarce in the country, seeing that the trade of bankers being only in London it very much drains the ready money from all other parts of the Kingdom."

That we may be able to judge of these accusations—

Says Gilbart—

it will be necessary to make some observations upon those circumstances which influences the rate of interest.

It has been the opinion of most of our political economists that the rate of interest is regulated by the rate of profit. This sentiment has, however, been attacked. It has been contended that the rate of interest is not influenced by the average rate of profit but by the moneyed capital in the market, compared with the wants of borrowers—in other words, that the price of money is influenced by the proportion between the demand and the supply.

This sentiment is undoubtedly right, but it does not overthrow the proposition against which it is advanced. The price of money or of the loan of money is, no doubt, like the price of any other commodity, regulated at any particular time by the proportion between the supply and the demand. But does not the rate of profit regulate the supply and the demand? Will any commercial man borrow money when he must give a higher interest for it than he can profit by its use? Or will any man lend money at a very low interest when by engaging in business he can make a very high profit? It is true that on particular occasions and under particular circumstances some individuals may do this, but not permanently and universally. It is obvious, then, that a high rate of interest in proportion to profits increases the supply of money and diminishes the demand, and a low rate of interest in proportion to profits increases the demand for the loan of money and diminishes the supply. The rate of interest, therefore, is ultimately regulated by the rate of profit.

When we say the price of cotton is regulated by the cost of production, we do not mean to deny that the market price of cotton is fixed by the proportion between the demand and the supply. On the contrary, this is admitted; but, then, it is contended that the supply itself is regulated by the cost of production. If the market price of cotton were so low as not to furnish the grower a fair average of profit on the capital employed, then would capital be removed after a while from the cultivation of cotton to some other employment? And if the price of cotton were so high as to furnish more than a fair average of profit, then after a while more capital will find its way into that employment, the supply would be increased, and the price would fall; but it is only by influencing the supply that the cost of production may be the same for a number of years; the price may be perpetually varying. The price may from a variety of causes be in a state of constant vibration, but it can not permanently deviate on one side or the other much beyond the line marked out by the cost of production.

It is the same with money. It is subject to perpetual fluctuations from the proportion between the demand and the supply, but it does not deviate far from the line marked out by the rate of profit, for the rate of profit not only influences the supply (as with cotton) but also influences the demand.

The above reasoning is founded on the supposition that those who borrow money borrow it for the purpose of investing it in trade or of making a profit by its use. But this is not always the case; and is never the case with the Government of a country, who always borrows for the purpose of spending. Now, we can form a judgment as to what portion of his profits a merchant is willing to give for the loan of a sum of money, but we can form no judgment as to the conduct of a profligate rake who wants money to spend on his follies. A king or a government is in the same state.

They will borrow money as cheaply as they can; but at all events money they will have. We can not therefore infer that, because Charles II gave at

times to the new-fashioned bankers 30 per cent for money, the average rate of profit exceeded 30 per cent. May not, then, those advances to the king have had the effect of raising the interest of money and thus justify the accusations of Sir Josiah Child?

When a number of commercial men borrow money of one another, the permanent regulator of the rate of interest is the rate of profit; and the immediate regulator is the proportion between the demand and the supply. But when a new party comes in to the market, who has no common interest with them who does not borrow money to trade with but to spend, the permanent regulator (the rate of profit) loses its influence, and the sole regulator is then the proportion between the demand and the supply. The loans to the king created a much greater demand for money and the rate of interest consequently rose. These demands were so great in amount and were so frequently repeated that the rate of interest became permanently high. Many individuals would no doubt (as Sir Josiah Child states they did) withdraw their capital from trade and live upon the interest of their money. And others who were in business would employ their superfluous capital in lending it at interest rather than in extending their business. Those commercial men who now wanted to borrow money must give a higher interest for it than they did before. To enable themselves to do this they must charge a higher profit on their goods. Thus, then, in the artificial state of the money market, it appears reasonable to suppose that the rate of interest may have regulated the rate of profit instead of the rate of profit regulating the rate of interest, which is the natural state.

Not a single European Parliament has ever adopted that sound philosophy of Gilbart, namely, that the merchant is the permanent regulator of the interest rate, yet the majority of those central banks have become controlled exclusively by great merchants. I maintain that the great merchants should control the head of the credit system or ultimate reserve agent for the following reasons:

1. Because that is the best safeguard against the monopolization of credit.

2. Because that is the only way to have a credit system as distinguished from a banking system.

3. Because that is the only way to establish a credit system of the greatest efficiency and economy; but, if the banker were to control that institution, as well as a private banking establishment, then banking would cease to perform its real mission of economizing capital and become a millstone around the neck of commerce.

4. Because no credit system is sound unless its note issues are based on sound commercial paper, and as the merchant is the maker of that paper it naturally follows he is the best judge of its quality.

5. Because the merchant is the permanent regulator of the interest rate (the rate of profit); the price he can pay for the loan of money being regulated by the profit he makes on his goods. But this rule does not apply to those who borrow for the purpose of spending, such as a profligate rake or a government; neither does it apply to the banker, as he is the most potent factor in the supply and demand (the immediate regulator of the interest rate), and if the banker were to control the head of the credit system, then the rate of interest would regulate the rate of profit instead of the rate of profit regulating the rate of interest, which is the natural state.

6. Because the merchant is better fitted temperamentally than the banker to control the head of the credit system, for the reason that the banker is the greatest demand debtor known to the business world, while few of the merchant's obligations are payable on demand. Therefore, when the banker needs money he must have it immediately—to-day, not to-morrow—and when such demand on the banker becomes urgent it wholly unfits him to take the proper per-

spective as to the effect which the granting of such request would have on future interest rates.

7. Because notwithstanding the fact that the merchants furnish the security for most of the paper entered at the counter of the central bank for discount, yet a vast majority of its discounts are made through and by bankers, done voluntarily and in the ordinary course of trade. The very merchants who control those European central banks do not go directly to them for discounts as a rule. Instead they patronize the banks selling credit for profit, because the rate of discount of the central banks is frequently 100 per cent in excess of the market rate. In proof of this I refer to the following statement showing the market and Bank of England rate for money on the last Thursday of each month during 1910:

Date.	Open market rate.	Bank rate.	Date.	Open market rate.	Bank rate.
	<i>Per cent.</i>	<i>Per cent.</i>		<i>Per cent.</i>	<i>Per cent.</i>
Jan. 24.....	2½	3½	July 23.....	1½	3
Feb. 23.....	1½	3	Aug. 22.....	1½, 2	3
Mar. 22.....	3, 3½	4	Sept. 22.....	1½	3
Apr. 21.....	3½, 4	4	Oct. 21.....	4½	5
May 23.....	4, 4½	4	Nov. 21.....	5½	5
June 21.....	2½, 3	3	Dec. 20.....	3	4½

But if the central bank were controlled by bankers, it would be used as a "feeder" to the private banks owned by them, and thus accentuate the greatest curse known to American corporate management, viz, the control of one corporation by another doing the same business. We have but to view the many railroads which have been wrecked by this pernicious practice, also the many scandals which have occurred in the control of our life insurance companies as a direct result of this practice.

8. Because if the banker be permitted to control the head of the credit system there would exist a strong incentive for him to deny credit to a troublesome though worthy competitor, because if failure resulted he would profit by the lessening of competition, or if by getting him in a tight place and buying him out at his own price, he would profit in that way. No such unworthy motive would actuate the merchant, as he would be prohibited from engaging in the banking business for profit.

9. Because credit has exactly the same influence, if affecting values, as gold—influencing them downward when used for production and upward when used for speculation and overconsumption—and as 99 times more business is done with credit than with gold, and the merchant being selfishly interested in production as well as in a low rate of interest, it naturally follows he should control one important credit institution.

10. Because by placing the best merchants in control of the ultimate reserve agent, we would not only be following the "ancient practice" of the Venetian merchants who introduced the use of credit instruments into western Europe, but we would be following the present practice of every country in Europe enjoying a credit system which is the envy of the balance of the world.



I have here an amendment to this bill—a supplemental amendment. I will read it now:

[Amendment to S. 2639 by adding sec. 30.]

SEC. 30. This act also authorizes the establishment of a bank of commerce to be controlled in a decentralized manner by the merchant citizens of the United States, a portion of the profits of such bank shall be paid into the Treasury of the United States and held in trust for the capitalization of a rural credit system. Such bank of commerce shall operate and be governed solely according to the terms of its charter, which shall read as follows:

#### CHARTER FOR THE BANK OF COMMERCE.

##### ARTICLE I.

SECTION 1. (Name of corporation.) The name of the corporation shall be the "Bank of America," and referred to herein as the bank.

##### ARTICLE II.

SECTION 1. (Object of the bank.) The object of the bank shall be to provide credit for the distribution of commerce, and as a means to that end it shall have power and authority to do a general banking business, and do and perform any and every act incident and pertaining to such business, except the issuance of circulating currency, and act as the depository and fiscal agent of any State government or any subsidiary thereof, when lawfully chosen as such by any such State or its subsidiary government, or of the Government of the United States when not otherwise expressly provided by law.

Paragraph 1. (Bank to maintain gold standard.) The bank shall pay its obligations in gold of the present standard of weight and fineness, and should Congress make the bank the sole depository and fiscal agent of the Government of the United States, then it shall be the further duty of the bank to maintain an ample supply of gold for the protection of public and private credit.

##### ARTICLE III.

SECTION 1. (Bank's executive office.) The bank's temporary executive office shall be located by the board of directors at their first meeting, where it shall remain for three years, and at the expiration of that time the board shall establish a permanent executive office; but branches, agencies, and board meetings may be established and held in such places as the by-laws may prescribe.

##### ARTICLE IV.

SECTION 1. (Capital stock.) The amount of the authorized capital of the bank shall be \$100,000,000, divided into one million shares of \$100 each, and the certificates therefor shall be numbered from one to one million, inclusive. The capital with which the bank may begin business shall be \$1,000,000, but the paid-in capital at the close of its first year's business shall be not less than \$5,000,000, and the remainder of said capital shall be paid in in cash from time to time, as the bank's business may require and in such amounts as the by-laws or the Secretary of the Treasury may prescribe: *Provided*, That the Secretary of the Treasury shall not require the paying in of more than \$3,000,000 of such capital during any one year. All stock must be of the same class and dividend-earning ability.

Paragraph 1. (Disposition of profits.) The stockholders shall be paid from the profits a dividend of 6 per centum per annum, payable annually, semi-annually, or quarterly, as the by-laws may prescribe, which shall be cumulative. The remainder of the profits shall be placed to surplus until it equals 20 per centum of the paid capital, and thereafter the bank shall accumulate an old-age pension fund equal to a dividend of one-half of 1 per centum per annum, to be paid, as the by-laws may prescribe, to such employees who have been paid salaries for ten consecutive years of less than \$3,000 per annum, and the balance shall be paid as follows, namely: One half to the stockholders and the

other half into the Treasury of the United States, to be held in trust and employed in capitalizing a rural-credit system.

Subpar. 1. (Congress may change ratio of profits.) Congress shall have authority, decimally after the twentieth year, to change the apportionment of profits provided in this section.

Par. 2. (Public to own stock.) No corporation shall become a subscriber to or be one of the original stockholders of the capital stock, and no individual shall be a subscriber to more than twenty-five shares thereof, except those merchant citizens who will qualify as electors, directors, and officers by disposing of their other banking investments, and no elector or director shall become such subscriber to an amount in excess of 5 per centum of his mercantile investments.

## ARTICLE V.

SECTION 1. (Duration of bank.) The duration of the bank shall be fifty years from the time it begins business, but Congress shall have authority, decimally after the twentieth year, to amend this charter.

## ARTICLE VI.

SECTION 1. (Corporate powers of bank.) The corporate powers of the bank shall be exercised as follows, viz: The legislative power shall be exercised by a board of directors or bank parliament and the bank court, provided that the bank court shall exercise only such authority as may be delegated to them by the parliament except in the matter of fixing the discount rates; the executive or administrative power shall be exercised by a governor and deputy governor and such officers, managers, and agents as the governor may appoint, provided he shall make no appointment not authorized by by-law and if the appointee is to be paid exceeding \$2,000 per annum the appointment must be approved by the bank court; and the inspection power shall be exercised by the censors and inspectors.

SEC. 2. (Number of directors and votes of each.) Each State and the District of Columbia shall be entitled to one director, provided it has six qualified electors who have resided therein for a term of two years, and each director shall be entitled to one vote on the board or bank parliament.

Paragraph 1. (Classification of directors.) The classification of directors, districts, and territory comprising each shall be as follows:

FIRST CLASS.	
Number.	Territory.
First.....	Alabama.
Second.....	Arizona.
Third.....	Arkansas.
Fourth.....	California.
Fifth.....	Colorado.
Sixth.....	Connecticut.
Seventh.....	Delaware.
Eighth.....	District of Columbia.
Ninth.....	Florida.
Tenth.....	Georgia.

SECOND CLASS.	
Eleventh.....	Idaho.
Twelfth.....	Illinois.
Thirteenth.....	Indiana.
Fourteenth.....	Iowa.
Fifteenth.....	Kansas.
Sixteenth.....	Kentucky.
Seventeenth.....	Louisiana.
Eighteenth.....	Maine.
Nineteenth.....	Maryland.
Twentieth.....	Massachusetts.

## THIRD CLASS.

Number.	Territory.
Twenty-first	Michigan.
Twenty-second	Minnesota.
Twenty-third	Mississippi.
Twenty-fourth	Missouri.
Twenty-fifth	Montana.
Twenty-sixth	Nebraska.
Twenty-seventh	Nevada.
Twenty-eighth	New Hampshire.
Twenty-ninth	New Jersey.
Thirtieth	New Mexico.

## FOURTH CLASS.

Thirty-first	New York.
Thirty-second	North Carolina.
Thirty-third	North Dakota.
Thirty-fourth	Ohio.
Thirty-fifth	Oklahoma.
Thirty-sixth	Oregon.
Thirty-seventh	Pennsylvania.
Thirty-eighth	Rhode Island.
Thirty-ninth	South Carolina.
Fortieth	South Dakota.

## FIFTH CLASS.

Forty-first	Tennessee.
Forty-second	Texas.
Forty-third	Utah.
Forty-fourth	Vermont.
Forty-fifth	Virginia.
Forty-sixth	Washington.
Forty-seventh	West Virginia.
Forty-eighth	Wisconsin.
Forty-ninth	Wyoming.

Subpar. 1. (Classification of new States.) If new States be created out of any of the territory mentioned in this paragraph and designated as the forty-nine directors' districts, the first shall become the fiftieth district and be a member of the fifth class, the next shall become the fifty-first district and be a member of the first class, and so on, consecutively.

Par. 2. (Terms of office of directors.) The first board of directors shall be divided into five classes in the order provided in paragraph 1 of this section. The term of the first class shall expire on the second Tuesday in April next following their election; that of the second class one year from that time; that of the third class two years from that time; that of the fourth class three years from that time; and that of the fifth class four years from that time, and so on, consecutively, in each and every year thereafter, so that all the directors of one class shall be elected annually thereafter, provided there be the requisite number of electors in a district to elect a director. All vacancies occurring on the board of directors shall be filled at a special election to be called by the governor within ninety and not sooner than sixty days after such vacancy occurs to fill such unexpired term.

Par. 3. (Qualification of directors.) Each director must be a bona fide resident of his director's district and a qualified bank elector and remain both during his term of office.

Par. 4. (Manner of electing directors.) The directors shall be elected by the ballots of the qualified electors residing in their respective directors' districts. Such ballots after being cast must be forwarded to the executive office of the bank by United States post, inclosed in official envelopes, printed or written "Official director's ballot" in red ink on the address side thereof.

Subpar. 1. (Ballots and envelopes, how furnished.) It shall be the duty of the secretary, thirty days before an annual and fifteen days before a special election for director, to mail one official ballot and envelope to each qualified elector residing in the district in which such election is to be held.

Subpar. 2. (Inspectors of election.) The secretary shall, on the fourth Tuesday in March of each year, in the presence of the censors, who shall be inspectors of elections, open and count the official ballots cast for directors at the elections held two weeks previously.

Subpar. 3. (Candidates for directors.) Each qualified elector who desires to become a candidate for director of his district must notify the secretary of such desire four months before an annual and thirty days before a special election, and the secretary shall inform such candidate of the approximate cost in postage and printing necessary to place his name before the qualified electors of his district. If such candidate within fifteen days after the mailing of such information makes remittance to cover such expense, it shall be the further duty of the Secretary to cause the name and address of each such candidate, as well as the style of the mercantile house or houses with which each is connected, to be printed on each such ballot sent out by him, and mail one to each qualified elector of that district. The candidate receiving a plurality of the votes cast at such election shall be declared elected. If two candidates tie at any election, then the two receiving the highest number of votes shall be eligible candidates at a special election therefor.

Par. 5. (Annual election of directors.) The annual election for members of the board of directors to fill the places of the outgoing class shall be on the second Tuesday in March of each year, and the newly elected members shall take charge of their office the second Tuesday in April next following and hold such office for a term of five years, provided they remain eligible during such period.

Par. 6. (Compensation of directors.) The members of the board of directors shall be compensated by salaries fixed by by-law and traveling expenses incurred in attending board meetings, and as an extra compensation for prompt attendance at the executive office at noon on Monday immediately preceding the annual parliamentary session on the second Tuesday in April of each year, and there remain during business hours until six o'clock postmeridian the following Wednesday, they shall be paid each \$4 per hour spent in traveling by the quickest route from their homes to such executive office and return, and at the same rate per hour while actually attending to the duties imposed on them under this charter from noon on said Monday until said six postmeridian on the following Wednesday.

Subpar. 1. (Penalties for failure of attendance.) Any director who fails to attend the annual parliamentary session by noon on said Monday and there remain, during business hours, until 6 p. m. the following Wednesday shall receive no salary for the following year nor any portion of the extra compensation mentioned in the sixth paragraph of this section. And any director who shall have been derelict in attendance on such annual parliamentary sessions for three out of five years shall be rendered ineligible thereafter from holding such office.

Par. 7. (Salaries fixed by by-laws.) All salaries exceeding \$2,000 shall be fixed by by-laws.

Par. 8. (Quorum.) A majority of the directors shall constitute a quorum for the transaction of business.

Par. 9. (Chairman of the board.) The board of directors shall elect one of their members chairman, who shall preside at the meetings or sessions of the board and may call the members together in extraordinary session by giving each member thereof at least fifteen days' previous notice.

Par. 10. (Nonpolitical control guaranteed.) No director shall hold or become a candidate for any office under any government or with any political party while he holds his directorship with the bank.

SEC. 3. (Electors.) Each merchant citizen of the United States who owns at least twenty-five shares of the bank's stock and twenty times as much interest in such mercantile house or houses as is defined in paragraphs one and two of this section, whose principal estate is invested in such house or houses and who does not own any stock or interest or hold any office in any other bank or banking institution stock bond or bill brokerage or bill discounting establishment is declared to be a bank elector and entitled to cast one vote by ballot at each election held for director or censor of the district in which he resides and has resided for at least two years previously except as otherwise herein expressly provided.

Paragraph 1. (Mercantile house defined.) The term "mercantile house" within the meaning of this section is a person, firm, corporation, or association engaged in the mercantile business which enjoys, continues to enjoy during the

term of such electorship, and for five years previous to the acquisition of such electorship privilege has enjoyed good credit, and one-half of whose sales comprises articles purchased for a consumptive demand and not exceeding twenty-five per cent of whose sales are articles of its own manufacture or production.

Par. 2. (Consumptive demand defined.) The term "consumptive demand," within the meaning of this section, are purchases made to be disposed of in the ordinary course of trade on which the house expects to realize a merchant's profit in contradistinction to a speculator's profit.

Par. 3. (Rule for determining ratio of interests.) After the bank has been in operation ten years the rule for determining that the ratio between an elector's mercantile and bank investments is twenty to one, respectively, shall be according to the average net annual income derived from each class of investments for the five years next preceding; but during the first decade such ratio shall be determined according to the par values of the two stocks, if the mercantile house be incorporated, otherwise by the market or fair cash values of the two classes of investments.

Par. 4. (Disqualification of electors.) The board of censors may, by a unanimous vote and when they believe the public interest will be best served thereby, call a confidence election to disqualify any one or number of electors. Three months' notice must be given each elector who is sought to be disqualified, the reasons therefor set forth in writing and signed by the censors, and a copy furnished each such elector.

Par. 5. (Confidence election district.) Each director's district shall constitute a separate confidence election district.

Subpar. 1. (Voters at confidence elections.) Each citizen of the United States (exclusive of the electors, directors, and officers) who is a stockholder of record of the bank at least two years before such election, and who has been a resident for the same length of time of the district in which such election is to be held, shall be entitled to vote his stock at each confidence election held in his district, each share of such stock being entitled to one vote.

Subpar. 2. (Effect of confidence elections.) If ninety per centum of the stock of such voters is represented at such election and fifty per centum thereof is cast to disqualify an elector, it shall have the effect of disqualifying such elector from voting for a director thereafter or holding that office.

Par. 6. (How to become an elector.) Any merchant citizen desiring to qualify as a bank elector shall make such desire known in writing to the secretary, on receipt of which the secretary shall forward a formal electorship blank to such applicant, to be by him filled out, sworn to, and returned to the secretary in an envelope which the secretary shall inclose for that purpose in his letter replying to the request of such applicant, such envelope to have printed on its address side in red ink the words "Formal application for electorship." On receipt of such formal application properly signed and sworn to the secretary shall turn it over to the board of censors for verification, and when so verified it shall be returned to the secretary, who, if he finds the statements contained therein to be true and entitle the applicant to an electorship in the bank, shall cause the applicant's name and address to be recorded in the electorship book, file the application in the electorship vault, and issue an electorship certificate to the applicant.

Subpar. 1. (When mandamus proceedings may be invoked.) Should an eligible merchant citizen be denied the privilege of an electorship after complying with all the requirements imposed he shall be entitled to apply to any court of competent jurisdiction for a writ of mandamus.

Par. 7. (Electors to make affidavits annually.) It shall be the duty of the secretary and censors annually to prepare questions to be propounded to those electors of districts in which elections are to be held the following year touching their qualifications as such and cause the same to be signed and sworn to by them, and when replies thereto are received have them properly filed in the electorship vault.

Subpar. 1. (Confidential communications.) All information acquired by the secretary and censors by virtue of their office touching the qualification of electors shall be kept in confidence and not divulged to anyone except the Attorney General of the United States and such representative as he may designate to receive the same.

Par. 8. (Sectarian control prohibited.) Not exceeding thirty-four per cent of the electors of any director's or censor's district shall be of the same religious persuasion or sect. If a greater percentage than that should become qualified,

then the ones last qualified shall not be entitled to vote for director or censor during the period such condition exists.

SEC. 4. (Governor.) The governor shall be a citizen of the United States who does not own less than two hundred shares of the bank's stock and who owns no stock or interest nor holds any office in any other bank or banking institution, stock, bond, bill brokerage, or bill discounting establishment.

Paragraph 1. (Governor's tenure of office.) The governor shall be elected by the board of directors on Wednesday next following the second Tuesday in April of each year which is the multiple of five, and shall hold his office for a term of five years and until another is elected in his stead: *Provided*, That the board of directors may, by a two-thirds vote, remove him from office.

Par. 2. (Duty and authority of governor.) The governor shall be the bank's chief executive officer and chargeable with the safe and efficient conduct of its business, to which end he shall possess power and authority to appoint such officers, managers, and employees not otherwise herein expressly provided to aid him: *Provided*, That every such appointee who is to receive a salary in excess of \$2,000 per annum shall be approved by the bank court: *And provided further*, That he and his appointees shall be amenable to the by-laws and governed thereby.

SEC. 5. (Deputy governor.) The deputy governor shall be a citizen of the United States who owns not less than one hundred shares of the bank's stock, and who does not own any stock or interest nor hold any office in any other bank or banking institution, stock, bond, bill-brokerage, or bill-discounting establishment.

Paragraph 1. (Deputy governor's tenure of office.) The deputy governor shall be elected by the board of directors on Wednesday next following the second Tuesday in April of each year which is a multiple of five, and hold such office for a term of five years and until another is elected in his stead: *Provided*, That the board of directors may, by a two-thirds vote, remove him from office.

Par. 2. (Duty and authority of deputy governor.) The deputy governor shall perform the duties imposed by this charter on the governor during his absence or inability to act and such other duties as may be assigned him by the governor: *Provided*, That he and his appointees shall be amenable to the by-laws and governed thereby.

SEC. 6. (Qualification and number of bank court.) The bank court shall consist of nine persons who shall be qualified electors and own not less than fifty shares of the bank's stock, and who does not own any stock or interest or hold any office in any other bank or banking institution, stock, bond, bill-brokerage, or bill-discounting establishment.

Paragraph 1. (Tenure of office of members of bank court.) The members of the bank court shall be elected by the board of directors annually for a term of one year: *Provided*, That the board of directors may, by a two-thirds vote, remove a member thereof from office.

Par. 2. (Duty and authority of bank court.) The bank court shall have authority to fix the discount rates, the same to lower and raise at their pleasure, and do and perform such other duties as may be delegated to them by the board of directors: *Provided*, That a by-law enacted by the bank court shall remain in force only until the next meeting of the board of directors. The bank court shall, immediately after enacting a by-law, notify each member of the board of directors thereof.

SEC. 7. (Secretary.) The secretary shall be elected annually by the board of directors and hold such office for a term of one year and until another is elected in his stead. The board of directors shall elect an assistant secretary, who shall perform the duties imposed on the secretary during his absence or inability to act.

Paragraph 1. (Duty and authority of secretary.) It shall be the duty of the secretary to attend the meeting of the board of directors and bank court, and keep true records of what transpires thereat. He shall keep the stock and electorship books, become the joint custodian with the censors of the electorship applications and papers and evidence pertaining to the qualification of electors, and not divulge their contents to any person except the Attorney General of the United States and such representative as he may designate, perform the duties imposed on him under paragraph six of section three of this article, direct the work of the inspectors, and perform such other duties as the by-laws may prescribe.

SEC. 8. (Inspectors.) The board of directors shall elect annually such number of inspectors as the business of the bank may require, who shall hold office for one year and until others are elected in their stead.

Paragraph 1. (Authority and duties of inspectors.) It shall be the duty of the inspectors to investigate infractions of this charter and the by-laws and report to the secretary. They shall do and perform such other duties as the by-laws may prescribe.

SEC. 9. (Censors.) The bank shall have three censors, who shall be elected four months apart for a term of one year each, and shall be ineligible for reelection. A censor must be, and for five years next preceding his election have been, a public certified accountant and resident of or maintain a business office in the censor's district from which he is elected.

Paragraph 1. (Classification of censors.) There shall be two classes of censors, first and second class. Those of the first class shall be elected from cities with more than one million five hundred thousand inhabitants, wherein reside at least six electors, and those of the second class shall be elected from cities having from one hundred thousand to one million five hundred thousand inhabitants, wherein reside at least six electors. There shall be one of the first and two of the second class. The electors of such cities shall be entitled to cast one vote each by ballot at each censor's election held therein.

Par. 2. (Directors to designate censors' districts.) The board of directors shall, at each annual parliamentary session, designate three censors' districts in which censors for the following year are to be elected.

Par. 3. (Manner of nominating and electing censors.) Six months before a censor's election the secretary shall notify each elector of such district of his privilege of placing in nomination one eligible candidate for censor. One month from that time he shall notify each candidate so nominated and ascertain if he be eligible and will serve if elected. Two months from that time he shall prepare ballots containing the name and address of each such candidate, as well as the style of the firm or corporation with which he is professionally associated, and mail one of such ballots to each of the qualified electors of such district, together with an official return envelope printed or written "Official censor's ballot" in red ink on the address side; and three months from that time he shall, in the presence of the censors, open and count the ballots cast at such election. Immediately after each censor's election the secretary shall notify the censor of his election and the date his term of office begins.

Par. 4. (Censors elected from separate States.) No two censors serving the bank at the same time shall reside in the same State or within two hundred miles of one another.

Par. 5. (Authority and duties of censors.) The censors shall have power and authority to supervise all elections, investigate the qualification of electors, directors, members of the court and officers, call confidence elections, scrutinize the loans and discounts of houses in which electors, directors, members of the court and officers own any stock or interest (and if the censors find such loans or discounts excessive or unsafe, they shall notify those who made them to cease granting further credit to them unless the bank's interests are fully protected), verify the statements, audit the accounts, and inspect the transactions and properties of the bank, and give such publicity to the errors and acts of those responsible for the control as in their judgment will be beneficial to the bank and the public interest: *Provided*, They shall not divulge any information acquired by them concerning the qualification of electors except to the Attorney General and such representative as he may designate.

#### ARTICLE VII.

SECTION 1. (Annual bank statements.) The governor shall cause to be rendered annually, at such date as the Secretary of the Treasury may designate, a full and complete statement of the bank, showing: First, the amount of business transacted by it the previous year; second, the total of its assets and liabilities; and, third, the amount of its liquid assets and the ratio which each item of such assets bears to the bank's borrowed capital payable on demand; and in giving the amount and ratio of such liquid assets represented by its commercial paper and bills and securities arising out of real commercial transactions the statement shall show the amount and ratio thereof maturing, as follows: Within fifteen days, within sixteen to thirty days, within thirty-one to sixty days, within sixty-one to ninety days, and beyond ninety days, respectively.

Paragraph 1. (Other statements.) The bank shall render such other statements from time to time as the Secretary of the Treasury may require.

#### ARTICLE VIII.

SECTION 1. (Duty of Congress.) The Congress shall prescribe penalties for the violation of this charter and the by-laws enacted thereunder, embezzlements, forgeries and embezzlements, and enact appropriate legislation for the efficient and economic promotion of the bank.

I also have here an index to this charter and an analysis of the control provided under the charter, which I should like the committee to hear.

Article I gives the name of the bank; Article II treats of its object and authority; Article III treats of its place of business; Article IV treats of its capital and disposition of profits; Article V treats of its duration; Article VI treats of its control—the principal feature; Article VII treats of the statements required; and Article VIII treats of duty of Congress as to its promotion, etc.

I will now give an analysis of the control (Art. VI). The first subject treated is division of corporate powers. Section 1 divides the corporate powers of the bank among three separate bodies, viz: The executive (governor), legislative (directors and court), and inspectors (censors and inspectors, the censors to inspect principally the electors and directors, and the inspectors to inspect the officers and those directly responsible for control). In thus separating the powers of control I have followed the charters and practices of the banks of England, France, and Belgium.

The next subject treated is legislative power (directors and bank court). Sections 2 and 6 (Art. VI) vests the legislative power in a board of 49 directors, elected severally by the "great merchants" of the 48 States and the District of Columbia, and a bank court of 9 members elected annually by the directors, the court only to exercise such legislative authority as may, from time to time, be delegated by the directors. Coupled with this legislative authority the directors also elect the governor (the chief executive officer).

Then follows the important feature of a decentralized control. The principal difference between those three European banks and the proposed commercial "Bank of America" lies in the fact that their control is centralized, while this is decentralized. That is to say, they elect their directors collectively, on the national principle, while the directors of the proposed bank of commerce are elected severally by States, on the Federal principle, just as are our Senators and Representatives in Congress. This places the supreme corporate powers of the bank in the several States. This is the only practical way in which they could be elected. The "great merchant electors" of Texas know each other at the present time and can intelligently elect one of their number as a director to represent them on the board of the bank of commerce. They are made acquainted with each other through the commercial travelers who make that State, but the "great merchants" of Texas do not know the "great merchants" of Florida, because there is little business intercourse between them and the same commercial travelers do not make both those States. Therefore, it would be folly to expect the best merchants of one State to elect a director from the best merchants of another State.



Decentralization will prevent shirking of responsibility. New York has amassed her wealth at the expense of the balance of the country simply because the business men of the other sections have shirked their responsibility of control. Under the proposed plan such a thing will be impossible, because if Texas goes without representation on the board, the merchants from Texas will have no one to blame but themselves, for no other State could elect a representative to fill such vacancy. The principal objection made by Thomas H. Benton to the old United States Bank was that—

its board of directors resided in six States, all bordering the North Atlantic Ocean, while the West and South furnished a large share of its business.

The proposed plan of decentralization is a complete answer to such objection. If we are to ever have a credit system free from bank domination, then the merchants of every section must assume the responsibility naturally resting on them; and if some shirk such duty we must be able to readily locate the responsibility and know who is to blame. The merchants of most other countries have assumed this responsibility, and there is no reason why those of this country will not do likewise, if we only provide a practical means under which they can act.

Now I come to an important feature of the control by electors or voting units. Section 3, Article VI, treats of the electors or voting units of control. The real meat of the proposition is contained in this section and the several paragraphs under it. Those great merchant electors are the very source of control in this, as in those great European banks of commerce, and that is all those European control banks are. Now the only way to have a real bank of commerce is to place the commercial interests in exclusive control, controlling it not for profit but as an aid and adjunct to commerce. The only way to do that is to proportion his stock holdings in the bank of commerce to his mercantile interests. I have placed that at the ratio of twenty to one—that is, I require a minimum bank interest of \$2,500 (exactly the same as the Bank of England elector) and require a minimum mercantile interest of \$50,000. This makes the great merchants merely trustees, as the public at large would own the stock as an investment. If a merchant were permitted to own as much stock in the bank of commerce as he owns in the mercantile business, then he would be selfishly interested in having such bank earn dividends, whether that institution served commerce or speculation. If the merchants who are to control this institution were permitted to own stock in a banking institution, then he would use the bank of commerce as a “feeder” to his banking interests. While the merchants of England, France, Belgium, and the Netherlands control their central banks (or banks of commerce), yet the principal customers of those four institutions are bankers, because they voluntarily keep their reserves with them on which they receive no interest. I will now give the number and financial responsibility of the voting units of those three European central banks as well as the Owen-Glass plan and “Bank of America.”

Now, as to the number of voting units, the Bank of England has approximately 300.

The Bank of France has exactly 200.

The Bank of Belgium exactly 528.

Proposed Owen-Glass plan approximately 60,000 to 250,000.

Then I take an average of a hundred stockholders per national bank. If all the national banks were to come in, there are 7,400 banks, or 740,000 stockholders. Divided that by 12 and we have a list of over 60,000 stockholders. If the State banks were to come in, that would make in each of these regional banks an average of about 250,000 stockholders. The proposed Bank of America, approximately 100 per State on the average (they would only be by States), there would be about 5,000 in the whole country.

Now I come to the financial responsibility of voting units. In the Bank of England it is \$2,500 Bank of England stock and \$100,000 and over of mercantile investments. No other banking investments permitted.

In the Bank of France, the 200 largest stockholders of the Bank of France who have large investments in commerce. No other bank investments are permitted.

In the Bank of Belgium, it is \$2,000 Bank of Belgium stock and at least \$50,000 mercantile investments. No other bank investments are permitted.

Under the proposed Owen-Glass plan, the wealth of voting units range from \$100 to \$100,000,000, all interested in banking and no commercial investment required.

Again, under the proposed Bank of America it would be \$2,500 Bank of America stock, and at least \$50,000 of mercantile interests, with no other banking investments permitted.

Then as to the stockholders who vote for control and those who do not so vote:

In the Bank of England there are approximately 300 voters and over 18,000 stockholders who exercise no voice in the control.

In the Bank of France 200 voters and over 31,000 stockholders who exercise no voice in the control.

In the Bank of Belgium 528 voters and over 10,000 stockholders who exercise no voice in the control, except to recall directors.

In the proposed Owen-Glass plan 60,000 to 250,000 voters who control; no nonvoting stockholders.

Under the proposed Bank of America plan 5,000 voters and approximately 250,000 stockholders who will exercise no voice in control, except to recall directors.

I now take up the incentive of actual electors of governor toward interest—that is to say, whether they are interest payers or interest gatherers. In the Bank of England they are interest payers, in the Bank of France interest payers, Bank of Belgium interest payers, proposed Owen-Glass plan interest gatherers, proposed Bank of America interest payers.

And then as to the occupation of governor's electors:

Bank of England, merchants; Bank of France, merchants; Bank of Belgium, merchants; proposed Owen-Glass plan, bankers; and proposed Bank of America, merchants.

As to bank-stock requirement of chief executive officer, who is the governor:

Bank of England, \$20,000; Bank of France, \$20,000; Bank of Belgium, \$10,000; proposed Owen-Glass plan, none; and proposed Bank of America, \$20,000.

In the case of the Bank of England the governor of the Bank of England is elected at the annual meeting of the bank "Court of proprietors" (great merchants) by those "great merchants." Some of those "great merchants" do an acceptance business as an aid to their mercantile business. Six of the 24 directors are members of those acceptance houses. They are not bankers because they charge just as much for accepting a bill running 30 days as they do for one running 120 days.

Bank of France: The governor of the Bank of France is selected by the President of France from three names submitted to him by the minister of finance. But the minister of finance must choose a person owning 100,000 francs of the Bank of France's stock, worth \$431 per \$100, or \$86,000. The transfer of the stock is controlled by the 200 merchant electors. And they see to it that nobody but a great merchant will ever get 100,000 francs of the Bank of France's stock. So, in the final analysis, it is the great merchants who control. The 200 great merchants of France, the 200 largest stockholders of the Bank of France, control it, and as they are merchants they will not permit another class to become large stockholders. It is gradually working up to that. There is no law making the Bank of France a merchant control or a bank of commerce, so you can see it makes no difference who would elect the governor of the Bank of France. It would be just the same.

Bank of Belgium: The governor is selected by the King of Belgium, but he must choose the governor from a number of stockholders owning at least 50,000 francs of stock. That stock is worth \$450 per \$100, which means an investment of \$45,000. But the board of directors who are elected by the 528 "great merchant" electors will not permit anyone to acquire that amount of stock who is not fit to be the governor of the bank. Furthermore, the directors of the Bank of Belgium, just like the directors of the Bank of England and Bank of France, constitute the legislative body of those institutions, and the governors are amenable to the by-laws enacted by them.

The Owen-Glass plan: The chief executive officer of each of those reserve banks can not own stock in the institution over which they preside, as that is owned exclusively by member banks. So he may be a dummy, as is so frequently the case in the control of important American financial institutions. He will be elected by the nine directors, six of whom (a majority) will be elected by member banks. So that he will owe his position to the interest gatherers, while all those great banks owe their positions to interest payers.

Bank of America: This is to be a bank of commerce, and the only way to make it a real bank of commerce is to have it controlled exclusively by the commercial interests. But we don't want a dummy at the head of so important an institution, and the very best guaranty against dummymism is to require a reasonable stock ownership in the concern the head is authorized to bind for large sums.

It will be observed from the foregoing that the very source of control of those three European central banks is the great merchant electors, the most prominent interest payers of those countries.

Bank court: Section 6 treats of the bank court, composed of nine persons elected annually by the board of directors; each member of the court must be a qualified elector.

Senator REED. Does that relate to the European banking system?

Mr. MILLIKEN. It relates to the bill that I have prepared as an amendment to this bill, establishing a bank of commerce, which is nothing in the world but the Bank of England.

Senator NELSON. He has prepared a bill for a bank here, and put it into the record, and this is to describe how that bank is formed.

Mr. MILLIKEN. This court would correspond with the executive committee of many American corporations to-day in the matter of imposing checks on the executive officers and thus prevent too frequent meetings of the board of directors, the members of which will be widely scattered in the several States. The establishment of this court corresponds also with the practice of the Bank of England. Its charter provides that the "court of proprietors"—300 great merchant electors—shall constitute a bank parliament, but it was found that that body was too numerous to fulfill such function, so that power was delegated to the board of directors, composed of 24 persons.

Secretary: Section 7 treats of the secretary, the home office representative of the board of directors, whose duties are clerical.

Censors and inspectors: Sections 8 and 9 treat of the inspectors and censors, respectively. One class is permanent and the other temporary inspectors. All are elected by responsible financial bankers not directly responsible for the actual management of the bank. They are elected by the very class who elect the censors for the central banks of England, France, and Belgium. Professional accountants, if elected in a practical manner by responsible financial bankers not in control, are far superior to Government inspectors, because their professional reputations will suffer by withholding from the public important information acquired by them, for their successors will be rivals who would surely expose them for such conduct. It is entirely different with Government examiners, persons who have no professions but the public service, and as man is naturally inclined to want to advance his condition in life, and that service offering no opportunity in that direction, he naturally looks about for some lucrative bank office to fall into when he gets out of the Government job. In order to accomplish their purpose they show favoritism to banks instead of protecting the public interest by exposing error.

No one who has studied the history of our Government-inspected banks and life insurance companies will deny the truth of this statement. Our abnormal banking condition is attributable to this system of paternalism. No country but ours inspects its banks. It is a species of special privilege which has done more to create public distrust than any other. It has taught our business men to look with contempt upon public officials, because many business men have gone out and corrupted those officials. We can never hope to have a sound and healthy credit system in this country until we abandon this species of special privilege.

Argument for this amendment: If this Congress will adopt this amendment and place the most prominent interest payers in control of one bank, just as most European countries have done, we will then be on the road to a sound and healthy credit system; but we will never reach that condition until that class of our citizenship assume the responsibility naturally resting on them in this important matter.

An increase in the quantity of gold is not the cause but only the effect of an advance in prices. It would have the contrary effect of

reducing prices if it were used in production. The price of any commodity is regulated by the proportion existing between the supply and the demand for that commodity. Whatever increases the supply or diminishes the demand will lower the price, and whatever increases the demand or diminishes the supply will advance the price. The seasons and elements are the most potent factors in influencing the prices of agricultural products. Rain and sunshine coming at the right time and in proper proportions will produce abundant crops and consequently cause a decline of prices. For instance, in 1909, with a 12,000,000-bale cotton crop the price advanced to 16 cents, while in 1910, with a 17,000,000-bale crop the price declined to 8 cents, yet the latter year witnessed the greatest production of gold in the world's history—\$500,000,000. Suppose the cotton-growing industry had acquired \$200,000,000 of that year's gold production, gone into the market with it and bought up 4,000,000 bales, and that fact had been known to the spinners. Suppose also that it had been known to the spinners that the planters intended to take that number of bales off the market and hold it indefinitely unless they realized 20 cents for it. Such use of that gold by those selfishly interested in advancing its price would have effected an advance in the price, for each spinner would have been looking out for the purchase of enough to have kept his factory wheels busy, and as the available supply would have been less than the spinning capacity for that year, the price would undoubtedly have advanced. Whether this would have advanced the price to 16 cents or more would depend altogether on the effect which this organized effort on the part of the planters inspired among the spinners, but that it would have advanced the price to a considerable extent there can be no question. It will be observed, therefore, that it depends altogether on the use to which money is put whether it will effect a rise or a decline in prices.

Money is merely an interpreter of values among traders. But it must possess an actual value—a value aside from its use as money. If I offer to buy a horse of a person who knows nothing about any money except that of this country, and propose to pay him in soldos, our minds do not meet, because he has no conception of my offer. Let me tell him a soldo is an ancient Venetian coin containing 51.6 grains of standard gold and still our minds would not meet unless he knows what standard gold is and how much is contained in our gold dollar. But when I tell him standard gold is 90 per cent fine and our gold dollar contains 25.8 grains our minds come together immediately, because I have reduced our trading thought to a common denominator—standard gold. The unit of value with me would be 51.6 grains standard gold, while with him it would be 25.8 grains. Therefore when I speak of a soldo he instinctively thinks of \$2, the equivalent; and if my offer for his horse be 100 soldos and he is willing to accept \$200 our minds have completely met. But suppose I haven't the 100 soldos, then we could use the exact equivalent—200 gold dollars. Suppose I haven't the 200 gold dollars, then we could trade if we could agree on some other equivalent. Suppose I have 200 silver dollars, 200 silver dollar certificates, and 40 \$5 greenback notes with me, and he knows that Congress has enacted a law requiring the Secretary of the Treasury to maintain the parity between all our so-called "moneys," or written promises of the Government to pay money, and that that official had declared that the

only way to render that law effective was to give each holder of those "promises to pay" the option of choosing the kind of money he wished them to be redeemed in, then we could agree on any of those Government credit instruments and thus consummate our trade in Government credit.

Suppose I had none of those Government credit instruments but had a \$200 certified check on a bank he believed to be solvent, then we could trade just as if I had possessed the gold. Suppose I had no bank-credit instrument with me but held a \$200 bill of exchange drawn by the Standard Oil Co. on the Pennsylvania Railroad for fuel oil, at 90 days' sight. I suspect we could trade, as he would doubtless know that any bank in the country would discount it; but I would have to pay the discount charge, if he were to realize \$200 cash for his horse. So, while we have thought in gold, we have traded in credit.

The Government's stamp on our gold coins does not make them money. While that stamp is indisputable evidence as to the quality, it is only *prima facie* evidence as the quantity of gold contained therein. To question the quality would be imputing dishonesty to the Government, and this the law will not sanction. But we all know that coins wear when handled, also that some evil-minded persons clip them for private gain. Therefore, in order to protect the public against either of those contingencies, the law properly protects the public by declaring that those stamps shall only be *prima facie* evidence as to their weight. Hence, the 25.8 grains of standard gold in one of our gold dollars constitutes the unit of value.

Ask an advocate of the quantitative theory of money if credit does not have an influence on prices, and he invariably replies in the affirmative; but ask him to state the relationship between the influence of gold and credit on prices, and he says he does not know; and I have never been able to get one of them to approximate the relationship of those two factors on prices. Hence it is that my mind fails to follow them. Please let me read you an excerpt from an address I delivered before the Young Men's Christian Association of this city on April 11 last bearing on this subject, which Senator Shafroth did me the honor to have incorporated in the Congressional Record on July 24 of this year:

Credit has as much influence on prices as gold. In other words, an expansion of credit by \$100,000,000 has as much influence on prices as an addition of \$100,000,000 to the quantity of gold. It matters not whether the credit instrument employed to bring about such expansion be bank notes, deposits, bills of exchange, promissory notes, or any other evidence of credit, the effect on prices will be precisely the same. John Stuart Mill says, "Money and credit are exactly on a par in their effect on prices." Henry Dunning Macleod, the great Scotch philosopher of credit, says:

"It is perfectly acknowledged that credit produces exactly the same effect on prices as gold. And it has been shown by authentic statistics that in modern times gold only forms about 1 per cent of the circulating medium of currency; and to suppose that a variation to the small extent of a fraction of 1 per cent in the amount of the circulating medium, or measure of value, could produce the effect so popularly attributed to it is wholly beyond reason."

Go to a store and buy an overcoat, and you thereby remove that one article of commerce from the market and, *pro tanto*, cause an advance in the price of that article, and the effect is precisely the same whether you pay for it in gold or obtain it on credit. That credit may be evidenced by your open account with your merchant, by your promissory note executed in his favor, by a bill drawn by you on some of your debtors or a person who has agreed to accept it, by your

check on your bank or a bank note. The effect will be the same whether you use one or the other of those credit instruments or pay for that overcoat in gold. The cause for the advance in the price was your consumption of that article. Any credit system, therefore, which facilitates the production of commerce or restrains overconsumption is a good system, and any credit system which does not afford ample facilities for the production of commerce or which fails to restrain overconsumption is a bad system.

In conclusion, let me say that as credit is on a par with gold in influencing prices—influencing them downward when used for production and upward when used for overconsumption; as the production of commerce is an absolute necessity to civilized man's existence and overconsumption an evil which should be restrained; as credit has about ninety-nine times greater influence than gold in affecting prices—does it not follow, then, that we should have one credit institution in this country whose sole mission it is to facilitate the one and restrain the other of those conditions? Without such an institution commerce will not only suffer for lack of ample facilities, but panics will continue periodically to wipe us off the financial map.

Senator REED. Mr. Chairman, I move we now hear from the chamber of commerce.

The CHAIRMAN. The committee will hear from the United States Chamber of Commerce. We will be glad to arrange the hearing of any particular members of your committee you would prefer.

Mr. SIMMONS. If you will permit me, I will just make a general statement and then suspend in favor of Mr. Fisher, who has come here at considerable inconvenience and has an engagement in New York this evening and desires to get away.

**STATEMENT OF W. D. SIMMONS, OF ST. LOUIS, CHAIRMAN OF THE BANKING AND COMMERCE COMMITTEE OF THE CHAMBER OF COMMERCE OF THE UNITED STATES OF AMERICA.**

Senator NELSON. Where do you live?

Mr. SIMMONS. St. Louis, sir.

Senator NELSON. Are you a banker?

Mr. SIMMONS. No, sir; I am a business man, and I am a director in a bank.

Senator REED. You are of the Simmons Hardware Co.?

Mr. SIMMONS. Yes, sir. At the last annual meeting of the National Chamber, as it is generally called, there was a resolution to the effect that our present banking and currency laws were entirely inadequate for the present needs, and the board of directors was requested to take such vigorous action as would, in their judgment, contribute most effectively to a solution of the problem.

When the Owen-Glass bill was first introduced, the committee on banking and currency of the National Chamber was instructed to come to Washington and discuss that bill and make recommendations to the board of directors. A report was made, and the board of directors instructed that it be made the subject of a referendum to the constituent members all over the United States. That referendum has just been completed and, in accordance with the directions of the board of directors, we are here to report to you the result of it.

It was submitted to the constituent members' inspection, first, as regards the report as a whole and then in seven sections in regard to certain specific details concerning which it was thought wise to have separate action by the constituent members.

Senator REED. Was any argument sent out along with this referendum vote?

Mr. SIMMONS. Practically no argument, Senator Reed, because it is the custom of the chamber, when submitting to a referendum vote, if arguments are submitted, to submit exhaustive arguments on both sides, so as to have all sides shown.

Senator REED. Is there any argument in here?

Mr. SIMMONS. No, sir.

Senator REED. You simply sent the bill out?

Mr. SIMMONS. Just as it is there, practically no argument, except the recommendations of the committee and the reasons why.

Senator REED. You sent the recommendations of the committee—

The CHAIRMAN. This book was sent to each chamber?

Mr. SIMMONS. Yes; this book was sent to each chamber, in this form, and the recommendations of the committee put in that form, and the reasons stated in a very few words, practically without argument, unless those words are so considered.

Senator REED. What I am trying to get at is whether you sent this bill out and said, "Now, we would like you to let us know what you think of the bill, after examination," or whether you sent the bill out with suggestions as to defects, imperfections, etc., in it.

Mr. SIMMONS. That is what I was about to explain, Senator Reed. It was done in these seven sections: First, in regard to the committee's report as a whole, and then dividing up that report in these seven sections, so that the constituent members might either report as a whole, or might vote, as some did, on the separate sections.

Senator NELSON. You proceeded on the theory, then, that we would legislate by counting heads and not noses?

Mr. SIMMONS. I do not catch the significance of that.

Senator NELSON. I say you proceeded on the theory that we would legislate by counting heads and not noses.

Senator SHAFROTH. No; but their recommendations should be based upon that.

The CHAIRMAN. This organization, Senator, represents an organization of the various chambers of commerce of the United States, some three hundred and odd.

Mr. SIMMONS. Four hundred and over, now.

The CHAIRMAN. Some four hundred and odd. They appointed a special committee to study this question of banking and currency, and that committee discharged its duty and then submitted the result of its work to the various organizations through this book and they voted upon it, having this book before them as their guide, as the recommendations of their committee.

Senator NELSON. Those chambers of commerce voted?

Mr. SIMMONS. Yes.

Senator NELSON. I know how that is done; four or five get together and pass most any kind of a resolution.

Mr. SIMMONS. The vote in regard to the committee's report as a whole was 303 in favor and 17 against.

Senator SHAFROTH. In favor of what, now?

Mr. SIMMONS. In favor of the approval of the report as a whole. Under the heading of section A, which was in favor of our suggestion to increase the number of members of the Federal reserve board by having the original seven elect two others, subject to the approval of the President, and the compensation of the governor and vice



governor of the board to be fixed by the board itself, that was voted upon favorably by 346 to 70.

Senator REED. Now, on what page do I find the statement you sent out along with your report on that?

Mr. SIMMONS. This is the statement right here, sir. It started right there—oh, in regard to that particular point?

Senator REED. Yes.

Mr. SIMMONS. That is on page 7.

The CHAIRMAN. How was that vote?

Mr. SIMMONS. That vote was 346 to 70.

The CHAIRMAN. How was the vote on the next one?

Mr. SIMMONS. On the next, B, which was in favor of a Federal reserve council, the president and vice president to sit in Washington and their salaries to be paid by the banks, the vote was 303 to 82.

Under D, which was in favor of the recommendation creating the new system of Federal reserve banks by beginning with the present central reserve cities and then having the Federal reserve board increase the number gradually as their judgment dictated, that was voted upon favorably by 343 to 73.

The CHAIRMAN. And on D?

Mr. SIMMONS. On D there were three divisions, A, B, and C, and the votes were somewhat different. On A, which was a restriction of the issue of Federal reserve notes—that is, that there be no restriction—the vote was 397 to 17.

B, that there be no interest charged on the Federal reserve notes, the vote was 378 to 17.

C, that it be unlawful for any Federal reserve bank to pay out any notes but its own, the vote was 397 to 17.

The CHAIRMAN. E, now.

Mr. SIMMONS. E, in favor of the report that the Federal reserve notes should not be obligations of the Government, but should be guaranteed by the Government, the vote was 367 to 48.

The CHAIRMAN. F?

Mr. SIMMONS. F, in favor of the Federal reserve banks mutually guaranteeing the reserve notes, the vote was 378 to 38.

The CHAIRMAN. G?

Mr. SIMMONS. G, in favor of the recommendation that the reserve requirements be modified and reduced, the vote was 390 to 23.

Now, Mr. Chairman, if it is agreeable to you I will let Mr. Fisher make his statement so that he may catch his train.

The CHAIRMAN. Have you a list of the chambers of commerce referred to in here?

Mr. SIMMONS. I am not quite sure we have it here, but we have such a list.

The CHAIRMAN. I think that ought to go in the record, so we will know who it is that is doing this voting.

Mr. SIMMONS. Yes, sir.

The CHAIRMAN. Mr. Fisher, we will hear from you now.

STATEMENT OF EDMUND D. FISHER, DEPUTY COMPTROLLER OF THE CITY OF NEW YORK AND MEMBER OF THE COMMITTEE REPRESENTING THE CHAMBER OF COMMERCE OF THE UNITED STATES.

The CHAIRMAN. Will you give your name, residence, and the official position you hold.

Mr. FISHER. My name is Edmund D. Fisher, deputy comptroller of the city of New York and a member of the currency committee of the United States Chamber of Commerce.

I might state, Mr. Chairman, that the members of this committee were called here this morning by telegram received by them yesterday, and that there are, so far as I know, no formal statements prepared; and we ask as a matter of courtesy that you will send us for revision a copy of what we may say here.

The CHAIRMAN. A copy of your remarks will be sent to you for your revision.

Mr. FISHER. I presume my function here, as a member of this committee, would be, perhaps, to answer any questions in relation to the subject matter of this report, in the first instance; and in the second instance, and speaking personally, the one thought that occurs to me that might possibly be of service in the considerations of this committee is in relation to short-time notes.

Under the direction of Comptroller Prendergast it is my immediate function to sell what we call the revenue bonds and the revenue bills of the city of New York. Inasmuch as there has been a good deal of testimony before this committee in favor of handling the Government bond problem by, in part, converting the 2 per cent bonds into one-year notes, it has occurred to me that our experience in New York might have some bearing on the question.

We originate the short-time notes first, and then fund them into bonds. Your problem is the reverse problem, but I think the principles of operation are practically the same.

As I said before, I have no prepared statement, and consequently I will not guarantee my figures as being accurate, but the principles are correct.

Senator WEEKS. May I ask you a question right there? You say you originate the short-times notes first?

Mr. FISHER. I mean to say we issue them, and after a sufficient number, say \$50,000,000, have been accumulated, we have a bond sale and fund those notes.

Senator WEEKS. You would issue the short-time notes, then, even if there were a suitable market for the sale of long-time bonds?

Mr. FISHER. Not necessarily. That is apart from this broad question. I want to try to show to you how a central bank, organized under the direction of this Federal reserve board which you are planning for, may help to safeguard the gold of the country through the operation of the short-time principle. I propose to give you a specific illustration showing how the city of New York, in selling at certain periods these short-time notes, may help the country.

For instance, in 1911—in the spring of 1911—money in New York and throughout the country was fairly tight. If I recall rightly, the

rate at which I had to borrow in New York City on either the revenue bond type or the corporate stock note type was then 5 per cent. Of course, we had the option of borrowing this money in the local market in New York or Philadelphia or Chicago, wherever these notes might be placed, or, under the forms that we have developed, in Paris or London or Berlin, or any of the large money centers of Europe.

There had been exported at that time \$5,000,000 of gold, and the banks who were commenting upon the situation estimated that there would be an export movement of gold, aggregating, if I recall rightly, about \$15,000,000.

Now, having in our work, necessarily, through this large volume of business, the broad attitude as well as the local attitude in mind, it seemed wise to borrow the money in Europe, particularly as the exchange rate was very high. So we effected an arrangement aggregating £2,000,000—\$10,000,000—at an exchange rate which approximated, when the transaction was initiated, about the gold export rate, we will say, for the sake of argument, 4.8775.

Now, the very act of effecting this arrangement in Europe compelled the city to sell exchange. In doing that, naturally, there was a tendency to depress it from 4.8775, for example, down to 4.8725. As we sold it the price was reduced and it automatically tended to withdraw gold from the export market, with the result that almost within 24 hours that export of gold ceased, and there was not a dollar over the five million exported, and we believe that, understanding the situation, the continuity of that export movement of the extra ten was partly stopped by the sale of those short-time instruments abroad.

In similar fashion any number of Federal reserve banks, acting in unity and in an endeavor to protect the gold reserves of the country, had a popular instrument—I do not want to argue necessarily that a 3 per cent short-time note would be a popular instrument; I think the rate, perhaps, might be too low, but I am not going to discuss that point—but if they had a short-time Government note that could be sold at such a time and there was a demand for it abroad, it would offset, if we may use that term, the export movement almost inevitably. Now, as to the rate. It is quite evident that there might be conditions arise where the Federal reserve bank would be willing to sell a 3 per cent one-year note perhaps with a maturity of three months and on a basis a little more favorable than 3 per cent. It is to be presumed that they would not always be able to effect their transactions upon the expressed rate of the instrument itself. Inasmuch as they were drawing higher rates in restricting the country's credits, presumably getting a profit on that basis, they might, at times, sell these notes at  $3\frac{1}{4}$  or  $3\frac{1}{2}$  or  $3\frac{3}{8}$ , although there would be a technical loss, apparently, on the particular transaction, but no loss, broadly, even perhaps from the standpoint of the profits of the bank, and ultimately a very great gain to the country as a whole.

So I believe the plan that was suggested some time ago by Mr. Warberg, that a portion of those Government bonds be taken and converted as a basis for currency, a basis for financing any such short-time notes, is a proper and sound principle.

Senator NELSON. It would not help the exports of gold unless you got a market for those notes abroad?

Mr. FISHER. Exactly.

Senator NELSON. What assurance have you that we would have such a market?

Mr. FISHER. No assurance, any more than we had an assurance in New York City at that particular time that gold was being exported or that we could sell the notes. You must remember that the average rate abroad, looking back over a period of 40 years or more, has been lower than the average rate in this country. We hope there will not be that difference after you have passed this bill in modified form, but it is quite likely that the differences between the rates will be very much slighter and that the necessity for foreign borrowing will be very much less than at the present time.

Senator SHAFROTH. In the case of your \$10,000,000 you would ship over in bonds and get cash for, why would that be reflected immediately any more than the \$600,000,000 of the balance of trade that we have in favor of this country?

Mr. FISHER. For this reason, that when the transaction was initiated exchange was at the gold export point. In order to get that sterling abroad in this country in dollar form we had to sell exchange through the exchange houses.

Senator NELSON. At a premium?

Mr. FISHER. At the expressed rate, but when you sell exchange for a \$10,000,000 loan you begin to protect the market, because there is only so much exchange available. If we did not sell exchange, the usual transaction would be this: That we would send the bills abroad and arrange for a countervailing shipment of gold to this side, but it is not done that way, as a rule, unless the trend of exchange is definitely in favor of the shipment of gold. In this case we were shipping gold to Europe, and that transaction ultimately impelled a shipment of gold to us, and one offset the other, and it was made vital in the selling of exchange to so protect the market for exchange and make it much lower than the gold export point, and during the following months there did not happen to be in this particular case any further exports of gold. Such a transaction, I will admit, may very easily be lost in the great aggregate of transactions; but happening to be involved in the matter personally, and happening to hear all the trend of thought on the subject, and realizing that we might help the country as well as get money at a lower rate, I initiated the transaction with what, to me at the time, was a very startling result, the immediate cessation of the gold export and the breaking of the exchange rate.

Senator WEEKS. Have you done that more than once?

Mr. FISHER. Oh, yes. The city of New York borrows an aggregate of \$20,000,000 a month, so that you can see we are a very vital factor in the exchange market when we borrow that abroad.

Senator WEEKS. What has been the average rate?

Mr. FISHER. I should say about 4 per cent.

Senator WEEKS. Are the securities actually shipped or held in New York?

Mr. FISHER. They are shipped in the aggregate, although in some cases, owing to the tax laws abroad, there is a request to have them domiciled in the portfolios of some of the trust companies, but

finally, to all intents and purposes, they are foreign transactions. They have a memorandum abroad if they have not the actual bills. In general, we know they are sent abroad because they bear the stamps of the foreign purchasers when they come back to us for cancellation.

Senator WEEKS. And you pay the expense of shipping?

Mr. FISHER. No.

Now, to come back and try to finish the discussion of this short-time note principle. There have been suggestions that these bonds be cut in half; that they be half short-time notes and half bonds in the initiation of this plan. Upon that point it is suggested that nobody knows the financing ability of the Federal reserve bank, and I should suggest two elements of flexibility. People have been arguing for flexibility in currency; I would argue for flexibility in plan. For instance, if the recommendation is made to cut the bonds in half and have one-half notes, I should say that not more than one-half the bonds be converted into notes and not less than 15 per cent, so that the banks will be able to absorb the business, letting them take it on gradually. Furthermore, if a 20-year limitation is made, I think it would be entirely unsound, to the extent that you might have difficulty in developing the principles of your plan, for the reason that they would run to 21, 22, or 23 years. I should say to the extent that your plan works slowly, putting the flexibility in at the beginning, to that extent you might not need flexibility at the other end. You need to introduce two principles of flexibility in the volume of those you wish to absorb, either in one way or another, and flexibility on the other end in the time of the ultimate applications of the principles laid down. I think those two points are very vital.

Senator WEEKS. Will you make a definite draft of your idea, not only as to the refunding of the 2 per cent bonds but the handling of the bonds in which they are refunded until maturity, and submit that to the committee?

Mr. FISHER. What you want is a definite section contemplating the philosophy that I have outlined, in the including of both elements of flexibility?

Senator SHAFROTH. Not the reason but the language itself, just as it ought to go into a law.

Mr. FISHER. You have no objection to an argument?

Senator SHAFROTH. Not at all.

Mr. FISHER. That is all I care to volunteer to the committee, but if any suggestions occur to you in regard to questions concerning the work of the Chamber of Commerce of the United States in relation to these points we have recommended I shall be very glad to answer your questions, if I can.

Senator NELSON. In order to save us the time reading this pamphlet, is there any one of you gentlemen who can state what the points are? I will not have time to read these things afterwards; I would like to get them on the spot.

Mr. FISHER. You want a recommendation on the underlying philosophy.

Senator NELSON. I would like to know what it is you desire to have in the bill and your ground for it.

Mr. FISHER. I think I will start with the first item on page 5. I will give you the suggestions of the committee, and I will try to

specify the principles of the philosophy underlying the suggestion, if that is satisfactory to you?

Senator NELSON. Yes; that is satisfactory to me.

Mr. FISHER. The bill provides for a board of seven, of whom at least one shall have had banking experience. This element of banking experience can be strengthened without weakening the element of public control. We therefore suggest that the Federal reserve board be increased to nine; that the original seven shall choose two additional members, subject to the approval of the President; and that the board thus constituted shall elect the governor and the vice governor of the Federal reserve board.

My conception of that is, perhaps, somewhat colored by the discussions which have taken place; but I felt this, that in the first place we desired to accept the general principle of Government control that has been discussed here, and I need not go over it; and that the element of three administrative officers out of the seven developed lack of continuity in management. We have had some experience in New York City with the lack of continuity in management, and I suppose it cost the city \$5,000,000 a year. I came into office four years ago, and I go out of office at the end of this year. It took me a year to digest and analyze all the principles involved in this broad question of financing the city. I had to start in the second day and borrow \$5,000,000. I lost 7 pounds during the first week, but gained it all back during the second week. The point is this, it seems to me, that what you want is continuity in management.

Senator NELSON. It has been suggested here, and with a good deal of force, that instead of having three Government officials we only have one Government official, the Secretary of the Treasury.

Mr. FISHER. I would agree to that.

Senator NELSON. Eliminate two, for there would be no occasion for these extra two if that plan was adopted.

Mr. FISHER. There has been a great deal of talk about what we call the political quality of the board. You have had experience with bipartisan boards. I think it has been a definite mistake to try to make this a bipartisan board. I would rather have President Wilson appoint all Democrats, if necessary, than to be compelled—I mean from the standpoint of quality—to search over the country for the sake of balancing one party against another party. That is not what you want; you want quality.

Senator NELSON. If we drop two of those officials the board would be composed of seven?

Mr. FISHER. Yes.

Senator NELSON. And you would have six to which you could apply your principle of continuity, so there would be no occasion to increase the board by two?

Mr. FISHER. The President, under the proposed law, appoints four.

The CHAIRMAN. He would appoint six, under your suggestion?

Mr. FISHER. Then you adopt our suggestion in its essentials?

The CHAIRMAN. Yes; but we do not make it a board of nine.

Mr. FISHER. That is immaterial. You minimize the so-called political quality.

Senator NELSON. Is that a good solution?

Mr. FISHER. That is an excellent solution, and I think that my conferees would accept that.

In the next item we suggest the organization of a Federal reserve council, elected by and representing the directors of the Federal reserve banks and serving in an advisory capacity.

This council should meet at stated periods in conference with the Federal reserve board. The president and vice president should reside in Washington, and sit at the meetings of the board, but without vote. The compensation of the officers and members of the council should be fixed and paid by the Federal reserve banks. You see the idea is not to destroy the philosophy of the bill.

This recommendation of the report has been partially adopted. The reprint of the bill provided for a Federal advisory council, to consist of as many members as there are Federal reserve banks, each Federal reserve bank by its board of directors annually selecting one member. The meetings of said advisory council shall be held at Washington at least four times a year and oftener if called by the Federal reserve board. The council may select its own officers and adopt its own methods of procedure and a majority of its members shall constitute a quorum for the transaction of business.

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

These changes do not provide that the president and vice president of the council should reside in Washington and sit at the meetings of the board, but specify that the members shall receive no compensation for services, contrary to the recommendation of the report that compensation should be fixed and paid by the Federal reserve banks which would make residence in Washington possible.

Senator REED. This bill gives to the banks a control of the regional banks directly and in the first instance. If there are 12 banks, there will be 60 representatives of the banks upon the boards of those 12 banks, in constant touch with the central board, familiar, as a matter of first instance, with the business with which they are concerned, free at any moment to approach the central board and confer personally or by letter. Why is not that a sufficient board or council to satisfy anybody?

Mr. FISHER. Because 60 men on various boards throughout the country have not, inherently in their position, the consolidated ability to express their judgment, and consequently, without in the slightest degree destroying the philosophy of this bill. If you have a Government board of seven men, with two officers, such a council as suggested will give that consolidated voice where it is most needed, in the most efficient manner, and without delay.

Senator REED. Let us see. How will these two men sitting there get that consolidated voice; from whom will they get it?

Mr. FISHER. I should say that it would not express itself as a representative vote or representative voice; it would be an expression of judgment.

Senator REED. Of two men?

Mr. FISHER. Of two men, and, in the last analysis, representing the banking fraternity.

Senator REED. Yes; representing the banking fraternity and outside of this system?

Mr. FISHER. Yes; but the banks of the country would have a check on those men.

Senator REED. How?

Mr. FISHER. By their recall.

Senator REED. The banks can recall them?

Mr. FISHER. Certainly; through the medium of the Federal reserve banks they could recall them.

Senator REED. Let us spend a moment on that. We create a system of 12 banks—and I take 12 as the number merely because that is named in the bill. The banks elect 72 men to directly represent them; they are elected from each district. Those 72 men are familiar with affairs in the country at large.

Mr. FISHER. I should say that they are more particularly intimate with their particular districts.

Senator REED. Very well; but each of the six is particularly posted with reference to his district; he knows the facts, knows the conditions of the crop; he knows the conditions of the money demand and supply. He is in constant touch with 12 men who are impartial, and whose business it is to manage the entire system. They have an absolutely unselfish interest. If the central board is composed of intelligent men who understand the system, understand banking, are in direct touch with the sources of information all over the country, are they not from the very best and highest source, and they are in a position to receive the opinions and suggestions of all these men who directly represent the banks, and nobody else?

Now, I want to know if that is not a better representation of the banks than they can possibly have by sending down here two men who may have been picked by some banking organization which is generally under the control of these big men?

Mr. FISHER. I will again say no; that it is not a consolidated representation. They will express themselves in letters as to different points, but I believe that the two men whom we must also put in the category of the men of the same class you have stated would be disinterested and work for the benefit of the country.

Senator REED. They can not be disinterested if they represent the banks.

Mr. FISHER. Do you believe that two more men, simply because they happen to be chosen by the Federal reserve boards, will have the quality of disinterestedness?

Senator REED. Two more men? No.

Mr. FISHER. Or have the same quality of judgment?

Senator REED. But you gentlemen propose to have them selected by the Federal reserve board, as I understand you.

Mr. FISHER. The proposition is this, that the directors of each one of these Federal reserve banks will choose one man, and all



those men will constitute a Federal advisory council; and, in the second step, this Federal advisory council will choose two men to represent them, and those two men will sit, without vote, with the seven proposed in this bill for what they are worth. If they are worth nothing they will do no harm—

Senator REED. I do not follow your conclusion. I have known of a great many occasions where people were not worth anything and they did harm.

Mr. FISHER. The precedent of this suggestion is in the German experience. They have there the imperial control, but they have in that imperial control the voice of the banking and business interests of the country, and that voice never has been at discord with the imperial control. They work in harmony, and that is the best possible illustration of the success of the principle suggested.

Senator REED. The whole system over there, of course, is entirely different from this.

Mr. FISHER. We have to search somewhere for ideas, however.

Senator REED. But you can not take one part of the system and fit it on to another, and necessarily draw a conclusion as to its value. I want to direct your attention to a fact that, it seems to me, the advocates of this suggestion overlook, and that is that these banks do have the right of direct appeal to their representatives, to the central board, the right to advise the central board, and the central board has the right to listen, and will undoubtedly listen, to great financiers and, I hope, to small financiers.

Mr. FISHER. I will simply say in addition that this is intended to furnish a definite basis for making that direct appeal forceful.

Senator NELSON. Would it not result in one of two things: Either these representatives of the regional bank on this council must have the advice and accord with the wishes of their boards of directors, or else they go there as mere individuals, representing their individual views? I mean these members of the advisory council. Now, which would it be? Would you have them go there as the representatives of the boards of directors, taking their opinion before they act, or would you have them go there and express simply their personal views?

Mr. FISHER. If there develops a definite opinion throughout the country in relation to a definite policy, that would of course express itself in a definite form in the minds of those two men. The truth of the matter is, however, and you all know it to be true, that banking recessions or accessions, the ebb and flow of banking, run along such definite and fixed lines that almost every banker in the country that has thought about it at all knows in advance almost what is going to happen. We talk about this discount rate. I have been told one week in advance what was going to be the policy of the Bank of England, and yet I do not believe that a single member of that board "leaked," as we call it, or in advance intimated to the public what he was going to do. It simply means this: That they inevitably had to advance or had to charge the discount rate; it was necessary. They knew it; every banker in the country knew it that was watching the broad aspects of commercial and business relations. There is not going to be, gentlemen, this conflict between politicians and bankers. You know your principle is sound and, in my opinion, it is going to work harmoniously, but you want to get as high a

basis of intelligent judgment as you can. We believe that by having two men there, without a vote, but to advise and express their judgment—even their own judgment, if you will, but rather the consolidated judgment of the banking world—will give a better result in the aggregate than the method proposed.

Senator REED. Let me call your attention to this: The capital that is furnished by these banks as their contributions to the capital stock is, in the last analysis, furnished by the depositors.

Mr. FISHER. Yes.

Senator REED. They are the people of the country, speaking broadly. I am not, in what I say, trying to put myself in a position of antagonism to the banks—

Mr. FISHER. I understand; you want to bring out the facts and the truth, as far as you can get at it.

Senator REED. The Government then comes in and furnishes a very large part of the money that constitutes the assets of these banks, or, more properly speaking, the money that they have the use of, and then proposes to lend to this system its power to issue currency. The banks are put in control of the 12 regional banks. They are not content then to let the Government manage the general system on behalf of the bankers, on behalf of the borrowers, on behalf of the farmers, but they want a special representative. Can you tell me any more reason why the bankers should be specially and particularly and directly represented up there than the Farmers' Alliance?

Mr. FISHER. Representation in the sense that we recommend it is not control. We stand for Government control. We have not suggested that the bankers have even a minority representation on this board of seven. We merely say that it may be desirable to give them the ability to speak in a concrete and definite way in the meetings of that board. It does not take one iota from the control. And if their judgment is good, and if it is accepted, it is accepted with the knowledge and consent of the seven Government representatives.

Senator REED. But you do not answer my question. Why should not the farmers of the country have representation on that board in an advisory capacity? Why should not the merchants of the country have direct representation on that board in an advisory capacity?

Mr. FISHER. They have it because the very fabric of your bill provides that three of these members shall represent those very interests.

Senator REED. Oh, I am not talking about that; I am talking about the central board.

Mr. FISHER. We are not arguing for bank representation on the central board; merely a voice.

Senator REED. You are asking for a voice. You and I are talking about the same thing; don't let us get into a tangle about terms. If the bankers should have representation in the shape of an advisor upon this central board, appointed by the Government, why should not the great business interests, and the small business interests, have this same kind of advisor to represent them? Why should not the farmers have the same kind of advisor to represent them? And why might we not extend that indefinitely?

Mr. FISHER. Again I say that these two men represent not only the banking interests, but the commercial interests and the farming in-

terests, because they are chosen by a series of composite boards that are manufactured by this bill to represent all those interests.

Senator REED. You know perfectly well, and I know perfectly well, and every banker that has been on the stand that has been asked about it has frankly said the banks will pick the six members from the boards of directors of the regional banks. They do not make any question about that, and we need not haggle about it now. It is going to be bank representation; it is bank representation—

Mr. FISHER. In the first instance.

Senator REED. Perhaps broadly so. Now, the bankers having that representation already in the regional bank, the Government board being here to represent everybody, if the United States Government and all the people need to have the advice of bankers especially, why not have some advice for great borrowers, and small borrowers, for farmers, and for other classes of people? I can not see why they do not need it just as much as the banks do.

Mr. FISHER. Do they need it at all?

Senator REED. I think it is a piece of absolutely unnecessary machinery, because I hold that this board, if it is properly constituted, will hear from all these original banks, will listen to financiers, to borrowers, and to people generally who have advice to give. It will not close its ears and cease to think, but any citizen that has a proper case to represent can go there and represent it. And I think it would be highly improper, if you want my opinion—and this is one question I am ready to vote on—to put a banker on that committee and let him sit in the councils of that board as an advocate who may speak behind closed doors.

Mr. FISHER. I will agree with you in the general statement that the board could hear the farmers and the merchants of the country, but, on the other hand, I do not agree with you that it will necessarily hear them.

Senator REED. Oh, yes; any proper board will.

Senator BRISTOW. Now, let me ask you this: Suppose the bankers were not required to subscribe to this capital stock, that any citizen could subscribe to the capital stock to keep this bank going—

Mr. FISHER. Mr. Chairman, I want to make the reservation, of course, at this point that what I am saying in this ejaculatory manner is purely personal and does not represent the views of the gentlemen of the committee. I have to use my own judgment in answering these questions.

Senator WEEKS. May I suggest, Mr. Chairman, that Mr. Fisher has to catch the 3 o'clock train?

Mr. FISHER. I have already missed that train and shall have to be an hour late. I am perfectly willing, under the circumstances, to take the 4 o'clock train rather than the 3 o'clock if I can be of service.

Senator BRISTOW. As I was saying, if the bankers were not required to subscribe to this stock—if it were purely voluntary with them or any other citizen that wanted to subscribe—then, of course, you would make no claim for representation?

Mr. FISHER. It is not a claim for representation; it is an attempt to help the quality of management. I am not in sympathy with the idea of representation particularly. All our discussions in the past few months on this question, where intelligent men have got together, has not been in favor of representation. When you appoint

a man to the Supreme Court he has divorced himself from the bar; he may be a lawyer, but he represents the country in that court. And the banker does not expect to have a man on that board who will listen to what this bank says and what that bank says; he goes there in a judicial capacity, and I think you want to drop the idea and the bankers want to drop the idea of representation. The bill you have before you frankly says "One man of trained banking experience." If you will alter the complexion of the bill, we may withdraw this suggestion, but we have to take the bill as we find it. I do not want to see a board of whom only one man has trained banking experience.

Senator REED. Although I disagreed with you a moment ago, I am going to agree with you on that proposition.

Mr. FISHER. We are arguing on this bill; not any other bill.

Senator BRISTOW. But I am inquiring about a different proposition and I want your views on it. Suppose we amend this bill—which I hope we shall do very materially—and that there is no compulsory subscription required of the banks; suppose we leave it voluntary as to whether they subscribe or not, and that anybody may subscribe—

Mr. FISHER. Then I will answer you flatly that what I am arguing for, and what, I think, my confrères are arguing for, is quality of judgment, which has nothing to do with the principle of stock subscription.

Senator BRISTOW. Now, this bank or banks created in that way would perform functions similar to these, and in that event you would not insist that we ought to have this advisory council?

Mr. FISHER. Under the terms of this bill as it stands?

Senator BRISTOW. That would not be the terms of this bill.

Mr. FISHER. You mean if you put these men or some other men on that board—

Senator BRISTOW. Oh, this bank would be governed by a board, yes; but no banker would be compelled, in order to maintain his charter, to subscribe to it.

Mr. FISHER. But you retain the principle of one trained banker in the bill.

Senator BRISTOW. Oh, I do not care much for that.

Mr. FISHER. It makes a difference in my answer. I can not answer unless you change the complexion of the bill.

Senator BRISTOW. Leave it as it is.

Mr. FISHER. Then I say have the advisory council, most certainly.

The CHAIRMAN. And you argue that that would be along the line of the central ausschuss of the Reichsbank?

Mr. FISHER. Yes; which experience has shown to be eminently satisfactory.

Senator NELSON. Would it not be simpler—I am putting a hypothetical case, not to intimate that it expresses my views—instead of having this cumbrous advisory council and the board of seven to have two practical bankers not owners of bank stock or interested in banks at the time, but with practical banking experience, on the board?

Mr. FISHER. I think personally that if the bill provided that at least three trained bankers—

Senator NELSON. No; two.

Mr. FISHER. I am giving you my answer; I am not accepting your idea. I would say this, that if the bill provided for at least three

trained bankers, the advisory council would be much less necessary under the terms of the bill.

Senator NELSON. Why would not two be enough?

Mr. FISHER. They might both be sick in bed.

Senator NELSON. Would it not be better to have these two outsiders?

Mr. FISHER. No well-managed organization to-day can be handled successfully with only two officers. I think, by the way, Mr. Chairman, that is something you ought to contemplate in your amendments. You have not provided, for instance, for a deputy for your Federal reserve agents in case of illness or absence.

Senator NELSON. That would be provided by rules and regulations, I think.

Mr. FISHER. And I am inclined to think that a chairman and vice chairman are hardly sufficient. There ought to be provision for a substitute in case of emergency. No well-managed bank to-day of any size can successfully handle its business with only two executives, because if one is away on vacation or, as he properly might be, perhaps, in this case, in Europe studying banking conditions, the entire responsibility on one man might be entirely too great. I think that three, or at least two, with a provision for deputization of power, is quite essential wherever officers of chairmen are provided for.

Senator NELSON. Would it not strike you as simpler to have a board of seven, five appointed by the Government and two appointed by the Government, but from a list furnished by the banks of practical bankers, but not stockholders or officers in banks at the time? Would not that be a solution? I am putting a hypothetical case.

Mr. FISHER. No; I think that as this is, after all, a banking enterprise, two is rather a small number for me to argue for.

Senator NELSON. Why three?

Mr. FISHER. For the very reason I have stated, that with one man away there would only be one man left. If you have three, then with one man away you have two left. Understand, I am not worrying over the question of management. I am not worrying as to whom President Wilson is going to appoint. I think it will be satisfactory. We are discussing this thing from the standpoint of all time, and two men in any capacity is too small a number from the standpoint of practical business experience. Now, for the third point. In the creation of a system of Federal reserve banks a beginning should be made with the present central reserve cities, additions to be made by the Federal reserve board gradually as, in their judgment, conditions warrant them. Meanwhile the facilities required by other centers could, in our judgment, be adequately supplied by branches.

Senator NELSON. That means you would start with three regional banks?

Mr. FISHER. The philosophy underlying that suggestion is this, that the credit fabric of the country, the loan fabric, has now been built up upon the principle of central reserve cities and reserve cities. Our thought was, although it is not fully expressed here, that a Federal reserve bank, in the first instance, in every central reserve city, with a branch in every reserve city, would be a scientific and accurate basis of starting in this enterprise. That would mean that there would be no shifting of reserves where they are now segre-

gated. It would be handled by rediscount in the centers where they now repose. I am inclined to think that is a very sound statement to make.

Senator NELSON. There is a good deal of philosophy in it.

Mr. FISHER. If you take twelve, an arbitrary number—and I want to state, gentlemen, that an arbitrary number is senseless. Why twelve? Why thirteen? Why nine? Why eleven? I see no philosophy in any arbitrary number. You want to draw a bill based on principles. For that reason we suggest one in every reserve city. Of course, when this suggestion was first made your reserve requirements were more along the old lines. You have since changed them. Our recommendations here in some cases have been carried out.

Senator NELSON. Your theory is this, that if you made the regional banks in the three reserve cities—New York, Chicago, and St. Louis—and limited it to that—

Mr. FISHER. At the start.

Senator NELSON. At the start, it would work less friction and less jarring to the reserves of the country? It would be more like these banks stepping into the shoes of the old system.

Mr. FISHER. It would not break down a single dollar of credit by diversion to the other sections, because your bill provides for rediscounts of \$216,000,000—I do not recall the exact amount, but somewhere between \$210,000,000 and \$220,000,000. Now, if you take the bill as it stands and arbitrarily make 12 different centers there will have to be support drawn in a general sort of way from certain sections, and the money will be diverted to sections where it can not profitably be used.

Senator NELSON. And a good deal of it will come from these three central reserve points?

Mr. FISHER. Yes. Understand, I am not here arguing in support of any selfish principle, and I am sure our committee is not.

Senator WEEKS. Mr. Fisher, it seems to me to be a very practical suggestion, because there would be less disturbance perhaps than under any other that could be made. But I do not see anything scientific about it, because in order to become a central reserve city all the banks in a reserve city have to do is to keep 25 per cent of their deposits in reserve. In order to become a reserve city it has to be a certain size—

Mr. FISHER. You understand, since this suggestion was made, you have taken away the vitality of the central reserve city and the reserve-city idea largely.

Senator WEEKS. There is nothing left.

Mr. FISHER. And, consequently, this suggestion has force only in that the reserves in these sections are now supporting certain credit fabrics.

Senator WEEKS. We may say, then, as I have said, that it is a practical suggestion rather than one involving a principle.

Mr. FISHER. The principle has been taken away, because you have changed the reserve requirements, but it was based on a principle when it was first suggested. It is now a practical suggestion rather than a continuing principle, if you will note the distinction.

Fourth, at the end of paragraph 1 "Acceptances authorized by this act" are placed in the list with lawful money, national-bank

notes, Federal reserve notes, and checks and drafts upon solvent banks as funds which must be accepted on deposit by Federal reserve banks. This suggestion, gentlemen, I think, has no force now since the bill was amended by the House committee. We need not consume any time on that point.

Fifth, substitute for lines 21 to 24, after the word "securities," the following:

but it shall include obligations issued by the United States, or by any State, county, or municipality in the United States, and maturing in not more than six months.

I want to call your attention, gentlemen, to the fact that this suggestion is fundamentally sound, and that the plan developed in this bill is fundamentally unsound; that is to say, particularly if you throw the burden on these Federal reserve banks, looking out for these 2 per cent bonds, it seems to me you do not want to bring into competition State bonds and municipal bonds and county bonds. But I think you can very happily for temporary purposes buy the short-time obligations of States and cities. You know you have had a great deal of argument here before you from time to time on the subject of fluid and fixed credit; and if there is any philosophy in those arguments it certainly is all directed against this principle in the bill, and if you do include it as a principle in the bill it should only be for capital purposes.

Senator NELSON. You are violating by putting a part of the resources of the bank or investing it in fixed securities what I call the principle of natural elasticity. Elasticity, as I understand it, is to be based on the commercial wants of the country—on what trade, traffic, and commerce need. You want part of it diverted to buy these securities?

Mr. FISHER. No; I say take fixed securities out and accept our suggestion of taking the fluid type.

Senator NELSON. All those securities are, in a sense, fluid.

Mr. FISHER. What I mean is this: Suppose the city of Philadelphia has taxes due on the 1st of July, and experience shows they collect 80 per cent of those taxes. They issue on the 1st of April a short-time instrument due the 1st of July to be paid by those taxes. That would be an absolutely gilt-edged investment, a type of investment that could be sold abroad, that would be bought abroad, and would in a measure help these Federal reserve banks in safeguarding market relations between Europe and this country so far as the gold question is concerned. I see no reason why strictly fluid city securities, or even State securities, which are to be paid out of taxes should not have just as good standing as the other type of fluid instrument. It has got to come from the people.

Senator NELSON. If you adopt that principle you would have our currency measured not only by the commercial wants of the country, but you would have our currency measured by the amount of these municipal notes issued, and you would get an artificial elasticity. You would measure it not only by what commerce needs in the shape of notes and bills of exchange and acceptances, but in addition to that you would inject into it this matter of municipal bonds, and you would absolutely destroy the scientific principle of elastic currency.

Mr. FISHER. I want you to consider in that connection this feature, that the better type of these short-time instruments are very popular in Europe.

Senator NELSON. I do not care about popularity; here is the principle. Our currency under this system would fluctuate by the municipal wants of these cities according to the volume of municipal notes they issued.

Mr. FISHER. If you will let me finish what I was going to say: These short-time instruments are growing popular in Europe, and would be a character of investment—and I am making a distinction now between a currency basis and an investment basis—which could be sold in Europe. It would be a very easy instrument through which these Federal reserve banks could control the gold reserves. I have shown you, as an example, how the city of New York has been able to protect the gold reserves of this country by selling these instruments—

Senator NELSON. But you are all the time assuming that for this volume of municipal notes there would always be a market in Europe.

Mr. FISHER. I am suggesting further—and you remember I stated it in the beginning—that the principle of the investment of capital, which is an entirely different thing from the use of deposits, should be considered. You agree with me that this should be stricken out, as it stands?

Senator NELSON. We do not want municipal bonds in there. We do not want that the basis of our new currency.

Mr. FISHER. But you should consider, however, if you are going to have anything of this nature in your bill, this short-time-note principle, because it has a bearing on the subject entirely separate and apart from the currency question—

Senator WEEKS. Mr. Fisher, would your recommendation be that the reserve banks should be authorized to purchase public bonds having not longer than nine months to run?

Mr. FISHER. I told you what is really the scientific handling of this question. Of course, the warrants of small municipalities are easily handled by the local banks. The large cities, of which there are not very many, have a volume of issues that do go outside of their particular environments. Now, if this is to be treated properly, I believe that for capital purposes these Federal reserve banks could take the type of notes that would be issued in anticipation of definite revenues; and there should be in contemplation the history of experience. In other words, if the preceding year the taxes received were paid at the rate of 80 per cent, no issues should be taken that were not justified by the experience of the preceding year.

Senator WEEKS. You know we have a law in Massachusetts which authorizes municipalities to borrow in anticipation of taxes. Taxes are collected the 1st of November, and those obligations are always paid.

Mr. FISHER. Always paid except those against arrearages.

Senator WEEKS. That is a very small percentage, and even now a considerable amount of foreign money is invested in those short-time notes.

Mr. FISHER. Now, if you will limit it to capital purposes and not take in deposit money, it will make an excellent investment, because it is something that might be sold abroad, when you could not sell a



short-time Government bond. That is a suggestion. It is at least worth considering.

And I think our suggestion has a sound basis. I fully recognize what our friend here says about the question of the commercial as against municipal credit; but these are strictly fluid credits; they are always promptly paid, as you know from your experiences, and I believe for capital purposes it would be a very desirable and a very useful type of investment.

Senator NELSON. I do not want to interrupt you, but it is merely to clear up my ideas.

Mr. FISHER. I agree with your fundamental principle, and consequently I would say that these short-time notes should be used only for capital purposes and should have some carefully drawn instrument which should provide for the quality of the revenue bonds taken.

Senator WEEKS. I suggest that you draw up for us what you have in mind.

Senator NELSON. Your modification of it. You understand my view of an elastic currency—we call it an asset currency—that is, based upon the commercial wants of the country; and it should fluctuate, ebb and flow with the commerce of the country.

Mr. FISHER. Yes.

Senator NELSON. Now, I do not look upon these bonds as a part of the commerce of the country in that sense.

Mr. FISHER. Neither do I.

Senator NELSON. And that is why I make the suggestion.

Mr. FISHER. And I agree with you that there should not be any principle developed by which State or municipal issues should become the basis of a broad expansion of currency; and I think that my conferees will agree with me that that should be a capital investment. Prof. JOHNSON, how do you feel about it; am I right?

Prof. JOHNSON. Thoroughly.

Mr. FISHER. I think we have now come to item No. 6.

Senator NELSON. If you will be kind enough to state what section that refers to as you go on, it will be easier for us to follow you.

Mr. FISHER (reading). "It seems to the committee that such a limitation"—the bill provided originally that there should be a limitation of \$500,000,000 for the currency issues. That having been changed, I will omit making any reference to it.

So I will go next to item No. 7. [Reading:]

An issue of Federal reserve notes is hereby authorized. The said notes shall bear on their face the guaranty of the United States and shall be issued at the discretion of the Federal reserve board, and solely for the purpose of supplying currency to Federal reserve banks, as hereinafter set forth. They shall be receivable for all taxes, customs, and other public dues, and shall be redeemable in gold on demand at any Federal reserve bank.

Now, of course, this refers to what some regard as a very sore point in this bill. Our committee suggests—

Senator NELSON (interposing). Under section 17, the United States is not technically a guarantor of these notes. It is the principal debtor.

Mr. FISHER. The suggestion is fundamentally this, that instead of these notes being called the obligations of the United States, which seems to our committee an extremely indefinite thing, and not supported by any means by which the obligation is made definite, that

a flat and definite guaranty will serve the purpose of developing the philosophy of the bill, which I take to be, that in the initiation of this enterprise the developing of Federal reserve banks with individual issues, there is to be a solidarity to all the issues, so that there will be no discrimination between New York and New Orleans, or Chicago or St. Louis.

We believe the principle of guaranty will be justified, so far as the Government is concerned, by the excess earning power which the bill plans to give to the Government.

Now, that will give the unity to the issues. It will be economically sound, because you can not have any fiat issues under a guaranty of some other people's notes, whereas at some time, at some distant future time, it might be possible that other types of obligations will come into competition with this bank obligation. I need not discuss the economic basis of the obligation. But if you do adopt it, I have no doubt you will have all the security you will need, under a principle that is economically sound and eminently practical.

Senator BRISTOW. Why should the Government guarantee the note of the bank?

Mr. FISHER. Why should they be Government obligations, as provided in the bill?

Senator NELSON. Well, is there any practical effect—not legal effect? Take the bill as an entirety; it provides that the regional bank shall keep a 33 $\frac{1}{3}$  per cent reserve.

Mr. FISHER. Yes.

Senator NELSON. And they are required to redeem the notes themselves?

Mr. FISHER. Yes.

Senator NELSON. Practically, in one sense, although the phraseology is not such, it amounts to this, that the Government—the principal debtor, in effect, is the regional bank and the Government is the secondary debtor?

Mr. FISHER. We have another recommendation in that connection, which is simply this, that all the Federal reserve banks be mutually responsible for all these notes. That will make even less necessary the principle of Government obligation or guaranty.

Senator REED. Well, you are rather inclined to the view, I take it, that when this currency is issued it ought to be a currency that is backed by the assets of all these banks?

Mr. FISHER. Yes, sir.

Senator REED. And then ought to have, in legal effect, the guaranty of the United States Government on top of everything else?

Mr. FISHER. That is what we argue for.

Senator REED. So that it would be a currency as stable as the Government itself?

Mr. FISHER. Yes. I am not expressing any individual view. I do not think it is necessary.

Senator REED. That is the opinion of this board?

Mr. FISHER. That is the opinion of this committee.

Senator REED. That is a question which we have had some discussion about.

Mr. FISHER. But there is a very important difference—

Senator BRISTOW (interposing). That is what I want you to clear up. I do not think you differ from the others who have appeared.

Explain the difference, will you, please, between an obligation of the Government and a guaranty of the Government.

Mr. FISHER. A guaranty, in the last analysis, implies the possibility of a loss. In working this thing out properly there should be a segregation of the earning power of these various Federal reserve banks to establish a fund to meet such losses, and the Government, in effect, will be the trustee of that fund—will be its disbursing agent—and will provide for these losses.

But in order to make their action potent and effective it has got to take some form; and we believe that the flat guaranty, the same as the flat guaranty of a surety company, where it gets premiums as a consideration, is a business proposition, as against putting in, in a broad, indefinite fashion, the words, "These are the obligations of the United States."

Senator HOLLIS. Well, instead of the certificate or note bearing the statement, "This is an obligation of the United States Government," you would have it bear the words, "This note is guaranteed by the United States Government," would you?

Mr. FISHER. I would say this, in substance, "In consideration of the surplus earning power of the Federal reserve banks, which, under section so-and-so, subdivision so-and-so, is segregated for this purpose, the Government hereby guarantees, under the audit of the Secretary of the Treasury, this note."

Senator NELSON. You need not put in any consideration, as would be the case in a contract?

Mr. FISHER. It would be logical; that is all.

Senator BRISTOW. The surplus earnings are to go to the Government—or the Government could put a tax on them?

Mr. FISHER. There are many ways of handling it.

Senator BRISTOW. And that could be a sinking fund, and the Government, by virtue of having this fund collected from this business, could guarantee that these notes would be paid?

Mr. FISHER. Certainly, in a businesslike way. And they are watching their job, too, so that they will not have any losses.

Senator BRISTOW. Yes.

Senator NELSON. Would you want these notes payable on demand in gold?

Mr. FISHER. At the banks.

Senator NELSON. At the banks?

Mr. FISHER. Not at the Treasury. Only when there is loss is the Government interested in the thing. When there is loss, provide for it specifically, either from the fund or in some other way.

Senator NELSON. Will you tell me where this bill provides for the regional banks getting gold to redeem them?

Mr. FISHER. This bill?

Senator NELSON. Yes; this Glass-Owen bill. Is there any direct provision in this bill which enables the banks to get the gold in the first instance, the 33 $\frac{1}{3}$  per cent gold?

Mr. FISHER. Well, that is an automatic proposition.

Senator NELSON. How do you mean, an automatic proposition?

Mr. FISHER. The development of a number of regional reserve banks and establishing deposits will throw the gold—

Senator NELSON (interposing). There is nothing in this bill requiring these stock subscriptions or this 5 per cent deposit to be made in gold.

Mr. FISHER. But you can get the gold the next day.

Senator NELSON. Where would the regional reserve banks get the supply of gold?

Mr. FISHER. Oh, you can get the gold the next day—by the collection of other items.

Senator NELSON. What items?

Mr. FISHER. It might be well to amend your bill to make it "lawful money"; but mechanically it would be awkward to ship lawful money to Washington or New York or Chicago. A certified check, in ordinary banking practice, would bring you gold in the ordinary course of business.

Senator NELSON. But we will say that all these stock subscriptions and the 5 per cent fund can be paid in national-bank notes, for example, what then?

Mr. FISHER. I think if you make it "lawful money" that you will safeguard what you have in mind.

Senator NELSON. That is lawful money. They could be paid in either silver, gold, or greenbacks—all three.

Mr. FISHER. Yes.

Senator NELSON. Suppose the banks in their subscriptions and in their 5 per cent reserves—suppose they dumped in nothing but greenbacks—or silver, if you please?

Mr. FISHER. Yes.

Senator NELSON. What then? That would leave the bank to start without any gold, and it would throw the whole gold redemption onto the Government, if you leave the bill as it is, would it not?

Mr. FISHER. As a matter of business practice, I should suppose, unless there is some plan to the contrary, the Federal reserve bank would be inclined to change that to gold.

Senator NELSON. Would it not be better, in order to give these regional banks a gold redemption fund to start on, to require at least a part of this stock subscription and a part of the 5 per cent deposit to be paid in gold coin?

Mr. FISHER. I believe that a percentage, based on the relative amounts of money in the country, so much gold and so much greenbacks, and so much silver certificates, if you will, will be about as far as you can go. In other words limit the proportion relative to the population now existing in the currency of the country.

Senator NELSON. Now, my recollection is that the last bank statements—and the chairman, who is well up in figures, will correct me if I am wrong—showed that our national banks have over \$700,000,000 in gold coin in their vaults?

Mr. FISHER. Yes.

Senator NELSON. That is my impression. I think I am not far out of the way, am I, Mr. Chairman?

The CHAIRMAN. That is substantially right.

Senator NELSON. Yes; I think a little over that. So that they could provide an ample reserve from that stock, could they not?

Mr. FISHER. Yes. I think that the words "lawful money," however, would be logical, and that the trend of experience would give the proportionate amount of relative items that would be appropriate.

Senator NELSON. Yes.

Mr. FISHER. If you compel them to give gold, flatly, you would be compelling them to alter the normal, natural relations of their present reserves.

Senator NELSON. But would you not throw the whole burden on the Government in that case? Suppose we had a condition as we had during the last two years of Cleveland's last term, where it should pay the brokers and people of New York to ship gold to Europe; they would get those national-bank notes and go to the Treasury and snake out the gold and ship it to Europe and you would be throwing the whole burden of gold redemption on the Federal Government, would you not?

Mr. FISHER. It seems to me that what you call the burden on the Government to the extent that it is a burden, would be in favor of this semi-Government bank, and consequently no harm would be done. In the last analysis, it is more desirable to have the protection of the Government's gold supply in the hands of these banks than in the hands of the Government, because they have commercial means of protecting those supplies.

Senator NELSON. Yes.

Mr. FISHER. And so I have no special horror of that condition that you suggest; for even if these Federal reserve banks did go and exchange their greenbacks for some of that gold it would do no particular harm, because it would be merely a change of place of the deposit of that money.

Senator NELSON. Yes.

Mr. FISHER. Of course, no one knows just exactly what the experience would be if "lawful money" were used. And if you want to be severely scientific I suppose if you compelled it to be paid in "lawful money," as I said before, in the proportion in which the banks now have money, it would be about as good a result as you could expect.

Senator NELSON. Now, a part of the object of this bill, and I think a most worthy object, is to confer power on this system to do what I call the foreign exchange business, which is now done through the large foreign banks. In other words, to control the shipment of imports and exports with our American banking system. Now, if we base our money—get it out of line with the money of Europe, with the Bank of England, and make our money redeemable in the alternative, in gold or in national-bank notes, we are not in a position to compete with London and the London market in the matter of foreign exchange, it seems to me. You are putting us out of skew, to use a vulgar expression, with the banking system abroad.

Mr. FISHER. We have got to effect our ultimate exchange with international money; that is true.

Senator NELSON. Yes.

Mr. FISHER. But you always have the protection of peremptory mandate. The Bank of France, if it wants to—and there is no law that I know of that covers the situation—pays out silver, and they naturally discriminate between the demand of their local people and the demand of international trade. We, in our experience, naturally,

would have to accept and comply with the demands of international trade. But I presume that if it came to a crisis we would be peremptory in our relations with our own people. In other words, we would give them some of these notes that you criticize.

Senator NELSON. Now, let me give you a concrete case—and this is a real case. A wholesale grocer in Minnesota, in importing coffee from South America, has to do it in this way: He has to buy a letter of credit on a bank or an accepting house in London, and then he has to issue his draft, draw on that bank or accepting house in order to get his coffee, and pays for it in that way. Now, that is the system we are acting under now.

Mr. FISHER. Our merchants are paying two charges for their exchange.

Senator NELSON. Yes. Now, we ought to get away from that system, ought we not?

Mr. FISHER. Your bill provides, in broad terms, to get away from it.

Senator NELSON. Now, can we get away from it and accomplish what you set out to do, unless we make our monetary system in harmony with the Bank of England notes, redeemable in gold?

Mr. FISHER. Now, I will refer to—

Senator NELSON (interposing). Well, I will not ask you any further—

Mr. FISHER. Well, it seems to me that we have got to accept for the time being, the fact that our currency is somewhat heterogeneous. But with the establishment of these Federal reserve banks, and with the full knowledge that we have \$1,000,000,000 of gold deposited with the Government at the present time; and without any antagonism, gentlemen, on your part, I believe that those gold certificates will gradually drift into these Federal reserve banks, and that the notes of the Federal reserve banks will gradually take their place—that you have got a potential and very positive force which will increase the relative amount of gold in banking circles of the country. With all this, I think there is nothing ahead that is particularly dangerous.

Senator NELSON. Do you think that, dollar for dollar these new notes of the regional banks will take the place, without any "ifs" or "ands" of the gold certificates?

Mr. FISHER. Gradually; and if you will advocate the principle which is advocated by some, that these Federal reserve banks are to hold the reserve money of the banks of the country, you would have a very much greater reserve of gold, than you will under this bill. I am not prepared to argue for that principle; but it is being thought of; and it will give you a larger store of gold in the center than you can possibly have under the bill.

Senator REED. If these notes issued under this system are meant to meet the needs of commerce—

Mr. FISHER (interposing). Domestic commerce.

Senator REED. Yes. That, of course, involves the idea of expanding and contracting, as the demands of commerce are greater or less. Now, it has been argued here by nearly every witness that there was no danger in the amount issued, or but little danger, because they would be speedily turned into the banks and redeemed.

Mr. FISHER. If properly developed.

Senator REED. Now, if you were to permit those notes to be used as bank reserves that would tend to deter the redemption and destruction of them and the retirement of them, would it not?

Mr. FISHER. Yes. But that is a different question. The time might come when through the relative lessening of the amount of gold in the Federal reserve banks the broad results of an international purpose of developing great stores of gold in the centers might justify the substitution of these notes for gold. It is not a question to-day, but the time may come. In Germany, the notes of the German Bank are held in the reserves of the banks. That throws a larger store of gold to the center. Truly, the redemption proper is much more slow, and in some cases the bills may never be presented. But it gives us a more potent gold power which may offset that inflation to which you refer. I am not arguing for it; but I want you to consider the point.

Senator REED. What I am trying to get your views upon—because you have had a good deal of practical experience—is this: When a man brings a promissory note or bill of exchange to a bank and that bank deposits it with the Federal reserve bank and gets currency for it, of course that is currency based upon credits.

Now, if you substitute as a redemption fund credit money, it seems to me that we would be in a position of redeeming credits with credits, and therefore we would destroy the idea of an ultimate redemption in something that the world calls money.

Mr. FISHER. The more prompt the clearing and the more prompt the redemption the less the inflation and the more accurately the commodities exchange themselves.

Senator REED. Therefore ought we not to insist that the reserve, whether it be a 33 $\frac{1}{3}$  per cent reserve or a 20 per cent reserve or a 75 per cent reserve—whatever it is—should be an actual reserve in gold?

Mr. FISHER. Yes.

Senator REED. I thought I had misunderstood you.

Mr. FISHER. Not at all. I merely want to call your attention to the fact that the time may come when it is desirable to get into the center for international purposes some of the gold now reposing in the reserves of our national banks and our State banks and trust companies.

Senator REED. What do you mean by “into the center”?

Mr. FISHER. Into the Federal reserve banks. And to the extent that there are Federal reserve notes outstanding there will be a trend of gold to the center, and it will be a greater trend if some of these notes were held for reserve purposes. But it would mean this: That the aggregate reserves of the country would be relatively less. We have very much higher reserves here than in Germany or in France or England, and the time may come when we may have to be more on a parity of reserves, and that would be an easy way, and in some respects the best way—to reduce the reserves without reducing the percentages.

Senator REED. Now, it is a little aside from what you have been talking about, but it is kindred to the theme we are speaking of. Do you not believe that the very fact that the Federal Government has in its vaults a billion and nearly one hundred million dollars of

gold, and in addition to that \$150,000,000 more of gold stored away, is a great element of strength in our present financial system?

Mr. FISHER. In 1908, when I was invited to appear before the then House Committee on Banking and Currency, I argued on the plan that was then suggested—that the Government always should have behind all banking its own store of gold.

Senator REED. You would like to see that maintained?

Mr. FISHER. And it will be maintained under this bill to the extent that the certificates of that gold are held for reserve purposes.

Senator REED. Yes.

Mr. FISHER. It will be lessened to the extent that you can substitute in the hands of the people Federal reserve notes for gold certificates now locked up in safe-deposit vaults and in stockings all over the country.

Senator REED. Yes.

Mr. FISHER. In other words, if the gold, as you say, in the national banks is about \$700,000,000—

Senator NELSON. A little over.

Mr. FISHER. It is probable that there will be a gradual trend, by which \$300,000,000 more gold will come to the banking system under the Federal reserve banks.

The CHAIRMAN. There is a little over \$900,000,000 of gold in all the banks, and a little less than \$600,000,000 in the national banks.

Senator NELSON. I was referring to the national banks, Mr. Chairman. I am mistaken. You say a little less than \$600,000,000?

The CHAIRMAN. Yes; in the national banks.

Senator NELSON. Yes.

Senator REED. You are a little away from the thought I had, Mr. Fisher. If it is a good thing to have this store of gold, whether it is represented by gold certificates or however it may be represented—if it is a good thing to have that great store of gold, which you and I seem to agree upon—

Mr. FISHER (interposing). Well, Germany has that principle, if you remember.

Senator REED. Well, if that is true, I wanted to ask you if, under our present bank-currency system and greenback system, this gold that is now in the Treasury is not accumulated there by virtue of the fact that the greenbacks and the bank notes circulate generally among the people, performing the functions of money, but at the Treasury of the United States—at the custom house—they are not receivable as a full legal tender, and therefore gold flows in?

Mr. FISHER. I think that is one source of the gold supply. And the second and greatest is that nobody wants gold.

Senator REED. Very well; they do not just now.

Mr. FISHER. No.

Senator REED. That is about the only way we get it. Would it not be the part of unwisdom to retire those two forms of currency without substituting some other method by which we would gather this gold in?

Mr. FISHER. If I recall rightly, in the recommendation of our committee, to which we are coming, there was the thought—although we did not say so in so many words—that it might be possible, as an added use of the earning power of the Government, as an outgrowth



of this system, to give the Government the privilege of buying up its own obligations.

Now, that expression "own obligations" is a broad term. It may mean notes, it may mean bonds. And if I recall the discussion on that point, it was broadly regarded as unsound to develop any principle in banking in this country that did not ultimately contemplate—perhaps not immediately, but ultimately contemplate—the retirement of the greenbacks, on the ground, perhaps, not so much that they are any particular danger to-day; they have been absorbed in the credit relations; and any effect that has come from increased prices has been lost sight of for many years; but it has been recognized that, if you have the principle of Government issues based on them, in one year you may have a larger amount than in another year; and just as soon as you increase such issues, just so soon do you inflate prices. That is an automatic result. You know it was the case in war times, and it may be the case at any time in the future while you have an issue based on debt. So that all economists and practically all bankers, although they recognize there is no particular danger to-day with the greenbacks, also recognize that fundamentally it would be a very desirable thing to get rid of them.

Senator REED. Well, if you think the issuance of money based upon debt works inflation and governs prices, then it seems to me that this bill ought to be scanned with some care, because we propose to issue money here based upon debt.

Mr. FISHER. What kinds of debts?

Senator REED. Debts of individuals indorsed by banks and reinsured by the Government.

Mr. FISHER. When payable?

Senator REED. At various times.

Mr. FISHER. Not to exceed?

Senator REED. Well, let us say 90 days; and there is no reason in the world why they should not be immediately renewed and kept out upon new paper, so that the volume would be constantly greater.

Mr. FISHER. Well, in this state of the wisdom of the banking world, or of the legislative world, it would be absolutely impossible to make a scientific relation between commodity prices and banking practice—I will agree that we can not do that, but we understand the general trends.

Now, there is a vast difference between a note based upon a debt which grows out of the sale of commodities, which is manufactured to exchange those commodities, which clears itself and is paid, and the commodities consumed, and a debt of a Government for war supplies, or any other kind of supplies which may be paid, never, or from 1 to 20 years hence.

Senator REED. I know.

Mr. FISHER. There is a vast difference in solidity.

Senator REED. There is a difference in the two systems, and a very radical one, if you assume, first, that the Government issues its currency to pay its running expenses and makes no provision for the speedy retirement of that currency; and then you issue another currency based upon obligations that all mature within 90 days, and thereby the currency is retired.

But we must take into consideration that as far as this bill is concerned if \$1,000,000,000 of money was issued on 90-day paper to-day,

there is no reason why as that 90-day paper matures other paper can not be substituted for it—a continual flow of paper coming in to take the place of that which is paid off; and thus the currency be kept—\$1,000,000,000 in excess of what it was before the operations began.

Mr. FISHER. The truth is, just what you say is entirely the practice of the last 15 years, and during that period you have seen prices go up in this country 40 per cent. One of the chief elements, in my judgment, for prices having gone up in such a fashion has been the development of credit on collateral loans, on single-name paper, we build factories and other enterprises. And, strictly speaking, we can not get any nearer to a correct relation between money and prices than prompt clearing, and everything you can develop in this bill to effect prompt clearing will bring you nearer to that relation. I think credit currency is absolutely sound, but you can not do any more in this form than to provide the trend.

Senator REED. Can not that be worked out to a great extent by using this term "automatic"?

Mr. FISHER. I do not think you can possibly, scientifically, develop the absolute correct relations between the loan made upon fixed and upon fluid credit. We understand the philosophy of it, and within the last year there has been a great deal of thought and attention paid to that subject. I agreed to write two suggestions for two amendments; but I would not agree, and I do not believe any man in the world would agree, to write any amendment that would segregate scientifically and correctly the relations between fixed and fluid credit.

Senator REED. Would it be your idea if a certain currency has been out a certain length of time, it should begin to bear some kind of interest charge which would compel its retirement?

Mr. FISHER. This bill provides that currency shall not be issued by any other bank than the one that originally issued it. In other words, it will come back for redemption. Now, we have two definite experiences. If I remember rightly, at the very most Canadian currency does not remain out more than 30 days. I think the Scotch experience, perhaps, because of being a smaller country, is that it remains out a shorter time. I do not remember the exact figures. I do not think you need worry about inflation under the bill, because you provide prompt redemption. Other than that, it is based on fluid credit. Of course, going into the broad question, you have developed scientifically that collateral loans should always be against time deposits that can not be spent. Fluid loans should be the only basis for currency issues, and should be the only basis for demand deposits; and if you carry those ideas out into the realm of the savings bank, into the realm of the trust company, of the State and National banks, you are developing the principle—if you could give the proper relations that would help. You have done something in this bill that I think will cause added confusion between the prices of fixed and fluid credits, and that is putting the savings bank section in the commercial bank section. Unless there is an absolute segregation, and an absolutely scientific management, you have provided a means by which you can do a broad business upon a lower reserve basis and upon a fixed form of credit.

Senator REED. You think there is some danger of inflation unless it is safeguarded?

Mr. FISHER. Unless the segregation between the savings and commercial banking is properly safeguarded.

The CHAIRMAN. There are one or two questions I would like to ask you, Mr. Fisher. It has been suggested, with regard to the 2 per cent bonds, that a certain volume of those bonds might be, annually retired upon the plan which I shall explain to you—that is, that the 2 per cent bonds held as a basis of note issue might be taken over in a certain fixed amount. We will say, for the purpose of convenience, 10 per cent of the outstanding volume, amounting to some \$70,000,000, to be taken over annually. Then, when those twos would be taken over by the United States, the United States would, in that event, assume the redemption of the national-bank notes issued against those particular bonds now held by the Comptroller of the Currency. The United States, in redeeming those national-bank notes, which now rest upon the 2 per cent bonds, would issue its own Treasury notes, payable in gold, at the Treasury in Washington, and place in the reserve division of the Treasury those \$70,000,000 of twos, but in the form of threes, with a right in the Treasury Department or the Federal reserve board to issue them either as bonds maturing in 20 years or as annual notes renewable during a period of 20 years at the 3 per cent rate. In that way it would provide a basis of obtaining gold, if necessary, to redeem such notes, and to issue those notes in small denominations so that they would be readily absorbed as till change, and therefore prevent, by that arrangement, the rapid delivery of these notes for redemption.

Along with that suggestion, as a part of it, it was proposed that a like amount of gold should be put in the Treasury reserve by taking the gold from the current funds of the Treasury and putting them into the reserve division and issuing, in lieu thereof, a like amount of Treasury gold notes. The effect of that would be, in one such transaction, \$70,000,000 of bonds and \$70,000,000 of gold going to the reserve division, and against it \$140,000,000 in Treasury notes payable in gold at the Treasury in small denominations.

Is that too complicated a proposal for you easily to follow?

Mr. FISHER. The proposition for the Government to redeem its bonds with short-time obligations is good. The currency provision I do not like at all. It would simply be an added confusion to our currency system.

The CHAIRMAN. The purpose being eventually to retire—

Mr. FISHER. I would let the currency be handled by the banks. You might better let the short-time notes go into the banks and let the banks finance the \$70,000,000. Let the Government retire and finance, perhaps, the sale of 3 per cent bonds, but it seems to me the issue and financing of short-time notes should be done by the banks and not by the Government. I would not confuse the two principles.

The CHAIRMAN. The proposal was to retire the national-bank notes, and this was the method by which to retire the national-bank notes instead of the 2 per cent bonds alone. There would be in lieu of that 50 per cent of bonds and 50 per cent of gold.

Mr. FISHER. It seems to me the retirement of the national-bank notes can be effected by the Federal reserve bank. You have the germ there of a good idea, but the currency function should be handled by the banks and the other end of it by the Government—

that is to say, pay off the long-time bonds by short-time notes. But I would not let the redemption gold reserve of the currency function unify itself with the general principles of your bill, and I think it will be very much more satisfactory because, potentially, as you give it, there is an element of inflation there.

The CHAIRMAN. The note issue would be identical; there would be no inflation whatever. The notes issued would be notes to take the place of the national-bank notes on the one side and to take the place of the gold on the other.

Mr. FISHER. That probably could be done if there were no collateral bank plan developed at the same time, but I do not think the two together would be desirable.

The CHAIRMAN. The purpose was to provide for the 2 per cent bonds in a way that would be satisfactory to the banks of the country, who have been a little apprehensive that they would suffer a loss.

Mr. FISHER. I believe the plan, however, to let the Federal reserve bank retire a certain percentage each year by the issue of bonds or currency either, maximum and minimum, as I have suggested, would be a much better plan and the whole fabric of our currency would be much stronger.

The CHAIRMAN. Mr. Simmons, who have you now?

Mr. SIMMONS. If you will permit me, I will continue with that.

#### STATEMENT OF W. D. SIMMONS—Continued.

Mr. SIMMONS. I will not attempt to follow Mr. Fisher's lead in the scientific discussion, but from the standpoint of a business man, with the exception that we utilize, as business men, the services of Mr. Fisher and a number of men in conference with us to give an explanation to us of certain points; and, as a result of those conferences, we have formed our conclusions and made a report to the business men of the country.

Mr. Fisher stopped at No. 8. It speaks there of a tax upon notes, and the point I wanted to make is that our conclusion was that the taxing of notes put a tax upon certain elements of the business interests of the country, because they have occasion to use notes and as compared to those who only have occasion to use checks. And it was a discrimination which we thought ought to be avoided, because we saw nothing in it but discrimination. Inflation is next. Inflation could be without any issue of notes at all. It could occur, in fact, where no notes are called for or desired. That covers 8 and 9.

As to No. 10, the mutual guaranty of the notes, that was covered by Mr. Fisher.

No. 12, the statements of the Federal reserve bank has been covered in your recent draft of the bill.

No. 13, the authorization of the Federal reserve banks to make deposits in and discounts for any other Federal reserve bank. We distinguish there between authorization and requirement. It seemed to us that unless your requirements were very thoroughly protected, perhaps as has been proposed since, it was very much better and safer to trust to the judgment and patriotism of the Federal reserve banks and their directors, as a whole, than to leave there a requirement with a possibility of the use of it as has been suggested might occur.

Senator NELSON. Mr. Simmons, Mr. Vanderlip suggested that unless you had such a compulsory process the system would not work at all. You must have it so arranged that you can pipe the reserves from one regional bank into the other, and you could not do that unless you had the compulsory system.

Mr. SIMMONS. I say unless it was safeguarded, as has been suggested, by a nonpartisan element and the requirement of unanimous consent.

No. 14, the automatic continuance of the banking system. It seemed to us there was a danger to the business interests of the country to have no provision for the automatic continuance of the existence and authority of banks to do business in case there should be some delay in forming some substituted plan when these charters expire. There have been such things as deadlocks and things of that kind, and it seemed to us that some provision should be made here so it would be automatic and have the business of the country continue, rather than have the whole business of the country thrown in a turmoil.

Senator NELSON. This does not interfere with the automatic business you refer to, except in the bond provision providing for the gradual retirement of the circulating notes and in the change of the reserve provision of the existing law. This system of pyramiding reserves, the bill provides for a gradual change from one system to the other within three years, beginning with 3 per cent during the first year and culminating at the end of the third year with 5 per cent. Otherwise it does not interfere with the existing system of the national banks.

Mr. SIMMONS. But their charters would practically all expire at the same time.

Senator NELSON. Oh, no; their charters continue. They would expire if they did not come into the system, but if they come into the system they would continue under their charters as they are.

Mr. SIMMONS. Indefinitely?

Senator NELSON. No; those charters are only for 20 years in each case.

Mr. SIMMONS. That is the point, and that is the reason we thought if at the end of those 20 years there was not some substitute legislation the banks should be allowed to continue.

Senator NELSON. We do not change that system; there are a great many banks that have renewed their charters. They renewed after the 20 years. Some have had two renewals and lots of them have had one.

Senator REED. And, Senator, there has never been a renewal denied in case the bank was sound.

Senator NELSON. I do not recall any renewals being denied where a bank was sound. They were always given as a matter of course. And, for instance, if the bank joins this system its charter is for 20 years and, assuming it has run for 10 years and has 10 years more to run, it would run under that. And at the end of the 10 years, unless we change the law and this bill does not change that part of it, as a matter of course they could get a renewal if in a sound condition. I think there are only two changes, and they are in the matter of reserves and in the matter of gradual retiring of the circulation, which

is squinted at in one section with reference to the bonds. Outside of that they are left intact.

The CHAIRMAN. The intention of this bill was to limit the life of those reserve banks to 20 years, and I understand Mr. Simmons's suggestion relates to putting in an automatic provision, in this connection, with regard to the life of the Federal reserve banks and not the ordinary national banks.

Senator NELSON. No; he referred to national banks. You referred to national banks, didn't you?

Mr. SIMMONS. If I did, I beg your pardon; I did not intend to refer to national banks. Our one point is, as we understand this law, to provide that the Federal reserve banks should automatically continue at the end of 20 years if, at the end of that time, there is no provision made, or there is no substitute provided. Unless there is some provision made for that, they should automatically continue the same as directors continue until their successors are elected.

Senator NELSON. The same as in the case of the national-bank act. I thought you referred to national banks.

The CHAIRMAN. It would require affirmative action, of course, at the end of the 20 years.

Senator NELSON. I think the bill ought to provide as the national-bank law does for renewal under proper conditions. Otherwise, the system would be at the mercy of Congress.

The CHAIRMAN. The intention was to make it at the mercy of Congress, instead of having Congress, possibly, at the mercy of the system.

Senator REED. There ought to be a phrase put in there providing, in the event of no other legislation, that the system might continue.

Mr. SIMMONS. That is our whole point.

Senator REED. We will consider that.

Senator NELSON. You are right. In case the system is retained, then there can be a renewal, if the bank is sound.

Mr. SIMMONS. No. 15 has been covered by Mr. Fisher, except it refers to the use of some of these profits to liquidate the existing demand obligations of the United States. The situation as we see it from a business standpoint is that those notes, as they come out, with lawful money as a reserve against them, are practically the obligation of the maker, the United States, backed by security—good commercial paper—and then against them for their protection, a reserve—the obligations of the same maker, without any backing. Our idea is that the existence of the greenbacks is what makes that necessary, and it would be wise, so far as possible, or, as soon as possible, to get rid of that which makes that obligation.

Senator NELSON. You would avoid that by making the new notes redeemable in gold?

Mr. SIMMONS. Yes.

Senator NELSON. Don't make war on the greenbacks. The greenbacks and the soldiers are what saved this country, and I want you to remember the soldiers carried the greenbacks in their pockets while they carried the muskets on their shoulders. It was not the capitalists who saved the country; it was the people of the country who were willing to take that currency and the people of the coun-

try who shouldered the muskets. Don't make war on the greenbacks.

Mr. SIMMONS. I am not making war on the greenbacks, but I am suggesting taking a rather anomalous situation out of the way.

Senator REED. Senator, you never came around and growled because you took those greenbacks at 35 cents on the dollar, did you?

Senator NELSON. Oh, no; we took the greenbacks and were glad to get them.

Mr. SIMMONS. The only other section that requires attention is the one with regard to the use of the words "Secretary of the Treasury," and his position. It seemed to us that the provisions relative to the Secretary of the Treasury were, in some cases, the way this bill came to us—some of those instances have since been changed—were rather conflicting in respect to his relation to the board of which he was a member. In some cases he was practically in a position to supersede the action and authority of the board of which he was a member. It seemed to us wise to suggest that it be made entirely clear. If the Federal reserve board principle is to obtain—and we are ready to grant it is perhaps the best one—then it would seem to us the Federal reserve board should be and have entire control and should not be superseded by one member of that board. The other points, I think, have all been covered in your recently drafted bill.

Senator BRISTOW. I was not present during the statement of Mr. Fisher. I was called out and did not get to ask a question I wanted in regard to the character of the Government's guaranty of these notes—that the Government stood as a guarantor, and, by virtue of the Government's standing as such indorser of those bank notes of these banks, it should receive the profits from and above the 5 per cent—60 per cent of it—and, presumably, those profits to the Government would create a fund which would justify it and make it safe in standing for this security for the ultimate redemption of these notes. Is that an idea that reflects the opinions of your committee?

Mr. SIMMONS. Yes. It reflects the conclusion we came to under existing conditions. I think the opinion of our committee generally, and I think the general consensus of the business opinion of the country, is that it would be well to have these notes a bank issue, and then, if you want that Government protection, it can be; but there is something to go back of that, something where the Government supervises and guarantees the holder of that note, perhaps, but does not get into the shape of a maker, and the compensation being that it shall have the profits of this fund to make it entirely safe.

Senator BRISTOW. That is a sound business principle, is it not? Do you not think it makes it entirely so?

Mr. SIMMONS. It appears so to us; yes.

Senator BRISTOW. Now, what would you think, in order to give this bank and national banking system of the country greater stability, of having a similar provision in regard to the deposits of the bank. Let the Government levy a tax of some kind on the operations of the bank, to create a fund which would guarantee losses by depositors in case the national bank failed.

Mr. SIMMONS. I would think the general consensus of opinion is against anything in the shape of the Government guaranteeing deposits, based upon experiences that have been had.

Senator BRISTOW. What experiences do you refer to?

Mr. SIMMONS. I think the experience they had in Oklahoma, which I think your chairman can tell more about than I can. I am not stating except what I believe is the general opinion on that point.

Senator BRISTOW. I mean where there has been some condition of failure in Oklahoma. But suppose the Government did not stand sponsor, but that it created a fund by taxing the banks and that fund was in the nature of a sinking fund out of which any of these depositors would be paid, similar, we will say, to the Kansas law, it simply administered an insurance department of the banking department. As I understand, there are private insurance companies now created to guarantee against the loss of bank deposits. Such companies are in operation now, as well as State companies that have been organized. In the State of Kansas there is a company that is supervised by the banking department—that refers to the State banks—and another company is organized which insures the deposits of national banks. It is a private insurance company for that purpose.

Why would it not be just as practicable for the Government to create a fund, which fund, so created under the supervision of the Government, should be pledged to the payment of depositors for losses upon the same principle we are creating a fund to incur the payment of any of these notes that might fail.

Mr. SIMMONS. I am not authorized to speak for the National Chamber, because that point did not come up, but I think I understand the general attitude of the business interests toward that proposition, and that it would be unwise because it would practically put a premium on lack of care in the use and loaning of the deposits, the idea being it would not make any difference and would help most the man who regarded the thing least, with the least care in his work and the least care in his credit, without himself taking the risk.

Senator BRISTOW. Have you ever examined the operation of the Kansas law?

Mr. SIMMONS. Not sufficiently to speak with thorough knowledge of it; no, sir.

Senator POMERENE. What is your judgment of that, Senator?

Senator BRISTOW. The actual operations of the law have been entirely satisfactory. A depositor can not lose anything in a Kansas State bank. It is a voluntary fund; it is entirely voluntary as to whether a bank comes in.

Mr. SIMMONS. It is not as to the depositor?

Senator BRISTOW. No; it is not as to the depositor.

Mr. SIMMONS. He is the citizen, and he pays the bill; he loses his share.

Senator BRISTOW. No; the citizen does not pay the bill. It is like insurance exactly.

Senator POMERENE. How many bank failures have you had since that time?

Senator BRISTOW. One.

Senator POMERENE. Within what period?

Senator BRISTOW. Four years. And the depositors receive immediately a certificate for the amount of the deposit, which bears 6 per cent and it at once goes to a premium.

Mr. SIMMONS. That is not an insurance company.



Senator BRISTOW. It is by insurance. It is a mutual insurance company organized by the State and supervised by the banking department. It simply provides that any bank which desires to insure its depositors can subscribe to this fund and pay its assessments, and that goes into a fund that is kept in the State treasury. If a failure occurs of any of the banks, the banking department of the State pays the depositors, takes possession of the failed bank and closes up its affairs, and then the receipts from the winding up of the bank's affairs go into this fund which has been drawn upon.

Senator NELSON. That is practically the Canadian system.

Senator BRISTOW. It works just as Mr. Dawson said the Canadian system worked. The depositors of the failed bank really get more money, because their certificates at once go to a premium.

Senator NELSON. They get certificates that draw 6 per cent interest.

Senator BRISTOW. Ours is exactly the same. The national banks have organized a mutual insurance company which they supervise, and it is not supervised by the State. They have had no failures.

Mr. SIMMONS. Who is it in that case that decides who shall come in?

Senator BRISTOW. It is wide open to anybody that will comply with the conditions.

Mr. SIMMONS. It is not wide open to anybody, but they make conditions.

Senator BRISTOW. The State makes conditions also. Nobody can come in except a bank that has a proper standing.

Senator POMERENE. With your experience in Kansas, it would hardly be fair to say that banking insurance placed a premium on bad banking.

Senator BRISTOW. No. That is the argument of people who do not know anything about it.

Senator NELSON. The real opposition is it places the big banks that are such good institutions on a level with the others that are not so good—with the small institutions. They have as big a show to get deposits under that system as we have, and that is where the opposition comes from.

Senator REED. Mr. Simmons, are you directly interested in the banking system yourself?

Mr. SIMMONS. I am a director in a bank; yes, sir.

Senator REED. Your principal business is running the great hardware business with which you are connected?

Mr. SIMMONS. Yes, sir; entirely.

Senator REED. And I think you have one of the largest wholesale hardware businesses in the country. Now, your banking business is a sort of an incident?

Mr. SIMMONS. A very decided incident.

Senator REED. As a business man, you recognize the fact that you are constantly interfered with in your business by the uncertainty as to whether a bank can let you have all the money you want, even when there is absolute solvency?

Mr. SIMMONS. The uncertainty as to whether they are going to continue to be for some time to come.

Senator REED. And you fear these financial panics and depressions that come. Do you think, under all the circumstances and in view

of the conditions, that every line of business, including the banks, can afford to make some sacrifice in order to get a stable system?

Mr. SIMMONS. Well, I think they already have; it is a question of what you mean by sacrifice.

Senator REED. That a bank can ever afford to sacrifice its profits?

Mr. SIMMONS. Yes; I do; undoubtedly; a financial sacrifice.

Senator REED. And that they could all get together and cooperate to work out a system and not be, as I fear some people have been, fighting a system; I do not mean you bankers.

Mr. SIMMONS. Perhaps I can answer you by calling your attention to the pending clause of the report of our committee, recommending that we recognize here a definite effort to do a constructive thing and to supply this country with the kind of currency system. The attitude of the committee was to see to what extent they could be helped to do that; not to find fault, but to see what we could do to add strength to that.

Senator NELSON. You have a very able report, and I want to congratulate you on the points you have made and to the sound basis on which you have argued. I think you have been very helpful to us here in making your suggestions.

Mr. SIMMONS. You are very kind to say that, Senator.

Senator REED. I agree with that remark.

Mr. SIMMONS. If it is agreeable to the committee, Mr. Wheeler, the president of the Chamber of Commerce of the United States, will address you now. He can give you a pretty clear idea of the purpose of the chamber in taking up this matter.

The CHAIRMAN. We will be very glad to hear Mr. Wheeler.

**STATEMENT OF HARRY A. WHEELER, VICE PRESIDENT OF THE UNION TRUST CO., CHICAGO, ILL., AND PRESIDENT OF THE CHAMBER OF COMMERCE OF THE UNITED STATES.**

Senator REED. Will you give your name and your business connections.

Mr. WHEELER. Harry A. Wheeler, banker; vice president of the Union Trust Co., Chicago, Ill., and president of the Chamber of Commerce of the United States.

Mr. Chairman and gentlemen, this matter has been so clearly stated, it seems to me, by Mr. Fisher and Mr. Simmons relative to the points covered by our committee on banking and currency, and submitted for the vote of the chambers of commerce of the United States, that if I should go over that matter it would be a waste of your time and simply a repetition. I would like to put into the record, however, a statement of how we came to ask for this hearing on behalf of the chambers; how they are tied together, and how the vote was taken; for Senator Nelson, voicing the idea that chambers of commerce have always acted through a few men who voice the sentiments of all the members, holds the impression that we fear some of the rest of you gentlemen hold that this vote was taken in a desultory sort of way without the idea of getting the sense of the organizations and therefore would represent merely the sentiment of the few men who might have received the report and read it and voting "aye" or "no."

Now, the chamber of commerce—

Senator NELSON. I am disabused of that idea. I think our experience here in Congress, of getting resolutions of chambers of commerce and other organizations which do not mean very much may have given us that impression, but after hearing what you gentlemen have had to say to-day I am satisfied that that does not apply to your case, because you seem to be working on bedrock all the time.

Mr. WHEELER. I thank you, Senator.

The Chamber of Commerce of the United States was formed only 18 months ago. It was an organization to bring together as a united body all of the national trade organizations and the chambers of commerce and boards of trade of the country. And a chamber of commerce in a city of 1,000 inhabitants is made just as welcome as a member, and it is made just as possible for them to become a member as the Chamber of Commerce of the city of New York, or of the city of San Francisco, or of Boston, or of any other of the larger cities, or of the American Bankers' Association, or of the National Wholesale Dry Goods Association. That democracy has been written into the organization, and its board of directors, which comprises 25 men chosen from definite geographical divisions in every part of the country, have had conferred upon them no power to commit the chamber to any policy or any piece of legislation, and that it may be fully decided whether the matters submitted to the chamber are of a national character, and proper to be submitted to the various bodies for their opinion, and if it is so determined, then such a referendum as this must be prepared and submitted to all the organizations affiliated with the chamber.

Senator Reed asked whether there was argument. If you gentlemen had the time I would like to have you see the manner in which this is put up, with the report of the committee, its relation to the bill then being considered, and the marginal notes with the suggestions that were made, and with marginal notes relative to the amendments that had been suggested. There is not one single syllable in that urging any member of the chamber of commerce to support any one of those provisions, but they are placed exactly before them in a business way in order to endeavor to ascertain what is their mind and what is their opinion in regard to that matter.

Now, gentlemen, when this referendum was issued there were 380 organizations represented in this body, and it represented 200,000 business firms and business men in the constituent membership of these organizations. If I were to say to you that the vote which has been taken and recorded to you by Mr. Simmons was the vote of the business men of this country, I would deserve your censure and condemnation, because it is not. You know as I do how hard it is to get business men to take economic questions and study them and record an intelligent opinion upon them. This went out to the various organizations and associations and was voted upon by more than one-third of the organizations and by 41 per cent of the full voting strength of the chamber. The voting strength is made up so that the Chamber of Commerce of the city of Boston, for instance, has 10 votes and the Chamber of Commerce of Phoenix, Ariz., 1 vote. The maximum number of votes that any organization may cast in regard to any question or piece of legislation upon which a referendum is submitted is 10 and the lowest, of course, is 1. So that an organization of thousands of members can not record more

than 10 votes and never by any combination can dominate the vote of the whole, and 41 per cent of all the votes that could have been cast upon this question was cast by the associations.

Senator, it was my good fortune during the 45 days that this question was pending before the business associations of this country to visit a good many cities, working with them in connection with what I regard as one of the most fundamental principles of our business life, to get our business men interested in something besides trading their own goods for other people's goods or their own goods for profit; that they shall interest themselves in a sane way in finding out what is going on, what is their relation to it, how it affects their business, and get them to form a clear opinion and to express an opinion where it may be of value.

In that the Chamber of Commerce of the United States from its beginning has wished to say to the executive and legislative branches of this Government in Washington we are not coming to you and asking that you pass legislation for us; we are not pressing bills for your consideration; we are asking that you help us to help you if you want the business opinion of this country upon measures that are before you. We will give it, as we have tried to do in this case, an absolutely impartial and unbiased opinion upon various points, presenting the matters of these organizations, not asking that they support the measures as we proposed them, but that they give us their advice and help and suggestions.

I never have seen business men more keenly interested in any subject than the people have been in this matter.

The boards of directors of various organizations have called their organizations together, and when that was impossible they have sent out extracts from this report and asked that these arguments and extracts and explanations be read and the vote recorded, and during the last 45 days, Mr. Chairman, I have sat in conventions of business men who have asked me to come in and talk to them about these seven provisions, and they have recorded their vote upon them. You will know from Mr. Simmons's report that it is not a unanimous vote. There were some 90 votes against the one which received the greatest number of negative votes and I believe some 390 votes in favor of the provision which received the greatest number of affirmative votes. So that there was thought in this matter, and in presenting it to you as we do to-day we present it as the sober and deliberate action, favoring these recommendations for amendment or the suggestions for your consideration. They come from 140 of the largest commercial organizations in this country, in 28 States of this country, and comprising a membership of more than 150,000 business men.

And if you have time to read the letters that have come from those organizations which did not vote and find how conscientiously they considered their relation to this subject you would be still more impressed. I am only going to give you one. One organization having had its committee at work upon this proposition, brought it before its executive board for consideration and said, "We can not approve all of the amendments suggested by the committee of the Chamber of Commerce of the United States. We can not vote against your bill, because in so doing it would tacitly approve the bill as now written. Neither can we vote for your bill, and because we can not do either

one we dare not vote at all." They have been conscientious in the matter and tried to look at it in a fair way. I do not believe in that standpoint. I do not believe that is a good thing, but these organizations have, so far as possible, endeavored to form their conclusions soberly and honestly, and I give them to you for what they are worth.

As this organization grows it will endeavor, whenever it comes before a committee of the Senate or House, to bring to you the honest and unbiased and unprejudiced opinion of the members of these various organizations.

I am very much obliged to you, gentlemen.

The CHAIRMAN. The committee very highly appreciates the pains you have taken to carefully examine this bill and criticize it and suggest amendments to it, and nothing could be higher evidence of the opinion you have given than the form in which you have presented it to your own members.

Senator SHAFROTH. We expect to utilize this very much.

Senator BRISTOW. Of course, this does not purport to reflect so much the views of these men as to what legislation we ought to have and what amendments ought to be made to this bill?

Mr. WHEELER. That is right, Senator.

Senator BRISTOW. Now, some of us believe that a central Federal bank would be better than 12 Federal banks organized as these are proposed to be organized. Now, as to the choice between a central Federal bank providing for the performance of certain functions in our financial system or 12 banks organized as these are, we would not have the judgment of these gentlemen as to that, but only an amendment which they feel ought to be made to this specific bill?

Mr. WHEELER. That is right. Our committee on banking and currency when it came to Washington to study this bill and endeavored to formulate a report felt that your effort in Washington was one directed toward constructive legislation; that you had certain principles which you believed should be worked into the bill, and we were ready to try to support you in legislation on those principles.

We therefore put to our constituent members no question that was not related to the bill itself. We did not argue that a central bank was better than 3 or 12.

Since we came to look at this as a business proposition, knowing, as business men do, the difficulty of establishing a great working machine with a large number of branches thrown out, we felt, when in the wisdom of the Federal reserve board of this association there should be a gradual development of the regional associations instead of endeavoring to establish a great number at once and thereby making confusion, that possibly that could be avoided and yet not destroy any of the principles that underlie this bill, beginning with the natural centers and increasing as the demand came or as the Federal reserve board saw fit to increase them. That is the nearest we came to that point.

Senator BRISTOW. Would we infer properly from that that in your opinion if this Federal reserve board should start with one Federal reserve bank, extend branches of it or establish others of a similar character until it gradually absorbed the entire functions which are contemplated, would be safer and create less possible disturbance of the normal operations of our business affairs than to undertake to create the whole thing at once in one general enactment?

Mr. WHEELER. Not from the Chamber of Commerce of the United States, because it has expressed no voice upon that. Personally, if you are going to adhere to the provisions of the bill relative to the number of regional associations, and you want convenience as well as safety, I believe that more than one regional bank started at the beginning is desirable rather than detrimental.

Senator BRISTOW. How many would you suggest?

Mr. WHEELER. I hold with my own committee that with perfectly natural conditions certain three centers might be chosen, and then you may have within six months nine more. That development would be the natural and logical development under the development of the Federal reserve board.

Senator NELSON. Your suggestion is that we start with three in the central reserve districts.

Senator BRISTOW. That strikes me as an interesting suggestion.

I would like your own opinion on this phase of the subject. We are creating here by this bill a Federal reserve board that sits here in Washington and supervises these banks at a distance without any personal contact with them. Under your suggestion there would be three. These three banks that are in active operation as banks are presided over by boards of directors and superior to them stands this Federal board. Would it not be better, from a business point of view, safer, and tend to efficiency to have that board itself in the active management of the bank, so that with its experience in contact with the operations of the banking business it would have a judgment based not only upon its theoretical knowledge but on the actual experience of the men who are to decide, ultimately?

Senator NELSON. You mean one single bank?

Senator BRISTOW. Well, yes; if those men were in charge of a bank, would they not be better equipped to pass wisely upon the questions that would come naturally before them?

Mr. WHEELER. You ask this as my personal opinion?

Senator BRISTOW. Certainly.

Mr. WHEELER. I think if it were possible to secure it from Congress and with the consent of the country, that the highest efficiency would come through greater centralization, but I am also equally convinced that it is not practical at the present time to do it.

Senator BRISTOW. That suggestion has been made to us heretofore. Please tell me why you think it is not practical.

Mr. WHEELER. I think that the same reason that brought into disrepute the bill put out by the Monetary Commission—the fear of control which would always be present—would probably have the effect of making your central bank distasteful to a large number of the people of the country.

Senator BRISTOW. Have you taken into consideration the wide difference between the Monetary Commission's plan and the one suggested?

Mr. WHEELER. I think, Senator, that you have a very admirable adaptation in the present plan. It is in a sense a broadening of the scope of the other, and in another sense it is a contracting of that scope through the elimination of a very large amount of machinery that might have been very difficult or expensive to operate. Personally I have no fault to find with the provision of the bill creating, as it does, a given number, or even if you make it an indeterminate num-

ber, in the discretion of your Federal reserve board or regional associations that shall be linked together definitely by a board that shall have control of the issue and shall really have control in large measure of the actual direction of the banking functions of the country.

Senator BRISTOW. You think that board, situated, as it will be, at a distance, in Washington, as a governing board, and not actively in touch with the operations of the banking business, will be more capable of passing wisely upon the questions that grow out of the operations than if they were in active touch with the situation?

Mr. WHEELER. In so far as they are required to do it in their general supervision. If you gentlemen can, in your wisdom, work into the bill some advisory capacity that is real and not fanciful, that has responsibilities and that is responsive to the country itself, then I say yes, they can do so.

Senator Reed raised the question of the relationship of the two members of an advisory council. May I suggest, Senator, that their relationship, to my mind, is like this: They are elected by an advisory council, one member of the council being chosen by each regional bank, by the vote of the directors of that bank, representing three banks, three representing the commercial and industrial and agricultural interests of the country, and three appointed by the Federal reserve board. You have, therefore, a board of directors of your regional association elected a member of the advisory council or board of the regional association, really being representative of the three elements that constitute our national life.

I believe that you can safely say that an advisory council elected as suggested is really representation more than the bankers, although I grant you that six of the nine board of directors of the regional bank are elected under certain provisions of your bill by the member banks; but they are so safely guarded that your Federal reserve board has the right to change that representation, and therefore your advisory council, in my judgment, with either 5 or 7 or 12 or 20, would really be representative of the several sections of our life rather than only the banking elements of our life. If the council was then elected, and out of their number best qualified to serve them in an advisory capacity with the Federal reserve board at Washington, charged with no other task than to keep informed relative to the financial and the agricultural and commercial conditions in their regional districts, and had that as their sole task, I believe you add distinct strength, because your Federal reserve board is charged with the task of guiding and supervising all the affairs of the regional banks and practically protecting all of the functions of those banks, and they have a task which is a big one for seven to perform, and these two men will bring live-wire information to the seven relative to the districts and their condition.

Senator BRISTOW. As I understand you, you would prefer to have these three regional banks governed as the provision is made in this bill rather than to have one central bank governed by a board selected similar to this Government board?

Mr. WHEELER. Again, personally, I can only reiterate what I said before. From the point of my efficiency, if it seemed possible, there are advantages in a central bank, as there are always advantages in centralization. But, next to that—which does not seem to me practicable—I believe this plan is good.

Senator BRISTOW. But please leave out the proposition as to whether it is practicable or not—

Senator NELSON. Will you allow me to put in this remark right here in connection with this, that in answering the Senator you must bear in mind that the Aldrich bill, so called, was controlled by the bankers, and this plan is to give the absolute control to the Government.

Senator BRISTOW. That is exactly the point. This proposition is that the Government shall control a United States bank, and the bankers shall not appoint any of the officers that shall control it. They need not subscribe to the stock unless they want to.

Mr. WHEELER. Senator, I think the difference very largely is this: Under the so-called Aldrich plan, which was a control by the banks, as you say, your central bank had full banking functions, but had attached to it a very large amount of a very cumbersome machinery—more district associations than you gentlemen have reserve associations in this bill, and tacked on to this a large number of local banks that were feeders into these others.

Senator BRISTOW. If you will pardon me, I would rather have this than the Aldrich system, but I am very much against this.

Senator POMERENE. I thought you favored the Aldrich system.

Senator BRISTOW. I should not vote for it under any consideration. But I am trying to get at another thing. I want to know if you believe that a central bank, controlled by the Government, by a board appointed for that purpose, operated by that board, performing all the functions that are intended to be performed by this system, providing means for the mobilization of reserves, a bank of issue, a bank of Government deposit, a bank of rediscount—if you think it would be more efficient than three regional banks governed as suggested in this bill?

Mr. WHEELER. I do not.

Senator BRISTOW. Why do you not?

Mr. WHEELER. The only advantage we can get from a central bank, governed and controlled as you would have it in relation to this same sort of movement, would be a possibly greater mobilization of reserves. The power of issue lies with the Federal reserve board, as you have it here in your bill, and the supervision likewise, and with a central bank you must have branches, and many of them probably, to serve, as you will in this case have to have branches of your regional association. And I believe that for convenience sake where you have tied up your regional association through such a number as you here propose—and I depart from some of the testimony that has doubtless been given by many in my own profession relative to the power that you may give to cause reserves to be transferred. I believe they should be in some wise safeguarded, but the permissive power to require certain functions to be performed must be given to your central body, whether it be a Federal reserve board, as planned in this bill, or the board of directors of a central bank such as you may suggest. And I believe that for the convenience of the country it will ultimately work out better, as experience is gathered and as we may make certain amendments, in the operation of these regional banks and in the control of the Federal reserve board, to have them located at various parts of the country instead of absolutely centralized at one point.



Senator BRISTOW. Now, suppose that instead of having these directors of the regional banks selected as they are we have them all appointed by the President and confirmed by the Senate, so that the regional banks are controlled and governed by a Federal board.

Senator POMERENE. I do not believe I understood your question. Do you mean that all of the members of the regional board be appointed by the President?

Senator BRISTOW. Yes; that is just what I mean.

Mr. WHEELER. Senator, I think, that if you were to do that you would either be compelled to work into this bill some provisions that would absolutely compel the banks of the country to join in this movement, or you would drive them away from it. If you compel subscription to the capital stock of a body that has to do not only with that capital but with the reserves and without any voice or control whatsoever in the matter except such as may be delegated to it by an appointive power from a distant point, I think it would be an injustice to the men who contribute the capital, and I think they would not feel very much like joining into a regional association plan of that kind.

Senator BRISTOW. You think it is more unjust, if I understand you correctly, for the Government to appoint the managers of the regional banks than it is for the Government to appoint the board which supervises the action of the managers of the regional banks?

Mr. WHEELER. I think the central board, which is in the control and appointing power of the Government, is the supervisory power of the functions of all the banking of the country and the power of issue, and the Government in this bill to stand back of the notes that are issued, and if it stands back of them as responsible it has the right to name the men who shall control that issue and who shall supervise—and wisely supervise, we in business believe—the banking operations and functions of the country.

Senator BRISTOW. You distinguish, then, between this supervisory board here at Washington, that you do not care to have a member on, but that you want to be in intimate relations with—you distinguish between that board and a board that is to actively manage these banks?

Mr. WHEELER. Yes; I do.

Senator BRISTOW. Now, there are some of us that believe that the same interest that would control Mr. Aldrich's central bank would control these regional reserve banks—some of us have not any doubt about it—that this provision is simply a very adroit way to avoid the unpopularity of Mr. Aldrich's plan and still not lose the essential substance of it.

Mr. WHEELER. Well, you have safeguarded yourselves in this way. Out of the board of nine, six are elected under certain conditions—and, I think, very ingenious conditions. And I do not agree with you that they are likely to work to central control by the member banks. Let us not forget that three of the nine are appointed by the Federal reserve board and that three of the nine may be removed by the Federal reserve board if they should not be representative of the interests that are supposed to be covered by the provisions of that bill.

Senator BRISTOW. Suppose that we here, in our judgment—I am not saying that many members of the committee would favor it—

make six of them appointed by the Government direct, or seven, and let the bankers elect two; in other words, have the same proportion of the management of these regional banks that you want on the Federal board here.

Mr. WHEELER. Again, personally, Senator—because these are only personal opinions, and they have nothing to do with the referendum—I like the present plan better.

Senator BRISTOW. That is what I have been trying to get at. I have an impression that the great interests which are so much interested in this legislation are willing to accept a Federal board provided they can have a close relation to it, but with supervision in a general way; but they would strenuously object to having the regional boards have direct personal control, even if they did not have to subscribe the stock.

Mr. WHEELER. Admitting now there should be another method of stock subscription?

Senator BRISTOW. Yes; what would you think of that?

Mr. WHEELER. I think if you leave the banks out of it altogether they have no voice. Make it optional for them to come in or not. You choose your method of control as you please. Not speaking for the banks, but from a common-sense viewpoint, I should judge they would not be interested when they were not parties to the transaction, in any sense of the word.

Senator BRISTOW. Do you think that kind of system would succeed in this country; that kind of Federal bank, based on popular subscription?

Mr. WHEELER. I am not competent to answer that question.

Senator BRISTOW. Is it not quite similar to the French system?

Mr. WHEELER. They have a widely scattered stock holding; so have the others; so has the Bank of England, but not absolutely open to the general public in point of controlling power. If you are going to give your shareholder in your American bank, who holds one share, voting power, then naturally you would confer upon him something they do not have among those who hold stock in the Bank of England. You democratize it; I do not know that you benefit the selection, by any means, of the directorate.

Senator BRISTOW. What is the capital of your trust company?

Mr. WHEELER. \$2,000,000.

Senator BRISTOW. And its deposits?

Mr. WHEELER. The deposits are \$22,000,000.

Senator BRISTOW. You are the vice president?

Mr. WHEELER. Yes.

Senator BRISTOW. Who is the president?

Mr. WHEELER. Mr. Frederick H. Rawson.

Senator NELSON. Are you affiliated with a national bank?

Mr. WHEELER. Senator, I am not.

Senator NELSON. I do not mean you personally, but the trust company?

Mr. WHEELER. We are not.

Senator NELSON. No national bank is a stockholder or has any interest?

Mr. WHEELER. Not in the slightest degree.

Senator NELSON. There are some trust companies that are only annexes of national banks. Yours is not one of them?

Mr. WHEELER. Happily, ours was organized in 1869, and has stood on its own legs since that time, and has no other affiliation.

Senator NELSON. There is one point more I should like to call your attention to. As I understood it, your opinion and the opinion of your delegation is this, that inasmuch as we are now starting on a new experiment, the issuing of what I call asset currency, a currency that we have never had since the old system of State banks before the war, you feel—and I understand it is the force of your referendum—that that currency should be guaranteed, although it is a currency of the banks; that it should be guaranteed by the Federal Government?

Mr. WHEELER. That is the recommendation of the referendum.

Senator NELSON. That is as I understand it. That is all.

Senator WEEKS. Mr. Wheeler, if the Senate passed the bill as it came to it from the House, would your trust company come in under the bill and become a member of the association?

Mr. WHEELER. I do not think it could, Senator, because the bill as I read it now in the last copy that I have is so clouded with respect to the relation of the State bank and trust company to the other scheme that I doubt if it could come in without some changes in the present bill.

Senator WEEKS. If the bill were changed to conform to the recommendations made by the chambers of commerce, do you think that that would change the conditions so that you would come in?

Mr. WHEELER. That would not change it, Senator.

Senator WEEKS. Then you do not think your trust company would become a member of the association under any circumstances that are likely to prevail?

Mr. WHEELER. Quite to the contrary, I think they would, but I think the necessity would be to clear up certain phases of the bill which are now rather indistinct in our minds relative to the savings-bank section. There are provisions there relative to liabilities. As I understand it, the bill was drawn with the idea that it should apply to the national bank, and not any very great care was used in phrasing the bill to make it possible to apply it jointly to the National and State banks.

Senator WEEKS. You have not discussed that, of course, in any form, because you are here to discuss the report which the chamber of commerce has made; but I suggest to you that you in some way communicate to the committee your views on that particular point, because that is something we have to consider, or should consider, before we finally report the bill.

Senator SHAFROTH. We should like very much to get your trust company in.

Mr. WHEELER. I think if you can make this attractive enough so that the State banks and trust companies will be desirous of affiliation, it will greatly strengthen the whole thing.

Senator WEEKS. We want to make it attractive enough, and we want to know what we have to do to do that.

Mr. WHEELER. Senator Weeks, you received from Mr. Hulbert, of the Merchants' Loan & Trust Co., certain suggestions from the State banks of Chicago.

The CHAIRMAN. Yes. Do you happen to have a copy of that?

Mr. WHEELER. I have a copy at the hotel, and should be glad to send it to you.

The CHAIRMAN. I should be glad if you would. I had a copy and lost it.

Mr. WHEELER. Those we subscribe to; and while I was present at the meeting which considered Mr. Hulbert's suggestions the bankers present distinctly stated that in making these suggestions they did not say that the bill with those suggestions incorporated would be one that would invite them in. They asked the Senate committee to give consideration to them to clarify the provisions of the bill so as to make possible their coming in, whereas now they feel they could not.

Senator WEEKS. I want to bring up just one point which you have discussed during the questions which Senator Bristow asked you, and that is about the question of local credit. You are in close touch with the depositors and the borrowers of your trust company. You have talked with them about their needs, and you try to respond by loaning to them when they need it. Do you think a board here in Washington is going to be competent—it does not make any difference how wise the men are—to determine that a customer of yours does not need the accommodation, or that you should not lend him the money, even if you needed to make a rediscount by so doing?

Mr. WHEELER. I do not think, Senator, that any Federal reserve board at Washington can properly sense the needs of the customer of an individual member bank.

Senator WEEKS. Let me put that proposition of mine in a little different form? Don't you think this law ought to be such that a member bank may, within certain limitations as to amount, be able to go to the reserve bank and get rediscounts—assuming, of course, that it is paper that comes within the provisions of the law—without any veto from anyone?

Mr. WHEELER. I think that would add greatly to the attractiveness of the measure and its working basis, but you have, as I understand, in your reserve association the power of discrimination with respect to paper, or you intend to have it.

Senator WEEKS. I have not very much confidence in the power of a board in Washington to discriminate as to the paper of your customers in Chicago.

Mr. WHEELER. What about the board of the regional reserve association?

Senator WEEKS. Well, I have not very much confidence in that even. I would rather have your judgment. I want to have this law finally framed so that your customer needing money may go to you, and, if you agree that he does need it, you may make a loan, even though you have not the money to lend and need to make a rediscount by so doing, and that you can get your rediscount as a matter of right, not as a matter of say so of some board—up to some limit, of course. I do not think we ought to provide for rediscounting an amount greater than the capital of the bank—perhaps some such limit as that—but, up to some such limitation, I think the banks should have the right to go to the reserve bank and get accommodations without any veto from anyone. If we do that we are going to have a national system and we are going to accommodate the business interests of the country, as those interests are determined by the local

banker and by the local borrower and not by a board in Washington or anywhere else. If we are going to provide that a board shall determine those things, in my judgment we are going to have all kinds of confusion and dissatisfaction.

Senator NELSON. Senator Weeks, let me call your attention to one thing that occurs to me—

Senator WEEKS. I intended to have Mr. Wheeler express an opinion. I was doing the talking when I intended to have him doing the talking.

Senator NELSON. I was waiting for his answer.

Senator WEEKS. I wanted to know, Mr. Wheeler, if you agreed to that proposition.

Mr. WHEELER. I am in agreement for anything in this bill that will make flexible the operation of the bill with respect to the member banks.

Senator WEEKS. And that will accommodate the business interests of the country with certainty?

Mr. WHEELER. Yes. There is, however, just one question that I think deserves consideration in connection with that statement. If you make it a matter of right up to a certain limitation to demand the rediscounting privilege of the paper that comes under the class, you do not then give any consideration to the ability of the regional bank to meet those demands which may at some time grow excessive. And I think therein the supervisory power—the veto power—is good. You strengthen in that case rather than weaken your system, for the safety of the whole fabric must lie upon the ability of these regional banks to do the things they are asked to do and that they could not be forced to do by making it the right of a member bank—something that we are not in a position to do with respect to funds available for the purpose.

Senator WEEKS. Why, Mr. Wheeler, if we had no reserve board at all, if member banks were allowed to go to the member banks and rediscount every dollar of paper they had in their portfolios, in my judgment that paper would be redeemed and taken care of, and you never would hear of any disturbance at all, without any supervision whatever. I do not mean to say I am in favor of removing all supervision and restriction, but I think there is no question that would be the result.

Senator NELSON. Senator Weeks, here is one thing that occurred to me in this connection. These regional banks practically have two kinds of discounts—one is a discount for the purpose of obtaining currency and the other is an ordinary discount where they seek to borrow money. Now, ought there not to be a brake on the discount for obtaining circulation in order to prevent inflation?

Senator WEEKS. I should like to discuss that with you sometime, but I do not think we ought to interrupt Mr. Wheeler's statement in order to do so now.

Senator NELSON. Can you not see there are two kinds of discount there—one for the purpose of circulation and the other for the purpose of obtaining a loan?

Senator WEEKS. I can see that the borrower might use the discount for two different purposes, but, as far as the effect is concerned, it would be of the same character.

Senator NELSON. Probably.

Senator POMERENE. Would you advise the rediscounting of certain classes of paper which you would not permit to be used for purposes of issue of currency?

Senator WEEKS. Probably; I should be glad to talk with you about that matter.

Senator POMERENE. I should be glad to talk with you about that.

Senator NELSON. That is the point I referred to—the discounting of paper for other purposes and securing currency.

Senator REED. Mr. Wheeler, I want to discuss with you for a moment the question of this advisory board, and see whether, after all, there is any necessity for it. You do not doubt for a minute, do you, that the central board of control will be in reasonably close touch all the time with the 12 regional banks, if it is a competent and proper board?

Mr. WHEELER. Reasonably close; yes.

Senator REED. It has a direct representative on the board of directors of that regional bank, and the bank in interest has the president of the bank—for, of course, they will elect him. So that each of these 12 regional banks would be in a position to directly correspond with and make their wishes known to a central board through two agents, one of which is the president of the bank, selected by the men the bankers have selected—that is, by the six directors—the other will be the chairman of the board of directors selected by the Government. Now, there are pretty direct sources of information and advice, and they, in a way, represent different interests, do they not?

Mr. WHEELER. Yes.

Senator REED. Now, do you think, if you constituted yourself this central board, and you had those two sources of information, together with daily reports as to the transactions of the bank, you would have much difficulty in getting all the advice you needed from both sides of the question, and sound advice?

Mr. WHEELER. I think, Senator, if you impose upon the directors of the Federal reserve board the necessity for securing this information, it is going to be a slower process than if you had two men sitting with them who were supposed to have the information and to have nothing else to do but to get it and keep it available. And it seems to me a matter not of multiplying methods, but really of concentrating to a point that would make available to the seven members of the board, without the necessity of correspondence or of communication, except to verify, as they may wish to verify, with their own agent in that regional association, the information they desire relative to the needs of that district.

Senator REED. Now, these two men sitting in Washington would have to get their information somewhere?

Mr. WHEELER. Yes; just exactly the same, but they would have solely the business of getting it, and not the business of following the affairs of the banking system of the country, whereas the seven men are responsible for some very heavy operations.

Senator REED. Don't you know, when you boil the criticism down, that there is not much in it, particularly when you take into consideration the fact that these banks would effect any kind of organization they want for the purpose of having a representative here in

Washington who can go down to the board every day and talk with the board and the board always be willing to listen to him, as long as he comes in a proper way? Don't you know that is the way this will work out?

Mr. WHEELER. It may, if the authorized source inclusive in the machinery—

Senator REED. I would not have any objection at all to allowing the banks to have two agents in Washington; but I do object to have them sitting with this board.

Mr. WHEELER. Well, they are powerless, unless they do.

Senator REED. Well, certainly they are powerless, except to give the board information. Now, if you mean to put them on this board for the purpose of controlling this board let us be frank about it and say that.

Mr. WHEELER. That is ridiculous. Whether the president of the United States is the present incumbent, or any other, this Nation will always trust him to appoint men in that important capacity that could not be controlled by two men elected by a dozen representatives of the Federal reserve or regional association.

Senator REED. Now, it is ridiculous that they should control. Therefore, all that is left is that they should advise. Is not that true?

Mr. WHEELER. That is just what we ask from them.

Senator REED. Do you doubt for a minute—and is it not ridiculous to assume; I will adopt your adjective—that any Federal reserve board would refuse to listen to any man who substantially represented the banking interests who came there with a proper suggestion?

Mr. WHEELER. I thoroughly believe that your Federal reserve board will do just that thing. But rather than have to wait until some man may come, as chance may send him, or as a crying need in his region may demand that he go, if you can have instead a continuous representation there on the ground, in communication with those who have the information at their hand and can give it to them, I think it is an advantage to the Federal reserve board to have this representation present at all times rather than have it come spasmodically.

Senator REED. Well, I think the suggestion would not be urged with such pertinacity and in such a serious way unless there was in the back of somebody's head the thought that those bankers would have a potential influence—I do not mean an improper influence; but I do think, since we are talking about it, that a Federal reserve board properly organized, with its machinery and its employees, will be every day—and I will go further and say every hour of the day—in actual touch with the 12 regional banks and know exactly what is going on. If it does not, I do not want to see the system established.

Mr. WHEELER. Senator, might I suggest this to your mind? You assume that these men would be bankers; and I think you are absolutely right; and they would be, in a sense in the employ of the reserve associations, as they would be elected by those who were elected by the regional boards of directors. But when it comes to the question of residence in Washington and having authority to sit there, and have their cause strongly advocated before that board,

please do not forget that the bankers have absolutely eliminated from their recommendations the idea of the advisory council, and have asked you for another thing in connection with the Federal reserve board. The Council at Chicago which was held a few weeks ago distinctly said "No" to the advisory council, and had it been one of those propositions that the banks of the country were interested in putting two men on that board, without vote, in order that they might be watchers, they certainly would not have seen fit to forego that as one of their recommendations.

But the suggestion does not, as I understand it, come out of the banking fraternity. I think the first suggestion that was made for the advisory council was made by the committee of the Chamber of Commerce of the United States, and I think that Senator Owen, the chairman, talked with the members of our committee back in July on that question. At any rate it was worked into the bill after that conference had been held here in Washington. Now, it is not a banker's proposal, Senator, as I understand it. It is a proposition that comes from the commercial interests of the country.

Senator REED. Well, if it came from the bankers, I would not turn it down on that account.

Mr. WHEELER. We are not all bad.

Senator REED. No. I say there are two very ridiculous things going on. One is the gentleman who indulges in writing a letter denouncing all bankers as wicked, and the other the bankers getting together and denouncing Congress as a lot of socialists, and between the two I think I have the most sympathy with the fellow who writes the letter, because he has got the most sense; but not much with either.

Now, suppose that, instead of adopting your suggestion, this committee should conclude to recommend taking the Cabinet officers out of this board, leaving the Secretary of the Treasury, and should conclude to require, say, three practical bankers to be appointed, and that they should recommend that the bill should provide for good salaries, and that the permanency of this board as to its membership should be largely assured, do you not think that would go a long way toward satisfying the demands that you people make along that line?

Mr. WHEELER. I think that you would have reduced the necessity; but the utility of the advisory council from an advisory standpoint still remains.

Senator REED. Well, I will not argue that point. I think there are objections, but I am very much obliged to you.

Mr. WHEELER. Mr. Chairman, will you please accept my thanks again for your courtesy in hearing me?

The CHAIRMAN. The committee very greatly appreciates you gentlemen having been here.

Gentlemen, it is now 10 minutes after 5 o'clock.

Senator REED. There is a gentleman here from my State—but I believe he has gone.

The CHAIRMAN. Then, suppose we adjourn until 10 o'clock tomorrow?

Senator BRISTOW. Would it not be better to make it 10.30, Mr. Chairman?



Senator NELSON. Yes; half past 10 would be better. Who are to be heard to-morrow?

The CHAIRMAN. Prof. Jenks, of Columbia University. Mr. Gilbert was to follow him, but he says he can not get here at that time.

Senator NELSON. I want to hear somebody on the foreign-exchange question.

The CHAIRMAN. That is Prof. Gilbert.

The following additional statement of Mr. George H. Shibley was filed with the committee:

Mr. Chairman and gentlemen of the committee, when I was before you on October 7 and had closed my statement, a request was made of me by one of your number that I incorporate my ideas in a bill, and I have done so, suggesting amendments to the House bill. Herewith I present the copy to the committee, and will ask that it be published in the record, together with a brief summarization of the main points.

My proposal is for legal-tender notes, whereas the House bill proposes a paper currency that would be inferior to gold money in legal-tender qualities, and therefore the banks and individuals would hold gold and thus keep it from being placed in the Nation's gold reserve.

I propose a single gold reserve in connection with 12 banks of issue. At the start the gold reserve would amount to more than \$1,250,000,000—all of the gold at present in the United States Treasury—which is more than six times the amount of England's central gold reserve and one and one-half times more than the French central gold reserve, the largest in the world to-day.

An added power for the Federal reserve board that I propose is that the law shall transfer to it the \$759,000,000 of United States bonds, now held by the Treasurer of the United States as security for the bank-note circulation, this change to be brought about by the retirement of the bank notes, followed by the purchase of the bonds by the Federal reserve board through the issuance of Federal reserve notes. The proposal is to reissue the bonds to the Federal reserve board as 3 per cent's, to be used as needed to retire paper currency to prevent inflation. Paper currency will have to be retired somewhat in proportion as the national bank reserves are lessened; probably \$350,000,000 of paper currency will have to be retired as rapidly as the bank reserves are lessened if stability in the purchasing power of money is to be maintained; and then there is the immense output of gold from the mines. This volume of gold from the mines is such that doubtless something like \$100,000,000 of paper currency should be retired yearly during the dull season of the year until such time as the mint price for gold is reduced throughout the gold-standard world. These needed provisions for retirement of paper currency can be met by placing within the control of the Federal reserve board the large volume of United States bonds, as I have suggested.

To meet the unusual demands for money within our country, the only thing needed is authority to provide an elastic volume of legal-tender paper currency, the same as is supplied in each of the leading European countries except England.

To provide for the prompt retirement of the paper currency that may be issued in times of threatened bank failures, I have proposed a plan for the resale of commercial paper by the Federal reserve banks to such of the member banks as may have more money on hand than is needed.

The success of the proposed system would in nowise be dependent upon the cooperation of the national banks or the State banks or trust companies. Immediate and continued success would be assured, and both the banks and the people should heartily approve the system. All are vitally interested in the establishment of a system that will promote prosperity, as the proposed system unquestionably would, for it is constructed upon the principles in successful operation in Europe for 40 years. No untried ideas are suggested; whereas the present bill is in many of its details in direct opposition to the successful experiences in Europe, as I have explained in my statement of October 6 and 7.

[The parts to be eliminated from the House bill are in brackets, and the parts to be added are in italics. Comments are in parentheses.]

AMENDMENTS PROPOSED BY MR. GEORGE H. SHIBLEY TO H. R. 7837, SIXTY-THIRD CONGRESS, FIRST SESSION.

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

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That the short title of this act shall be the "Federal Reserve Act."

FEDERAL RESERVE [DISTRICTS] Banks.

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

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

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

POWERS AND DUTIES OF FEDERAL RESERVE BANKS.

*Sec. 3. The powers and duties of each Federal reserve bank shall be:*

(a) *To establish and maintain throughout the Nation an improved system for the transfer of money and credit, to be known as the Federal reserve sys-*

tem, to consist of twelve or more Federal reserve banks, also a supervisory board, and as many of the privately owned banks as care to join, each of said privately owned banks to deposit with the Federal reserve bank in its district sufficient reserves to settle the daily balances.

(b) Through the mechanism hereinafter provided each Federal reserve bank shall control the interest rate for money within the district where the said bank is located, the rate of discount to be subject to the supervisory power of the Federal reserve board provided for in this act, and the aim shall be to promote stability in the purchasing power of the standard of value, thus to aid in the development of the industrial system and of prosperity and deal justly as between the industrial groups.

(c) In connection with the official rate the Federal reserve bank shall at all times (1) offer to supply money to the national and such other banks as comply with the requirements of this act, the cash to be distributed by rediscounting short-time business paper as hereinafter provided, and (2) be in a position to reduce the volume of money in circulation (a) by retaining the cash received from the payment of the short-time business paper, (b) by reselling business paper should offers for it be made, and (c) should occasion require to retire from time to time some of the existing currency or its substitutes. [Two additional sources of change in the volume of money in circulation will be the inflow and the outflow of gold from our shores.]

(d) The national board of the Federal reserve system shall be placed in control of the gold in the United States Treasury, subject to the existing obligation with the holders of gold certificates, and there shall be maintained a gold reserve for the entire Nation, so that demands for gold from abroad will not affect the volume of money in circulation in the United States, and that the gold standard of prices will assuredly be maintained, resulting in a fixed par of exchange with the other countries using the same standard.

(e) In connection with the paper currency, which shall be legal tender, there shall be back of every dollar issued an equal amount of gold or an equal amount of commercial paper, as hereinafter provided for, or bonds of the United States or of a State or of a municipality of this Union, and every dollar of paper currency in circulation from whatever source shall be redeemable in gold at the main offices of the Federal reserve board upon demand, at par.

(f) Branches within the district shall be established wherever the board of directors shall deem best, subject to a right in the Federal reserve board to finally decide.

(g) With the consent of the Federal reserve board, to open and maintain banking accounts in foreign countries and establish agencies in such countries wheresoever it may deem best for the purpose of purchasing, selling, and collecting foreign bills of exchange, and to buy and sell with or without its indorsement, through such correspondents or agencies, prime foreign bills of exchange arising out of business transactions which bear the names of two or more responsible parties or are secured on the property sold. (Compare page 27 of House caucus bill.)

(h) To accept payments for the Federal Government without charge, and, without charge, to make payments for the said Government to the extent of its credit balance, and as far as may be requested by the said Government to take over for safe-keeping or management, free of charge, securities and valuables belonging to it or placed under its management. (From Swiss law.)

(i) The said bank shall become a body corporate, and, in the name designated in the organization certificates, shall have power to perform all the acts necessary and proper to carry out the purposes of this act, and shall have succession for a period of twenty years from its organization unless sooner dissolved by act of Congress.

(j) The Federal reserve board and the boards of directors of the Federal reserve bank shall not invest funds in real estate except with the consent of Congress.

#### ONE GOLD RESERVE.

Sec. 4. That as rapidly as gold certificates shall be paid into the Federal reserve system, and paid into the United States Treasury and the subtreasuries, they shall be retired, and in their place shall be issued a like amount of legal-tender notes provided for in this act. (See page 1846 of Hearings.)

*As rapidly as the Treasury notes and the United States notes now outstanding shall be paid into the Federal reserve system and paid into the United States Treasury and subtreasuries they shall be retired, and in their place shall be issued a like amount of the legal-tender notes called for in this act.*

*Whenever gold bars or gold coins are tendered to a Federal reserve bank at its main office it shall forthwith purchase it at the rate of \$18.60 per troy ounce, nine-tenths fine, and when pure at \$20.66 $\frac{2}{3}$  per ounce. The purchase money shall be the legal-tender notes provided for in this act, and all of the gold received by each Federal reserve bank shall be held by the national board. (See Hearings, page 1825, last paragraph.)*

*As rapidly as gold coins shall be received in the United States Treasury and subtreasuries they shall be transferred to the Federal reserve banks in exchange for the legal-tender notes called for in this act, unless the Government shall choose to retain them. (See page 1825 of Hearings.)*

ADDITIONAL POWER IN THE FEDERAL RESERVE BOARD.

*Sec. 5. That the circulating notes of the national banks shall be retired under regulations to be provided by the Federal reserve board hereinafter provided. The said board shall offer to purchase at par and with accrued interest the United States bonds on deposit with the Treasurer of the United States as security for the said circulating notes, payment to be in legal-tender notes issued under authority of this act. The bonds purchased shall be canceled, and in their place shall be issued to the Federal reserve board an equal amount of three per cent United States bonds, to be held by the said board for future use. The bonds shall be made payable at such times as the Federal reserve board shall specify: Provided, That the time shall not exceed twenty years from the date of sale by the said board. These bonds shall be exempt from Federal, State, and municipal taxation, both as to income and principal, and shall be used by the Federal reserve board to retire paper currency whenever required for promoting stability in the purchasing power of money, and may be used to maintain the gold reserve. (On the proposed basis of maintaining stability in the purchasing power of money probably \$350,000,000 of paper currency will have to be retired to prevent inflation from the reduction in the volume of the national-bank reserves. To prevent inflation from gold from the mines it may be that each year \$100,000,000 of paper currency may have to be retired until an international agreement is reached to reduce the mint price for gold; pages 1773-1781 of Hearings. The total volume of paper currency in circulation before the retirement of any of it as above suggested would be \$2,355,000,000, with a gold reserve amounting to more than 50 per cent.)*

*If at any time \$200,000,000 of paper currency shall be retired to make place for gold from the mines, the President shall invite the Governments of the earth that are coining gold to unite in an agreement that each will amend its mint law by reducing to an agreed figure the price at which gold shall be coined. (See pages 1775-1782 of Hearings; also memorial by Mr. Shibley dated May 12, 1913, pages 7, 18, published by Senate Committee on Banking and Currency.)*

[FEDERAL RESERVE BANKS.]

*Boards of Directors of Federal Reserve Banks.*

SEC. [4] 6. [The national banks in each Federal reserve district uniting to form the Federal reserve bank therein, hereinbefore provided for, shall under their seals, make an organization certificate, which shall specifically state the name of such Federal reserve bank so organized, the territorial extent of the district over which the operations of said Federal reserve bank are to be carried on, the city and State in which said bank is to be located, the amount of capital stock and the number of shares into which the same is divided, the names and places of doing business of each of the makers of said certificate and the number of shares held by each of them, and the fact that the certificate is made to enable such banks to avail themselves of the advantages of this act. The said organization certificate shall be acknowledged before a judge of some

court of record or notary public; and shall be, together with the acknowledgment thereof, authenticated by the seal of such court, or notary, transmitted to the Comptroller of the Currency, who shall file, record, and carefully preserve the same in his office. Upon the filing of such certificate with the Comptroller of the Currency, as aforesaid, the said Federal reserve bank so formed shall become a body corporate, and as such, and in the name designated in such organization certificate, shall have power to perform all those acts and to enjoy all those privileges and to exercise all those powers described in section fifty-one hundred and thirty-six, Revised Statutes, save in so far as the same shall be limited by the provisions of this act. The Federal reserve bank so incorporated shall have succession for a period of twenty years from its organization, unless sooner dissolved by act of Congress.] (See sec. 3, par. i.)

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

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

Class B shall consist of three members, who shall be representative of the [general] public interests of the reserve district *except the bankers*.

Class C shall consist of three members, who shall be [designated by the Federal reserve board] *representative of the public interests of the reserve district except the bankers*.

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

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

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

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

if it should appear at any time that such director does not fairly represent the commercial, agricultural, or industrial interests of his district.

[Three directors belonging to class C shall be chosen directly by the Federal reserve board and shall be residents of the district for which they are selected, one of whom shall be designated by said board as chairman of the board of directors of the Federal reserve bank of the district to which he is appointed and shall be designated as "Federal reserve agent." He]

*Directors of class B and class C shall be appointed by the Federal reserve board from among those who shall have been nominated by the organized citizens of the district other than the bankers, subject to the advice and consent of the Senate. The aim shall be to select residents of the district who shall be fairly representative of the citizens of the district other than the bankers.*

*The chief executive officer of each Federal reserve bank shall be known as governor and shall be nominated by the board of directors and confirmed by the Federal reserve board. His term of office shall be indeterminate, subject (1) to the will of a majority of the board of directors, or (2) the Federal reserve board may call for the nomination of a successor.*

*In the transaction of business between the Federal reserve board and each of the Federal reserve banks, the national board shall be represented by its appointee, who shall be a person of tested banking experience, and shall be designated as "Federal reserve agent." He may be present at all meetings of the board of directors at which business is officially transacted, and shall have unrestricted access to the books and papers of the bank [and in addition to his duties as chairman of the board of directors of the Federal reserve bank of the district to which he is appointed.]. He shall be required to maintain under regulations to be established by the Federal reserve board a local office of said board, which shall be situated on the premises of the Federal reserve bank of the district. He shall make regular reports to the Federal reserve board and shall act as its official representative for the performance of the functions conferred upon it by this act. He shall receive an annual compensation to be fixed by the Federal reserve board and paid monthly [by the Federal reserve bank to which he is designated] from its treasury upon vouchers issued by order of the said board.*

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

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

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

#### MEMBER BANKS—THREE CLASSES.

*Sec. 7. That in connection with each Federal reserve bank there shall be three classes of member banks, as follows:*

*Class A. The national banks.*

*Class B. The State banks and trust companies that comply with the regulations of the Federal reserve board concerning the rediscount of commercial paper.*

*Class C. The banks that become members of the Federal clearing house.*

*Each national bank and each State bank and trust company in the United States on the mainland may become a member of the Federal reserve system for clearing-house purposes, and the condition of membership shall be the depositing of sufficient funds to settle the daily balances, also the compliance with the other clearing-house regulations to be issued by the Federal reserve board.*

*To entitle a State bank or trust company to the right to rediscount commercial paper as hereinafter provided it shall comply with the regulations by the Federal reserve board on this subject, which shall not request that banking capital be deposited with the Federal reserve system.*

*To safeguard the national banks against runs by depositors and to safeguard the citizens against losses and inconveniences from insolvent national banks, the Federal reserve board shall issue regulations whereby each national bank shall be entitled to rediscount commercial paper, and also, when necessary, secure direct loans from the Federal reserve system to the amount owing to depositors: Provided, however, That the liability of the Federal reserve system and of the Government of the United States for losses from this source shall be limited to the amount of the profits of the Federal reserve system for the preceding ten years. (See pages 1841-1842 of Hearings.)*

FEDERAL RESERVE BOARD.

Sec. [11] 8. That there shall be created a Federal reserve board, which shall consist of [seven] *five* members, including the Secretary of the Treasury, [the Secretary of Agriculture, and the Comptroller of the Currency] who shall be [members] *a member* ex officio, and four members appointed by the President of the United States, by and with the advice and consent of the Senate []. In selecting the four appointive members of the Federal reserve board, not more than one of whom shall be selected from any one Federal reserve district, the President shall have due regard to a fair representation of different geographical divisions of the country. The four members of the Federal reserve board appointed by the President and confirmed as aforesaid], *who* shall devote their entire time to the business of the Federal reserve board and shall each receive an annual salary of \$10,000, together with an allowance for actual necessary traveling expenses [and the Comptroller of the Currency, as ex officio member of said Federal reserve board, shall, in addition to the salary now paid him as comptroller, receive the sum of \$5,000 annually for his services as a member of said board]. Of the four members thus appointed by the President [not more than two shall be of the same political party, and] at least one [of whom] shall be a person experienced in banking. [One shall be designated by the President to serve for two, one for four, one for six, and one for eight years, respectively, and thereafter each member so appointed shall serve for a term of eight years unless sooner removed for cause by the President.] *The term of office shall be four years unless sooner recalled by the President.* (Pages 1787, 1816, and 2526 of Hearings.) Of the four persons thus appointed, one shall be designated by the President as manager and one as vice manager of the Federal reserve board. The manager of the Federal reserve board, subject to the supervision of the Secretary of the Treasury and Federal reserve board, shall be the active executive officer of the Federal reserve board.

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

The first meeting of the Federal reserve board shall be held in Washington, District of Columbia, as soon as may be after the passage of this act, at a date to be fixed by the reserve bank organization committee. The Secretary of the Treasury shall be ex officio chairman of the Federal reserve board. No member of the Federal reserve board shall be an officer or director of any bank or banking institution or Federal reserve bank nor hold stock in any bank or banking institution; and before entering upon his duties as a member of the Federal reserve board he shall certify under oath to the Secretary of the Treasury that he has complied with this requirement. Whenever a vacancy shall occur, other than by expiration of term, among the four members of the Federal reserve board appointed by the President, as above provided, a successor shall be appointed by the President, with the advice and consent of the

Senate, to fill such vacancy, and when appointed shall hold office for the unexpired term of the member whose place he is selected to fill.

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

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

*Powers and duties of Federal reserve board.*

Sec. [12] 9. That the Federal reserve board hereinbefore established shall be authorized and empowered:

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

(a $\frac{1}{2}$ ) *To control a central gold reserve for the benefit of the entire Nation.*

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

(c) To suspend for a period not exceeding thirty days (and to renew such suspension for periods not to exceed fifteen days) any and every reserve requirement specified in this act: *Provided,* That it shall establish a graduated tax upon the amounts by which the reserve requirements of this act may be permitted to fall below the level hereinafter specified, such tax to be uniform in its application to all banks; but said board shall not suspend the reserve requirements with reference to Federal reserve notes.

(d) To supervise and regulate the issue and retirement of Federal reserve notes [and to] *including the prescribing of* [prescribe] the form and tenor of such notes, *except that the notes shall be issued in the name of the Federal reserve system.*

(d $\frac{1}{2}$ ). *To formulate the method whereby the index number or gauge showing the purchasing power of money (see paragraph b of section 3) shall be constructed, and be maintained.*

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

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

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

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

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



## [FEDERAL ADVISORY COUNCIL.]

*(Inquiries and advice.)*

Sec. [13.] 10. There is hereby created a Federal advisory council, which shall consist of as many members as there are Federal reserve districts. Each Federal reserve bank by its board of directors shall annually select from its own Federal reserve district one member of said council, who shall receive no compensation for his services, but may be reimbursed for actual necessary expenses. The meetings of said advisory council shall be held at Washington, District of Columbia, at least four times each year, and oftener if called by the Federal reserve board. The council may select its own officers and adopt its own methods of procedure, and a majority of its members shall constitute a quorum for the transaction of business. Vacancies in the council shall be filled by the respective reserve banks, and members selected to fill vacancies shall serve for the unexpired term.

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

*That the representatives of the bankers on the boards of directors of the Federal reserve banks and every national organization of citizens may inquire of the Federal reserve board concerning its affairs and answer shall be made. Also, representatives of the said organizations may rightfully tender advice. (See page 1789 of Hearings.)*

## REDISCOUNTS.

Sec. 11. *That banks in classes A and B may, at an office of the Federal reserve bank within the district wherein the applying bank is located, rediscount notes and bills of exchange that arise out of commercial transactions as hereinafter defined.*

*The paper that shall be eligible to rediscount within the meaning of this act shall consist of notes, bills of exchange and acceptances issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or [may] are to be used, for such purposes, the Federal reserve board to have the right to [determine or] define the character of paper thus eligible; but such definition shall not include notes or bills issued or drawn for the purpose of carrying or trading in stock, bonds, or other investment securities, nor shall anything herein contained be construed to prohibit the rediscounting of notes and bills of exchange secured by staple agricultural products, or other goods, wares, or merchandise.*

*The security to the Federal reserve banks shall include the indorsement of the banks.*

*The maturity of the paper eligible to rediscount shall be stated from time to time by the Federal reserve board, together with such other regulations as it may deem proper.*

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

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

*Section fifty-two hundred and two of the Revised Statutes of the United States is hereby amended so as to read as follows: No association shall at any time be indebted, or in any way liable, to an amount exceeding the amount of its capital stock at such time actually paid in and remaining undiminished by losses or otherwise, except on account of demands of the nature following:*

*First Notes of circulation.*

Second. Moneys deposited with or collected by the association.

Third. Bills of exchange or drafts drawn against money actually on deposit to the credit of the association, or due thereto.

Fourth. Liabilities to the stockholders of the association for dividends and reserve profits.

Fifth. Liabilities incurred under the provisions of sections [two, five, and fourteen] *eleven* of the Federal reserve act.

#### LOANS TO MEMBER BANKS.

(From the Owen-Glass bill.)

SEC. [14.] *12.* Whenever in the opinion of [the Federal Reserve Board] a board of directors of a Federal reserve bank the public interest [so] requires [the Federal Reserve Board may authorize the reserve bank of the district to] that the bank shall discount the direct obligations of member banks, secured by the pledge and deposit of satisfactory securities, *authority so to do is hereby granted.* (See section 7, above.) [ ]; but in no case shall the amount so loaned by a Federal reserve bank exceed three-fourths of the actual value of the securities so pledged or one-half the amount of the paid-up and unimpaired capital of the member bank.]

#### OPEN-MARKET OPERATIONS.

SEC. [15] *13.* That any Federal reserve bank may, under rules and regulations prescribed by the Federal reserve board, purchase and sell in the open market, either from or to domestic or foreign banks, firms, corporations, or individuals, prime bankers' bills, and bills of exchange of the kinds and maturities by this act made eligible for rediscount, and cable transfers.

#### [REDISCOUNTS.]

##### *Deposits.*

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.

##### *Resale of commercial paper.*

Sec. 15. That whenever member banks of class A or B possess excess cash they may purchase interest-bearing paper from the Federal reserve bank in their respective districts. The Federal reserve board shall prescribe rules under which the reserve banks shall offer to resell the paper they have purchased.

#### NOTE ISSUES.

SEC. [17] *16.* That Federal reserve notes, to be issued at the discretion of the Federal reserve board for the purpose of making advances to Federal reserve banks as hereinafter set forth and for no other purpose, are hereby authorized. The said notes shall be obligations of the [United States] *Federal reserve system* and shall be [receivable for all taxes, customs, and other public dues] *legal tender.* They shall be redeemed in gold [or lawful money] on demand [at the Treasury Department of the United States, in the city of Washington, District of Columbia, or at any Federal reserve bank] *at the office of the Federal reserve board in each of the Federal reserve banks.*

Any Federal reserve bank may, upon vote of its directors, make application to the local Federal reserve agent for such an amount of the Federal reserve notes hereinbefore provided for as it may deem best. [Such application shall be accompanied with a tender to the local Federal reserve agent of collateral in amount equal to the sum of the Federal reserve notes thus applied for and issued pursuant to such application. The collateral security thus offered shall be notes and bills accepted for rediscount under the provisions of section 14 of this act, and] *Delivery of the notes shall be made as called for, and at the close of each business day the Federal reserve bank shall transfer to the Federal*

*reserve agent an amount of acceptable commercial paper taken under authority of sections 11 and 12 of this act, which, together with the amount of gold certificates and of gold received, shall equal the amount of notes used.* The Federal reserve agent shall each day notify the Federal reserve board of issues and withdrawals of notes to and by the Federal reserve bank to which he is accredited. The said Federal reserve board shall be authorized at any time to call upon a Federal reserve bank for additional security to protect the Federal reserve notes issued to it.

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

[The Federal reserve board shall have power, in its discretion, to require Federal reserve banks to maintain on deposit in the Treasury of the United States a sum in gold equal to five per centum of such amount of Federal reserve notes as may be issued to them under the provisions of this act; but such five per centum shall be counted and included as part of the thirty-three and one-third per centum reserve hereinbefore required.] The said board shall also have the right to grant in whole or in part or to reject entirely the application of any Federal reserve bank for Federal reserve notes; but to the extent and in the amount that such application may be granted the Federal reserve board shall, through its local Federal reserve agent, deposit Federal reserve notes with the bank so applying, and such bank shall be charged with the amount of such notes and shall pay such rate of interest on said amount as may be established by the Federal reserve board, [which rate shall not be less than one-half of one per centum per annum,] and the amount of such Federal reserve notes so issued to any such bank shall, upon delivery, become a first and paramount lien on all the assets of such bank.

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

Any Federal reserve bank may at its discretion withdraw collateral deposited with the local Federal reserve agent for the protection of Federal reserve notes deposited with it and shall at the same time substitute other collateral of equal value approved by the Federal reserve agent under regulations to be prescribed by the Federal reserve board.

[It shall be the duty of every Federal reserve bank to receive on deposit, at par and without charge for exchange or collection, checks and drafts drawn upon any of its depositors or by any of its depositors upon any other depositor and checks and drafts drawn by any depositor in any other Federal reserve bank upon funds to the credit of said depositor in said reserve bank last men-

tioned, 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. The Federal reserve board shall make and promulgate from time to time regulations governing the transfer of funds at par among Federal reserve banks, and may at its discretion exercise the functions of a clearing house for such Federal reserve banks, or may designate a Federal reserve bank to exercise such functions, and may also require each such bank to exercise the functions of a clearing house for its member banks.] *The Federal reserve board shall issue regulations providing for a clearing house for the entire Nation on the mainland. The rates at which funds shall be transferred through the said system shall be fixed from time to time by the Federal reserve board, and its decision after a public hearing shall be final. The hearings shall be published.*

SEC. [18] 17. That so much of the provisions of section fifty-one hundred and fifty-nine of the Revised Statutes of the United States, and section four of the act of June twentieth, eighteen hundred and seventy-four, and section eight of the act of July twelfth, eighteen hundred and eighty-two, and of any other provisions of existing statutes, as require that before any national banking association shall be authorized to commence banking business it shall transfer and deliver to the Treasurer of the United States a stated amount of United States registered bonds be, and the same is hereby, repealed.

## BANK RESERVES.

SEC. [20] 18. That from and after the date when the Secretary of the Treasury shall have officially announced, in such manner as he may elect, the fact that a Federal reserve bank has been established in any designated district, every [banking association] *national bank* within said district [which shall have subscribed for stock in such Federal reserve bank] shall be required to establish and maintain reserves as follows:

(a) If a country bank as defined by existing law, it shall hold and maintain a reserve equal to twelve per centum of the aggregate of its deposits, not including savings deposits hereinafter provided for. Five-twelfths of such reserve shall consist of [money which national banks may under existing law count as legal reserve,] *legal-tender notes* held actually in the bank's own vaults; [and for a period of fourteen months from the date aforesaid at least three-twelfths and thereafter at least five-twelfths of such reserve shall consist of a credit balance with the Federal reserve bank of its district.] The remainder of the twelve per centum reserve [hereinbefore required] may, [for a period of thirty-six months from and after the date fixed by the Secretary of the Treasury as hereinbefore provided,] consist of balances due from national banks in reserve or central reserve cities as now defined by law *and balances due from a Federal reserve bank or banks.* [From and after a date thirty-six months subsequent to the date fixed by the Secretary of the Treasury as hereinbefore provided the said remainder of the twelve per centum reserve required of each country bank shall consist either in whole or in part of reserve money in the bank's own vaults or of credit balance with the Federal reserve bank of its district.]

(b) If a reserve city bank as defined by existing law, it shall hold and maintain, for a period of sixty days from the date fixed by the Secretary of the Treasury as hereinbefore provided, a reserve equal to twenty per centum of the aggregate amount of its deposits, not including savings deposits hereinafter provided for, and permanently thereafter eighteen per centum. At least one-half of such reserve shall consist of [money which national banks may under existing law count as legal reserve,] *legal-tender notes* held actually in the bank's own vaults. [After sixty days from the date aforesaid, and for a period of one year, at least three-eighths and permanently thereafter at least five-eighths of such reserve shall consist of a credit balance with the Federal reserve bank of its district.] The remainder of the reserve [in this paragraph required] may, for a period of thirty-six months from and after the date fixed by the Secretary of the Treasury as hereinbefore provided, consist of balances due from national banks in central reserve cities as now defined by law *and balances due from a Federal reserve bank or banks.* [From and after a date thirty-six months subsequent to the date fixed by the Secretary of the Treasury as hereinbefore provided, the said remainder of the eighteen per centum reserve required of each reserve city bank shall consist either in whole or in part of reserve money in the bank's own vaults or of credit balance with the Federal reserve bank of its district.]

(c) If a central reserve city bank as defined by existing law, it shall hold and maintain for a period of sixty days from the date fixed by the Secretary of the Treasury as hereinbefore provided, a reserve equal to twenty per centum of the aggregate amount of its deposits, not including savings deposits hereinafter provided for, and permanently thereafter [eighteen] *twelve* per centum. [At least one-half of such] *This* reserve shall consist of [money which national banks may under existing law count as legal reserve,] *legal tender notes*, held actually in the bank's own vaults *and balances due from a Federal reserve bank or banks*. [After sixty days from the date aforesaid, and thereafter for a period of one year, at least three-eighteenths and permanently thereafter at least five-eighteenths of such reserve shall consist of a credit balance with the Federal reserve bank of its district. The remainder of the eighteen per centum reserve required of each central reserve city bank shall consist either in whole or in part of reserve money actually held in its own vaults or of credit balance with the Federal reserve bank of its district.]

SEC. [21] 19. That so much of sections two and three of the act of June twentieth, eighteen hundred and seventy-four, entitled "An act fixing the amount of United States notes, providing for a redistribution of the national bank currency, and for other purposes," as provides that the fund deposited by any national banking association with the Treasurer of the United States for the redemption of its notes shall be counted as a part of its lawful reserve as provided in the act aforesaid, be, and the same is hereby, repealed. And from and after the passage of this act such fund of five per centum shall in no case be counted by any national banking association as a part of its lawful reserve.

#### A NEW TITLE.

Following is a proposal for a new title for the bill:

*"A bill to provide for the establishment of Federal reserve banks, to establish a unified control of the purchasing power of money and that shall aim to promote stability, to insure competition in the loaning of money, safeguard the solvency of banks, guarantee the safety of deposits in national banks, and for other purposes."*

Mr. SHIBLEY. Gentlemen, there is an important detail in connection with the proposed law that I merely touched upon in my statement of October 6 and 7. In the House bill there is a proposal that of the four members of the Federal reserve board who are to be other than Cabinet members and the Comptroller of the Currency—

"One shall be designated by the President to serve for two, one for four, one for six, and one for eight years, respectively, and thereafter each member so appointed shall serve for a term of eight years unless sooner removed for cause by the President." (Sec. 11, lines 16-20, p. 18.)

The effect of this proposal if enacted into law would be to abolish to some extent the people's self-government in connection with the monetary system. The proposal is that the term of office of a majority of the seven members of the Federal reserve board shall be eight years, and therefore is nearly as oligarchical as the plan whereby the people elect Senators for six years and a Chief Executive for four years, thereby making it possible that the people's will as expressed at an election of Representatives may be blocked for two or four years. The proposal for the Federal reserve board is that it might be nearly two years after the people had turned a set of leaders out of power before they could get control of the Federal reserve board. To realize the far-reaching nature of this proposal let us briefly review the history of the Government of our country.

The Revolutionary War was successfully fought under a system of self-government by the people. The people's will prevailed because of a system of government in which the nomination and the election of members of the legislatures and the governors was comparatively simple and direct, in combination with a system whereby the voters instructed their representatives at will, and the legislatures elected the members of the Congress, subject to recall at any time. And Congress controlled the national executive department.

It was through the use of this system that the colonists fought the mother country and, with the aid of France and Divine Providence, won their freedom.

With the coming of peace and the opening of the country to trade with England the small amount of gold and silver that was in the country was largely shipped abroad to pay for purchases. This export of the gold and silver resulted in falling prices for commodities and the usual hard times. The control of the volume of money was in each of the 13 States, and, as usual, there was

much debate as to what should be done about issuing paper currency. In New Hampshire the voters at town meeting balloted upon a proposed State law for the issuance of more paper currency and rejected the proposal. In Massachusetts the volume of money was such that prices for commodities fell tremendously and mortgages were foreclosed at a mere fraction of what had been the selling prices for property. The creditor class controlled the legislature, and continued to do so for several years, which gave rise to Shay's rebellion during the latter part of 1786 and the first few months of 1787. The Constitutional Convention for the proposing of amendment to the Articles of Confederation met early in 1787, and it was a reactionary organization, having been elected by the existing legislatures. The people were not permitted to elect the delegates. It was so reactionary that of the 56 patriots who 11 years before had signed the Declaration of Independence only 6 were elected as delegates to the National Constitutional Convention.

In other words, the Federalists were in control. Instead of carrying out the instructions whereby they held office, namely, to propose amendments to the then-existing system of National Government, they at once closed the doors of the convention to the public and proceeded to plan a new and a reactionary system of government, one that would, if placed in operation, effectually abolish self-government by the people. The people were to be denied the right to instruct the men in office, thereby making the few in office a set of elected rulers; and only one of the four sets of officials in the National Government were to be elected by the people.

In the campaign for the election of delegates to the State conventions that were to pass upon this proposal it was described in various ways, among others in a set of letters by leading Federalists in what has come to be termed "The Federalist." In Letter No. X it is plainly stated that the will of the majority ought not to be permitted to prevail. The plan proposed was "The delegation of the Government to a small number of citizens elected by the rest."

And the letter continues:

"The effect is to refine and enlarge the public views by passing them through the medium of a chosen body of citizens." (P. 57, Lodge's edition.)

But the reactionists did not fully succeed. The only way that they could get the approval of the needed number of States for the proposed limitations on the people's power was to agree with the patriots that the First Congress would submit amendments restricting the power of Congress. This Massachusetts plan, as it was termed, resulted in the first 10 amendments materially limiting the power of Congress.

And eight years later the people's leaders succeeded in establishing party government. Washington was to retire from office and the patriots nominated Jefferson for the Presidency, and as they had developed quite an organization throughout the country they almost succeeded in securing control of the entire Government. They secured a majority of three in the House, and thus could stop some of the reactionary measures.

But two years later, owing to unfortunate conditions in France, a country that had made a failure of an attempt at popular government, the Republicans in the United States lost control of the House and the Federalists came into full control. They acted so in violation of the doctrines of popular government that in 1800 the people turned them out of the Presidency, the House, and the Senate and the incoming organization, headed by Jefferson, was pledged to majority rule and all of the other doctrines of the people's rule, and the pledges were kept.

Thus the people recovered their liberties to a very large degree. But there still remained the six-year term of office for the Senators and four years for the President, so that a people's victory in an election of Members of the House might not give them the control of the Government. That system of checks upon the people's rule is unknown in most of the countries in Europe. In England, France, Italy, and most of the European countries the party organization in control in the most popular branch of the legislative body has become the ruling power throughout the nation.

And here in the United States of America the tendency is to open a channel so that the party organization that is successful at the polls shall take charge of the Government and be given an opportunity to promote the general welfare, instead of dividing the control of the Government between two sets of party leaders, so that one can veto the acts of the other.

Therefore the forthcoming currency and banking law should provide that whenever a party organization shall elect the head of the Government he shall

be authorized to carry out in the administrative department the pledges made to the people; for example, carry out the pledges as to the control of the price level and the other features of the currency and banking system that are under the control of the Federal reserve board. The control within this board should be the same as in the Department of the Interior and the other departments, so that the head of the Government, whom the people elect, shall at once enter upon control as soon as he is sworn into office. It would not do to provide that the departments should be placed under boards not controlled by the people's elected representative, nor will it do to provide that the Federal reserve board shall not be responsive to the people's will at a presidential election. In order to make the needed change in the bill there should first be dropped the provision for private capital stock and a vast amount of bank reserves. Then the conditions would be such that it would clearly appear that the control of the Federal reserve board should be in the head of the Government, elected by the people, the same as the control of the Treasury Department.

I now turn to another subject, and one upon which I have been asked to speak.

Some of the witnesses before this committee have not recognized that during recent years there has been a scarcity of fluid capital, but declare that there has been a scarcity of money. That is a serious error.

Each year an immense volume of consumable articles are produced throughout the world, termed "fluid capital," as distinguished from fixed capital, such as the railroads. The result of establishing a unified control of the interest rate in this country will be that intelligence will be used in adjusting the interest rate for money, so that it will be fed out at rates that will conserve the volume of products. Money and bank credits are used to purchase the consumable articles, and the interest rate should be such as to spread out the consumption over the entire year and not run into a shortage. That will be accomplished through the control of the interest rate by the Federal reserve board if it properly performs its duties.

The principal thing in this connection is to distinguish between a scarcity of consumable things; that is, fluid capital and scarcity of money.

One more point. I have been asked if the gauge for the measurement of the purchasing power of money should include houses, lands, railroads, and other forms of fixed investments.

The proper answer, I believe, is no, because there are so many other factors than the volume of money that affect the prices of houses, lands, and railroads. The recent law for railroad valuation has affected the prices of railway stocks, and the changes in the density of population in each community affects the prices of land and of houses, whereas the prices for products in the primary markets—that is, the leading wholesale markets—are at once affected by changes in the interest rate for money. Thus the prices for commodities at wholesale have come to be used to measure the purchasing power of money. Economists are agreed on that point.

That concludes what I wish to present.

(The chairman presented the following, with request that it be printed in the record:)

REPORT OF CURRENCY COMMITTEE OF THE UTICA (N. Y.) CREDIT MEN'S  
ASSOCIATION.

*To the officers and members of the Utica Credit Men's Association.*

The entire work of this committee during the past year has been in connection with the efforts of the commercial interests of this country to bring about a proper and adequate reform of our banking and currency laws. Owing to the great lack of knowledge of business men generally upon the subject, the committee has devoted a considerable part of its efforts to forwarding the campaign of education which has been carried on by the national association.

Under date of February 17 we issued to the members of our association, and to business generally in this vicinity, over 800 of the national association's leaflets No. 1, together with a circular letter from the Utica association calling particular attention to the leaflet and the points covered by same.

On May 23 we issued in a similar manner, the national association leaflet No. 2.

On January 18, under the auspices of the Utica association, a meeting was held at Hotel Utica, to which a general invitation was extended to anyone interested, and which meeting was addressed by Edmund D. Fisher, deputy comptroller of New York City, an acknowledged authority on banking and finance.

Another important part of the committee's work consisted in issuing to our members and business men in this vicinity bulletins requesting them to urge upon the various authorities in Washington proper consideration of this important subject.

We feel that the work done by the national association in its various branches has contributed very largely to the progress already made in this matter, and we also feel that the most important work lies ahead and that the immediate future is the most critical point in the progress of this much-needed legislation. It is a well-known fact that practically all legislation in countries such as ours must, to a certain extent, be in the nature of a compromise, and that it is impossible to obtain the passage of any law that will please all.

The national committee on banking and currency, and also your local committee, have carefully considered the bill now before Congress, and while they feel that it is not all that could be desired, they believe that an honest and earnest effort is being made to give us a law that will overcome the principal defects in our present system. We feel that any criticisms should be made in a friendly and helpful spirit, and that we should aim to make only such as are of a constructive nature. After careful deliberation, your committee feels that it can do no better than indorse the changes to the so-called Glass-Owen bill recommended by the banking and currency committee of the national association, and which are embodied in a brief presented by them to the Senate Committee on Banking and Currency at a hearing which was accorded them on September 24, a copy of which brief it attached and made a part of this report.

We therefore offer the following resolutions:

Whereas it is a well-known fact that the waste incident to financial crises has always been a serious burden to the business interests of the country; and Whereas the Utica Association of Credit Men includes in its membership practically all of the larger and more important commercial interests of Utica and vicinity, and is a part of the National Association of Credit Men, representing the larger part of the business interests of the United States; and Whereas the banking and currency committee of said association has carefully considered the so-called Glass-Owen currency bill and changes recommended in same; Now, therefore, be it

*Resolved*, That this association urges upon the proper authorities at Washington and in particular upon the Senate Committee on Banking and Currency the necessity of the following changes in order that the bill when enacted into law will fully meet the situation and give us the relief from the recurring crises and financial panics which it is aimed to obtain:

I. That the number of Federal reserve banks be materially reduced. A smaller number, not over six, would insure banks of larger capital and resources and would overcome to a great extent the present serious defect of scattered reserves and would simplify the supervisory work of the Federal reserve board.

II. That either the Federal reserve banks have a representation on the Federal reserve board or the powers of the advisory board be increased and that the advisory board be allowed to select its own officers and that two of such officers receive salaries, maintain an office where the office of the Federal reserve board is located, and attend the meetings of the Federal reserve board but without a vote. We believe that the influence of these two members of the advisory board, supported by public sentiment, would be more effective than were they granted voting powers.

III. That the Federal reserve notes should not be the obligation of, nor be guaranteed by the Government, but be the direct obligation of the bank that issues them and redeemed by that bank *in gold* on demand. Making the Government guarantee the notes presupposes that the Government is to be a beneficiary in some way or receive a valuable consideration through the issue of them, and to compel the Treasury to redeem them on demand presupposes that the Treasury will have the means of acquiring the gold required for such purposes. Being a direct and first lien upon the assets of the issuing bank and secured by prime commercial paper and other high-class securities acceptable for rediscount under the provisions of the act and a gold reserve of at least 33½ per cent there will be no doubt that such notes without further security would circulate freely at par and perform their functions properly and adequately.

That the reserve against notes issued should be gold exclusively, and that the words "lawful money" as applied to reserves for the redemption of notes should be stricken from the bill.

IV. That the interest be not paid by Federal reserve banks on deposits of



any sort, but that if it is to be paid on Government moneys the same rate should be paid to banks as an inducement to them to deposit that part of their reserve which the measure leave optional with them to keep in their own vaults or to deposit with the Federal reserve bank.

V. That the provision for saving departments in connection with national banks be stricken out entirely. We believe that commercial and investment banking should be kept as nearly separate and distinct as possible.

*Resolved*, That certified copies of these resolutions be forwarded to Hon. Elihu Root and Hon. James A. O'Gorman and to Hon. Robert L. Owen, chairman of the Senate Committee on Banking and Currency, and that they be urged to give them their most careful consideration and that they be assured that the criticisms or suggestions are offered in the most friendly spirit and with the sole object of contributing to the end that is desired.

Respectfully submitted.

W. I. TABER.  
F. W. SESSIONS.  
A. H. DOBSON, *Chairman*.

A BRIEF PRESENTED TO THE SENATE COMMITTEE BY THE BANKING AND CURRENCY COMMITTEE OF THE NATIONAL ASSOCIATION OF CREDIT MEN.

Our commercial history shows that the waste attending financial crises falls heaviest upon business, and business men are therefore directly interested in the adoption of a banking and currency system that will meet the needs of a growing commerce and save them from the occasional heavy waste and the constant menace of an ineffectual system.

The banking and currency committee of the National Association of Credit Men has closely examined the proposed Federal reserve act to ascertain its powers as a regulative measure to provide for the nation's banking and currency requirements and to save business from the depression and waste of financial crises.

The committee is convinced that the spirit of the proposed act is constructive.

The framers of the bill could not foresee all the situations that such a measure is destined to meet, therefore Congress should receive in a friendly spirit the criticism which is directed by bankers and merchants against some of its provisions which, if not changed, may impair its efficiency as a governmental instrument of regulation. Such criticism should not be regarded as prejudiced, but as coming in a spirit of helpfulness from those whose experience qualifies them to forecast the effect of the proposed law upon the business of the country.

The committee offers the objections hereinafter set forth in the friendliest spirit. It is believed that the changes suggested are essential to win the confidence of the people and make the measure a safe and effective means of accomplishing the purpose for which it is intended.

Other changes, suggested by a careful study of the measure, but which seem to be of minor importance now, can safely be left for consideration until after the bill has been enacted into law and its practical application has demonstrated the need and value of such changes.

The committee suggests and urges the following changes:

I. THE NUMBER OF FEDERAL RESERVE BANKS.

The minimum number of Federal reserve districts and Federal reserve banks required by the proposed act, namely, 12, should be materially reduced.

The needs to be met and the benefits to be derived from an adequate reserve system are best assured through banking associations of large capital and resources. A smaller number of Federal reserve banks would be more efficient in consolidating and mobilizing reserves and protecting and conserving the Nation's supply of gold than the minimum number mentioned in the bill, and would concentrate and economize the supervisory work of the board of control.

The needs of different sections of the country can be met by branches of Federal reserve banks just as effectually as that service may be performed by the parent banks.

II. CONTROL AND MANAGEMENT.

The Federal reserve board is to possess very great powers and is to perform a public function of far-reaching importance. Therefore its members should be above suspicion of inefficiency, prejudice, and political control. They should possess high qualifications, based on a profound knowledge of and a wide ex-

perience in the theory and practice of finance. We can see no menace in having the Federal reserve banks represented upon this board, but if the Federal reserve banks are denied representation upon the Federal reserve board, then the powers of the advisory board should be increased. This board should be allowed to select its officers, and two of such officers should receive salaries, maintain an office where the office of the Federal reserve board is located, and attend the meetings of the Federal reserve board, but without a vote. The influence of these two members of the advisory board, supported by public sentiment, will be more effective than were they granted voting powers.

### III. FEDERAL RESERVE NOTES.

These notes should not be the obligation of nor should they be guaranteed by the Government, as there is no provision in the bill for the Treasury to acquire and maintain the gold reserve necessary for their redemption. They should be the direct obligation of the bank that issues them and redeemed by that bank in gold on demand.

To make the Government guarantee the Federal reserve notes and compel the Treasury to redeem them on demand presupposes:

A. That the Government is to be a beneficiary in some way or receive a valuable consideration through the issue of said notes.

B. That the Treasury will have the means to acquire the gold required for redemption purposes.

As the Government will not receive a valuable consideration through the issue of these notes, and all Government moneys will be deposited in the Federal reserve banks under the provisions of this measure, leaving the Treasury powerless to acquire gold except by issuing bonds, it will be dangerous to the credit of the Government to impose upon it this redemption requirement.

As a direct and first lien upon the assets of the issuing bank and secured by prime commercial paper, acceptances and other high-grade securities, acceptable for rediscount under the provisions of the proposed act, and a gold reserve of 33 $\frac{1}{3}$  per cent, there need not be any doubt that such notes without any other security will circulate freely at par and perform their functions properly and adequately.

The reserve of not less than 33 $\frac{1}{3}$  per cent and not more than 40 per cent held by the issuing banks for the redemption of these notes should consist of gold exclusively. The words "lawful money," as applied to reserves for the redemption of notes, should be stricken from the bill.

### IV. INTEREST ON DEPOSITS.

From an economic standpoint the Federal reserve banks should not pay interest on deposits therein, but if interest is to be paid on Government moneys, the same rate should be paid to banks as an inducement to them to deposit that part of their reserve which the measure leaves optional with them to keep in their own vaults or on deposit with a Federal reserve bank. There should be no preferred depositors in Federal reserve banks.

### V. SAVINGS DEPARTMENTS IN NATIONAL BANKS.

That provision should be stricken out entirely. It is dangerous. A careful reading of that provision of the bill impels one to believe that unless the Federal reserve board exercised very close scrutiny and established strict regulations very nearly all of the functions performed by the commercial department of a bank could be exercised by the savings department upon a very small and inadequate reserve, thereby defeating the reserve requirements of the bill as applied to national banks and jeopardizing the security of depositors.

We urge the eliminations and changes suggested in these five objections as directly concerning essential parts of the proposed act, and without which its powers to do the work for which it is directly intended may be seriously questioned.

The committee urges upon legislators, business, and banking men, in considering banking and currency legislation, that is in its judgment the greatest of our present national questions, a spirit of deep patriotism, so that the general and not special interest may be served.

(Hearing held Sept. 23, 1913.)

(Thereupon, at 5.10 o'clock p. m., the committee adjourned until tomorrow, Friday, October 17, 1913, at 10.30 o'clock a. m.)

FRIDAY, OCTOBER 17, 1913.

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

The committee assembled at 10.45 o'clock a. m.

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

Senator SHAFROTH. Prof. Jenks, will you please give your name, your business, and your experience in banking?

**STATEMENT OF PROF. JEREMIAH W. JENKS, PROFESSOR OF GOVERNMENT, NEW YORK UNIVERSITY, NEW YORK CITY.**

Prof. JENKS. My name is Jeremiah W. Jenks and I am professor of government in New York University. What more information would you like along this line?

Senator SHAFROTH. Well, your experience in any matters concerning economics or banking.

Prof. JENKS. I have been professor of economics for something over 20 years, and have taught along these lines more or less.

At the time that the question of the establishment of a new monetary system for the Philippines was under consideration I was asked by the War Department to visit the English and Dutch colonies, to look into their monetary systems, and advise on the legislation for the monetary system in the Philippines. I made a report on that, and a year or two later at the request of Secretary Root, at that time Secretary of War, I went to the Philippines again to advise further with reference to the establishment of that system.

I was also a member of the Commission on International Exchange that, at the request of the Chinese Government—

Senator SHAFROTH (interposing). That commission was asked to advise with them as to the establishment of a monetary system?

Senator NELSON. You were also on the Industrial Commission, were you not?

Prof. JENKS. I was not a member of the Industrial Commission, but was special agent in charge of their investigation of industrial combinations.

Senator BRISTOW. Have you ever been engaged in the banking business?

Prof. JENKS. Not at all.

Senator BRISTOW. You are just a student of these problems?

Prof. JENKS. I am just a student of these problems.

Senator SHAFROTH. Now, Prof. Jenks, you can tell us what you think of the bill, and what features of the bill are good and what features, in your opinion, are bad.

Prof. JENKS. I have been looking over the bill with a great deal of interest, and it seems to me that, fundamentally, it is good, and that there is very good reason for believing that it will improve very decidedly our present very defective banking system.

The three special points that have seemed to me of dominant interest are, first, that with reference to the issue of bank notes, because I think that our banking system has needed, almost more than any-

thing else, a system of currency that would have sufficient elasticity to adapt the supply of currency to the needs of business from time to time. I shall have one or two suggestions to make on that point, but it seems to me that, on the whole, the bill covers that point quite satisfactorily.

Secondly, heretofore we have had nothing that we could speak of as a real banking system for the country—a unified system. The bill aims to cover that feature; and although I think some changes in the bill as it stands now should be made on that point, it will, with some changes, meet that need quite satisfactorily.

In the third place, we have hitherto lacked any organization by which the bank reserves against deposits and against the issue of notes also could be easily mobilized to meet the needs of business in the different sections of the country at any time. The bill is making provision for that, which, again, I think is not quite satisfactory, but is clearly looking toward that; and it is likely, with some amendments, to accomplish that fairly well.

Most important of all, and underlying all of these, is the desirability that the currency system of the country should be on an absolutely sound basis; that it be a system so based upon gold that there can be no question in the mind of any person here or abroad that it is really sound from that viewpoint. There must be confidence on the part of the business men, here and abroad, as to the real stability of the system.

Along that line also, I think it desirable that new measures be taken so that the gold reserve of the country will be maintained in sufficient quantity and with a sufficient degree of stability so that confidence will not be disturbed.

There, again, it seems to me desirable to have some slight modifications made in the bill.

Those are the four most important needs that I had in mind. There are one or two other minor matters. Perhaps it would be well if I were to speak of those four points in that order, and then let other questions come up afterwards.

Senator SHAFROTH. Very well; that will be agreeable to us.

Prof. JENKS. Regarding the note issue, my own opinion has been—as I think it has been the opinion of most people who have been students of currency and banking—that it is better to have the elastic part of any currency system bank notes, rather than Government notes.

On the other hand, I have myself felt, in looking through this bill with a good deal of care, that although these are Government notes, the provisions for the issue of these notes, for their redemption, and for the reserve against them, are such that they possess practically all of the features of a bank-note currency issue with a Government guaranty.

Under those circumstances, while I myself should prefer to see it provided frankly and openly that they are bank notes, with, if it seems desirable, a Government guaranty—although I think they can be protected so that such guaranty would not be necessary—I think there is no very serious objection to them as they stand, because they are quite different in nature from the ordinary Government note that proved so disastrous in our earlier history and in the history of

almost all countries where Government notes have been directly issued.

Senator REED. Now, may I interrupt you there? I came in a little late and did not get your name.

Prof. JENKS. Jenks.

Senator NELSON. He is Prof. Jenks, of New York University.

Senator REED. You referred to the disastrous results which followed from the issuance of Government notes. Do you refer to the greenbacks in their early history?

Prof. JENKS. I think that is a very good illustration.

Senator REED. What other Government notes do you have in mind?

Prof. JENKS. I have in mind some of the French Government notes; some of the French assignats of the earlier days.

Senator REED. They were issued without proper safeguards, were they not?

Prof. JENKS. Yes; issued without proper safeguards; and also without the possibility of ascertaining what the business demands called for, and without proper provision for redemption.

Senator REED. Yes.

Prof. JENKS. It seems to me that, as regards the plan proposed in the bill, those defects are very largely covered—

Senator REED (interposing). Well, Prof. Jenks, do you not think that the trouble with the Government note was not the fact that the Government issued it instead of the bank but that it was an improvident issue?

Prof. JENKS. I think that is very largely true; but that brings up also another phase of the matter—

Senator REED (interposing). Well, just a moment, if I may cut off your answer; we will give you plenty of latitude.

Prof. JENKS. Yes; certainly.

Senator REED. The experience of the world with bank notes has been about a thousand times as disastrous, has it not, as the experience with Government notes—for the very same reason that the proper safeguards were not taken?

Prof. JENKS. It has been often disastrous.

Senator REED. So that the "unsafety"—if I may use that sort of an adjective—of the issue does not depend upon the question of whether the Government issues it or a bank issues it, but upon the conditions under which it is issued?

Prof. JENKS. I would agree to that. On the other hand, it is, I think, also true that the notes issued by the banks have a better opportunity—the people who are in charge of the bank issue, if they are the bankers themselves, have a better opportunity of adjusting them to the needs of business than Government officials have.

Senator REED. Do you remember the days of wildcat banking in this country?

Prof. JENKS. At the time of wildcat banking in this country conditions were such that the difficulty was the other way; the people who were in charge of issuing those bank notes had an opportunity of issuing them fraudulently; they were not properly watched or safeguarded.

Senator REED. Those were the evils in that system.

Prof. JENKS. Yes; there were many evils in that system.

Senator REED. I was interested in getting your opinion, because I have never been able to fathom the reason for the assertion which has been made that a bank note was perfectly good until the United States Government wrote its guaranty on it, and then it at once became an element of danger and a poor kind of currency.

Prof. JENKS. The matter depends, as I said before, upon the provisions for adapting it to the needs of the country and also to the securing of its ultimate safety. And, as I said before you came in, it seems to me that the provisions of this bill, while making Government notes, are substantially identical with providing what a bank note would be, if properly supervised and guarded by the Government, with an added Government guaranty, because the Government itself makes no provision whatever for the redemption of the notes by itself until after the banks have exhausted all of their resources.

Senator REED. Does not the virtue of the banking system and the strength of the Government make it safe?

Prof. JENKS. To a certain extent that is true. I should prefer it the other way myself, for almost all banks the world over have been in the habit of looking at this question from the standpoint of the bank note; and I think that many of the attacks which have been made upon this bill by the banks because they are Government notes instead of bank notes have been made without looking at the fundamental provisions made in the bill.

Senator REED. I am glad to have your analysis of the way the bankers look at it. While the bankers look at it that way, 99 per cent of the people of the United States would rather have a Government note than a bank note. And it seems to me that that feeling is a great element of safety for the Government note.

Prof. JENKS. I differ in my estimate as to how people look at it. I should say that, aside from the bankers, the business men of the country, the leading merchants, the leading importers, the leading manufacturers, and so on, would be more inclined to look at the matter in the other way than in the way you put it.

Senator REED. They are the 1 per cent of the people of the United States, but I am talking about the other 99 per cent.

Prof. JENKS. There, again, we should differ as to the percentage. The fundamental thing, after all—

Senator SHAFROTH (interposing). What has been the matter with our greenbacks, I should like to know?

Prof. JENKS. The fundamental trouble with our greenbacks? I am glad you raised the question. I was going to raise it myself in a different way.

Senator NELSON. You had better let the greenbacks alone; I give you fair warning. [Laughter.]

Prof. JENKS. I am willing to leave them alone.

The point, of course, is this, as regards the Government issue of greenbacks: It was an emergency issue made at a time when the Government was very much in need.

Senator REED. And the Government was in an emergency.

Prof. JENKS. I say the Government itself was in a very serious emergency.

Senator SHAFROTH. The Government saved interest on \$300,000,000 or \$400,000,000 for 30 or 40 years.

Prof. JENKS. I am inclined to think that it cost a great deal more than that saving, because of the depreciation of the notes.

Senator SHAFROTH. That was not a result of the notes, but of the war condition.

Senator NELSON. You overlook the fact that the people who took that money were our soldiers. I carried a musket and a rifle, and I carried those greenbacks in my pocket, and thought, as Fitz Green Halleck expressed it, we were "ready to smoke the pipes in peace and carry the tomahawks in war."

Prof. JENKS. Yes.

Senator NELSON. Now, we had enough faith in the Government to take that money, and we never raised an issue on the depreciation. That came from the fellows higher up that gobbled up the money after we got through with it. [Laughter.]

Prof. JENKS. I agree with that; but it would have been better for you, if instead of carrying a 40-cent or a 50-cent dollar you had been able to carry a 100-cent dollar. It may be that the Government had no other alternative; but it would take most of the day to discuss that question.

But granting it that it was an emergency matter, a case of necessity at the time, it was, after all, forcing the soldiers and others into a situation that was very unfortunate. Prices were double what they otherwise would have been; perhaps somewhat more than that at times.

Then, when it came to the getting them back ultimately to the gold standard, by contracting the currency, the only way possible, over a series of years, it led to a depreciation of business that was very serious. I think we would all agree on those facts.

Senator NELSON. It was very helpful during the war in paying old debts. [Laughter.]

Prof. JENKS. That is a viewpoint, however, I think, that in the piping times of peace that we have now we should hardly like to take as a principle.

Senator REED. Prof. Jenks, I just want to call your attention to some figures. I am not just making an argument on the greenbacks. But there has been so much said about it. Now, I have always had an idea that the only trouble with the greenback issue was the size of the Confederate Army. [Laughter.]

And I want to call your attention to some figures. I find that this is the situation:

Specie payments were suspended in 1862 and remained suspended until 1879. The greenbacks—the average gold value of the United States note ran in this way: In 1862 was 63 cents on the dollar.

Senator NELSON. I guess in 1864 it was the lowest.

Senator REED. In 1863 it was 68.9 cents. In 1864 it was 49.2 cents. Senator Nelson is right.

Senator NELSON. Yes.

Senator REED. In 1865 it was 63.6 cents. In 1866—now we have got through the war—it was 71 cents; in 1867, 72.4 cents; in 1868, 71.6 cents; in 1869, 75.2 cents; in 1870, 87 cents; in 1871, 89.5 cents; in 1872, 89 cents; in 1873, 87.9 cents; in 1874, 89.9 cents; in 1875 it

dropped back to 87 cents; in 1876, it was 89.9 cents; in 1877, 94.4 cents; in 1878, a year before the resumption of specie payments, it had gone to 99.2 cents.

So, I think that the war had something to do with that; and when we commenced to get our debts paid off and get some money in the Treasury, it got to be pretty good money.

Prof. JENKS. We began retiring them, and it was known that we were perfectly certain to retire them.

Senator REED. And in 1879 we resumed specie payment.

Prof. JENKS. Certainly. As soon as people became convinced that the greenbacks were going to be redeemed, and enough of them were redeemed, of course they went up in value.

Senator REED. But that is not all. They went up before that.

Prof. JENKS. Of course, they were going up during that period. But when we do get depreciation, and it becomes essential to contract the currency to restore its value, that act tends toward the depression of business generally.

Senator SHAFROTH. There have been no discounts on them since 1879, 34 years, have there?

Prof. JENKS. No.

Senator HITCHCOCK. Prof. Jenks, are you arguing against the issue of United States notes?

Senator NELSON. We had better drop greenbacks and get back to this bill.

Prof. JENKS. No, Senator, what I was arguing for was this: I said that under the circumstances my own opinion had been in favor of bank notes rather than Government notes, but that all of the provisions that have been made in this bill have given the Government notes practically the character of an excellent quality of bank notes, with a Government guaranty back of them.

So it seems to me that the difference between those who are advocating Government notes, as provided in the bill, and those who are advocating bank notes, is really very slight; the difference is largely a matter of name.

Under these conditions, personally, I have little objection to the bill as it stands on this point, although I should prefer to have it put the other way—straight bank notes.

Senator HITCHCOCK. Have you made any study which would enable you to decide whether the reserve provided for in the Treasury for the redemption of these notes is adequate?

Prof. JENKS. I have thought this with reference to that question: The proviso made for the reserve in the Treasury is 5 per cent; and, of course, it can call upon the reserve banks to have that supplemented at any time, if necessary. I imagine that would be sufficient. Of course it might happen that there could be a sudden demand upon the Treasury from some section of the country that it would be a little difficult to meet out of that 5 per cent that came from that section of the country, but I think if you take the whole Treasury reserve, and the fact that it can be supplemented immediately by telegraph if necessary, I do not see why that is not sufficient.

Senator HITCHCOCK. Do you think that 33 $\frac{1}{3}$  per cent reserve provided for in the bill is ample?

Prof. JENKS. I had a suggestion to make on that. I think it is much better to have that reserve handled in a somewhat different



way. The proviso in the bill as it stood earlier—some amendments have been made—was that the Federal reserve board should have the right to suspend that provision with reference to reserves, and no provision was made in the first place with reference to a tax upon a deficiency of reserves. That has been changed.

My own judgment upon that matter would favor the form in which the bill stands now as regards bank notes. The Federal reserve board should not be called upon under any circumstances to suspend the provisions of the law, but that the law shall provide a tax for any deficiency in reserves. I prefer to make the reserve a little higher than  $33\frac{1}{3}$  per cent—say, 35 per cent—and then impose a tax for every 1 per cent below that 35 per cent, and a steadily increasing tax, so that the pressure would come pretty soon—say, by the time the reserve got down to 30 per cent—so that the banks would only under the most extreme emergency be inclined to let the reserves go lower.

I did have some objection to the suggestion that you could put the reserve at 50 per cent and then tax it  $1\frac{1}{2}$  per cent for every  $2\frac{1}{2}$  per cent deficiency. A 50 per cent reserve is unnecessarily high.

The thought occurred to me that you could start with about 35 per cent reserve and tax every deficiency; 1 per cent for every 1 per cent fall, until the reserve reached 30 per cent and then increase your tax to  $1\frac{1}{2}$  per cent for every 1 per cent of decrease. The tax would thus be  $12\frac{1}{2}$  per cent when the reserves were 20 per cent. The rate might increase more rapidly if it seemed best.

Senator HITCHCOCK. What advantage is there in taxing that deficiency in reserve rather than increasing the charge for the notes?

Prof. JENKS. I think the point is quite different. I will speak of the two separately, if I may.

Senator HITCHCOCK. Yes; certainly.

Prof. JENKS. As regards the deficiency in reserve, the thought is this: We do not provide for a reserve of just  $33\frac{1}{3}$  per cent, or whatever per cent we take, with the idea that there can be no going below that. We expect the bank, in case of emergency, is going to violate that provision. And it is a very bad thing for the country, I think, to have a banker or any other man think he can violate a law as it stands.

Now, what you want to do is this: You want to have a reserve large enough so that you can feel that at all times it is safe, and then when the pressure comes for the extension of credit in the time of a threatening crisis you want to be able to make the man who takes the credit under those circumstances pay for it, and pay high enough so that he will not want to take very much, but take just what is necessary to save his business.

The bank, of course, will extend the credit or will not extend the credit as it sees fit; the bank ought to be willing to extend the credit just as far as it safely can.

If the bank has to pay a considerable tax upon the deficiency in reserve it will keep stiffening up the terms under which it makes the loan, without absolutely stopping, in such a way that it will, in many cases doubtless prevent the bankruptcy of individual concerns, and at the same time will not be violating the law. That much as covers the reserves.

It seems to me that you have a sufficient degree of elasticity to insure the safety of the system and to protect the business men of the country, because you can under these emergencies give them accommodation without violating the law.

On the other hand, you are making your terms severe enough so that there is no danger of your reserves getting below a perfectly safe amount at all times.

Now, that is a perfectly automatic process, and every one of our laws ought to work automatically, just as far as they can, and you ought not to confer upon any board or any individual the right to exercise discretion more than is necessary. The banks have to exercise discretion anyway with reference to the credit of the person who wants the loan, but when it comes to the demand for suspension of the law I do not see how the Federal reserve board can act really intelligently on a question of that kind.

Let us assume a case like this: The Federal reserve board has its seat in Washington. They, of course, have their Federal reserve agents reporting to them from all over the country. There comes a pressure, let us say, in a distant part of the country, San Francisco, a very severe pressure that comes suddenly; they will have to take the judgment of the Federal reserve agent out in that section as to whether, on the whole, they should suspend that provision. They are not really in a position, as a board, to take intelligent action in the case, based upon their own knowledge, because, if action is taken, it ought to be taken within 24 hours.

Senator HITCHCOCK. I agree with you fully, Prof. Jenks; but would not an increase in the interest rate or the tax charged for the use of the currency by the reserve bank have the same effect?

Prof. JENKS. Yes; in part; but that also requires special discretion, and is not automatic. May I take that up separately, and it will answer your question?

Senator NELSON. In connection with that subject, there are two questions in connection with this matter of currency that I would like to call your attention to. One question was suggested the other day by one gentleman who appeared before the committee, and that is that after these notes—the regional-bank notes—have been issued under the bill they are required to be redeemed by the bank issuing them.

Prof. JENKS. Yes.

Senator NELSON. Or, if they came into the hands of another regional bank, they have got to be sent to the issuing bank.

Prof. JENKS. Yes.

Senator NELSON. Now, the question that was raised the other day was: After those notes are received in that way can they be put out into circulation again, or have they exhausted themselves?

Prof. JENKS. I should prefer, myself, having them canceled.

Senator NELSON. Well, is the bill clear on that? That is the point.

Prof. JENKS. I do not think so.

Senator NELSON. That question was raised—as to whether the notes when received are retired, or can they be put out again into circulation. That is a very important question.

Prof. JENKS. I think it is.

Senator NELSON. Now, the Bank of England notes, you know, after they are once redeemed, that is the end of them.

Prof. JENKS. Yes; that is the end of it.

Senator NELSON. And the question is whether—

Senator HITCHCOCK (interposing). There is a radical difference in the two cases, because in the case of the Bank of England when a note comes in gold is paid out for it.

Senator NELSON. Certainly; I understand that.

Senator HITCHCOCK. Or a credit is given for it upon the books of the bank. But in this case when the notes come in the Federal reserve bank may pay over to the Government of the United States the amount it has borrowed, and its commercial paper may still be segregated for the security of that loan.

Senator NELSON. Well, it may owe the money to the regional bank upon the commercial paper deposited.

Senator HITCHCOCK. No; I mean the regional bank which receives this note from the Government may still owe to the Government of the United States the amount that it borrowed when it got the note, and those securities may still be on deposit with the Government for the payment of that note.

Senator NELSON. But it did not borrow from the Government.

Senator HITCHCOCK. Certainly it did.

Senator BRISTOW. Yes; it borrowed from the Government.

Senator HITCHCOCK. The regional bank, in order to get currency, has got to segregate a certain amount of its notes, its commercial paper. Now, then, it procures a loan, say, for 30 days by the segregation of a particular batch of paper, and it gets currency.

Senator NELSON. It gets it for its notes.

Senator HITCHCOCK. It has borrowed this for 30 days. It procures \$50,000 of currency. Now, suppose \$10,000 of that currency comes in. Why should it be required to cancel it when it still owes the amount to the Government of the United States?

Senator NELSON. It simply owes it on the commercial paper that it has put up.

Senator HITCHCOCK. No; it owes it. It is an absolute obligation to the United States Treasury.

Senator NELSON. As an indorser of the commercial paper; that is all.

Senator BRISTOW. But how is it to get back this commercial paper from the Government?

Senator HITCHCOCK. It still has an obligation of \$50,000. The only way to get back that \$50,000 is to return either gold or currency. In the meanwhile the time has only half run, and \$10,000 of those identical notes come in. Why should not the bank continue using those notes in its business until the 30 days have expired?

Senator NELSON. That is the question.

Senator HITCHCOCK. I am drawing a distinction—

Senator NELSON (interposing). I suggest the bill is not clear.

Senator HITCHCOCK. I am drawing a distinction between the Bank of England, which borrows nothing, and the reserve bank, which does make a loan.

Senator NELSON. It is not a loan from the Government, strictly speaking. The Government is acting simply as a depository. The

bank deposits this commercial paper with the Government, with the bank's indorsement, and the bank is only liable to the Government upon that paper as an indorser. The principal liability is upon the man who executed the commercial paper. Is not that so?

Senator HITCHCOCK. No; the reserve bank has procured this \$50,000 of currency.

Senator NELSON. It has procured it how?

Senator HITCHCOCK. By depositing commercial paper which it has in its assets.

Senator NELSON. I know, and that commercial paper is the promises of A, B, C, and D.

Senator HITCHCOCK. Yes; but the only security for the reserve bank—

Senator NELSON (continuing). And the bank that deposits that—the member bank—indorses that and is liable as indorser.

Senator HITCHCOCK. The member bank indorses it to the regional reserve bank, and then the regional reserve owns the security discounted. Now, owning this paper, it wants to procure \$50,000 of currency from the Government. It segregates this paper in its vault instead of sending it on to Washington. Now, then, it has borrowed \$50,000 on this collateral security. When the 30 days are out it can pay the \$50,000 in cash or return its notes, the currency, to the Government—either one.

Senator NELSON. Oh, not return the notes to the Government; return them to the member bank that got the notes.

Senator HITCHCOCK. No; I am not talking about the commercial notes; they are paid; they are canceled. I am talking about the currency notes.

Senator NELSON. They are exactly the same.

Senator HITCHCOCK. No; the currency notes are secured from the Treasury.

Senator NELSON. They are not secured from the Treasury. The only security for the notes is the notes deposited with the bank with the indorsement.

Senator HITCHCOCK. Senator, I think we are confusing terms by using notes. Let us resort to "currency." I will say this currency comes from the United States Treasury to the reserve bank, and the reserve bank deposits collateral as security for its loan. That collateral represents the notes which have been discounted for the member banks. Now, then, if the reserve bank has procured this currency for 30 days, say, at the regular rate of interest or tax, when the 30 days have expired the reserve bank can either pay in gold or pay it in the currency which it has secured.

Senator NELSON. Yes; but we will put a case. Let us say here is a member bank which goes to the regional bank with \$1,000 of commercial paper, and says, "I want currency for this. I want currency of your regional bank for this commercial paper. I have indorsed it," and the commercial paper is left there on deposit with the regional bank.

Senator HITCHCOCK. Oh, it is not left; it is discounted. These are banks of discount.

Senator NELSON. No; it is left there. The member bank does not keep that paper; it is left with the regional bank.

Senator HITCHCOCK. I say it is discounted there.

Senator NELSON. The bill does not even say that he has to put up notes.

Senator HITCHCOCK. I understand there are two methods by which the member bank can secure either credit or currency. It may borrow and deposit security or it may discount its commercial paper.

Senator NELSON. That commercial paper is due from time to time, and suppose that is paid; in the meanwhile—suppose the commercial paper is redeemed in the meanwhile; paid from time to time.

Senator HITCHCOCK. Yes.

Senator NELSON. The note—

Senator HITCHCOCK (interposing). What notes?

Senator NELSON. Just put yourself in this position: I am a member bank and you are a regional bank.

Senator HITCHCOCK. Yes.

Senator NELSON. I come to you and deposit \$100,000 of notes, commercial paper. I want to get circulation.

Senator HITCHCOCK. Yes.

Senator NELSON. You give me circulation.

Senator HITCHCOCK. Yes.

Senator NELSON. In the meantime, as those notes fall due, I am redeeming them. I send you money for those notes, and keep redeeming them.

Senator HITCHCOCK. You mean the commercial paper?

Senator NELSON. The commercial paper, yes. I keep redeeming those notes as they are due.

Senator HITCHCOCK. You have nothing to do with them.

Senator NELSON. Of course I have. I have indorsed them.

Senator HITCHCOCK. No; the reserve bank owns them.

Senator NELSON. Yes; but I am indorser.

Senator HITCHCOCK. But the reserve bank owns that commercial paper. When it becomes due it sends it out for collection.

Senator NELSON. Have not I the right to pay it? I am an indorser on it.

Senator HITCHCOCK. Yes; but you won't be when it is paid, if the maker pays it.

Senator NELSON. The maker may pay it. Suppose the notes are paid; never mind whether they are paid by the maker of the notes or the indorser; they are paid, and I shall keep redeeming them. They are redeemed and paid off, and still the notes are out in circulation.

Senator HITCHCOCK. You mean the currency is out in circulation.

Senator NELSON. Yes; the currency is out in circulation, but the notes in the meantime are redeemed.

Senator HITCHCOCK. That is all right. The reserve bank meanwhile is making other loans. That identical currency does not have to be returned when the commercial paper is paid.

Senator NELSON. Won't it lead to inflation? That is the question.

Senator HITCHCOCK. I think not, because other loans are being demanded all the time, and the amount of advances which the reserve bank will require of the Treasury will depend upon the aggregate demand which the member banks are making upon it for discounts.

Senator NELSON. It is not of the reserve bank. The demand for currency comes from the member banks upon the reserve bank.

Senator REED. Senator Hitchcock, I think what Senator Nelson has in mind—it bothers me a little now—is this: A bank goes down with \$100,000 of promissory notes and it goes to the regional bank and puts up this \$100,000 of notes.

Senator NELSON. And indorses them.

Senator REED. And indorses them, and thereupon the regional bank issues or delivers \$66,000 of currency and sets aside \$34,000 of gold. Now, the transaction is thus far complete.

Senator HITCHCOCK. No; I think you stated it erroneously, Senator. When a member bank presents \$100,000 in notes for discount, commercial paper for discount, it gets \$100,000.

Senator REED. Does it get \$100,000 and the other bank set aside \$33,000? I do not care either way. There is \$100,000 then out. It is out in paper currency, and that bank, which deposited the promissory notes, has used that paper currency and it has gone into the business of the country. At the end of the 30 days this \$100,000 in promissory notes which was deposited as collateral is paid into the regional bank. The \$100,000 of paper currency is still out in circulation, and the regional bank has now \$100,000 of ordinary money in its vaults and has in circulation \$100,000 of its notes. Now, what is the provision for the retirement—compulsory retirement of those notes?

Senator NELSON. Let me add to that example, there: Suppose the member bank, after taking out this currency, taking out this new currency, and while this is outstanding—suppose the makers of these notes that have been deposited for circulation, of the member bank—suppose they come in and redeem these in national-bank notes. In that way, you will have a double quantity of currency. If you will have those promissory notes that were deposited as security for circulation, and you will have them redeemed by national-bank notes and then you will have the paper currency outstanding.

Senator HITCHCOCK. Those national-bank notes are redeemable at the Treasury in gold, so that if you call on the Treasury for gold, you will get gold for them.

Senator REED. You have got to put in this bill a provision, if it is not already here in some form, that when that \$100,000 promissory note has been paid, the regional bank shall thereupon retire \$100,000 of its currency notes.

Senator NELSON. Can you have it elastic without that? I would like to hear Prof. Jenks on this point.

Prof. JENKS. May I explain the way it has seemed to me the bill intended to have this?

Senator REED. We ought to be doing that instead of arguing this with each other, but occasionally that is the case with us.

Prof. JENKS. It is extremely important for me to know what the bill means. I had supposed the case was a little different from the way Senator Nelson expressed it. May I take the same illustration?

Senator NELSON. Yes.

Prof. JENKS. When the member bank wants to have \$100,000 of these notes, that it can loan out, of course, to 50 or 100 different people, it takes the promissory notes from its customers as you suggest, indorses them, deposits them with the regional bank, and asks for \$100,000 worth of notes, and gets the \$100,000, I think,

as Senator Hitchcock suggested. The regional bank itself, of course, is compelled to keep, in addition to that \$100,000 worth of indorsed commercial paper, 33 $\frac{1}{3}$  per cent of lawful money, also, as a reserve. Now, Senator Hitchcock suggests that as those individual notes become due they will be sent out for collection. They, presumably, will be sent to the member bank and be collected through the member bank. But, as I understand the matter, as long as that member bank keeps that \$100,000 worth of notes, which Senator Nelson says are out in circulation, it must keep, also, \$100,000 worth of commercial paper in the vaults of the regional reserve bank. Now, this individual note, we will say, for \$1,000 that is paid, must be replaced by another note for \$1,000 that will meet the approval of the reserve agent. So there is a continual exchange, say day after day, almost, of these small individual notes indorsed by the various member banks, that are held against the notes issued from the regional reserve bank. They must keep, all of the time, the full amount there, but it is not the same notes all the time.

Senator HITCHCOCK. No; it is not a segregated lot of paper, it is just a limit that has to be kept.

Prof. JENKS. It is fluctuating every day. Now, here, I might add one thing that I think is an objection to this procedure. This Federal reserve agent at a large Federal reserve bank will have coming up for approval 100 or perhaps 1,000 different commercial notes every day. He has to be sending out some for collection, and he has to have others coming in to take their place. I do not see, myself, how he is going to be able to exercise any large amount of discretion. Neither do I see, under those circumstances, why there should be an absolute segregation of those notes. What he can do as a practical matter, and that is all he can do as a practical matter, is to see that there is kept against the notes that the bank has out an equal amount of paper which he considers good. Now, if they should be taken off one shelf in the vaults and put over onto another shelf, instead of merely having an entry made in the bank's books, I can not see that the process would be improved. If, instead of saying you would segregate in the vaults of the bank a sufficient amount of commercial paper, you would say you would segregate on the books of the bank an equal amount of commercial paper, that shall have the approval of the Federal reserve agent, it seems to me it is absolutely the same thing in practice. But, nevertheless, if you leave in your bill that it is to be segregated in the vault, it simply means that every one of those piles of notes has to be pulled over every day, practically, and perhaps 1,000 notes taken out and another 1,000 put in, and the Federal reserve agent could not do it.

Senator POMERENE. Your thought there is that means physical segregation?

Prof. JENKS. I so understand the bill. If it does not mean physical segregation then it means what I suggest, that it ought to be segregated on the books of the bank. That, I think, is essential.

Now, may I add a word to what Senator Nelson suggested in regard to inflation. Supposing, as the Senator says, that one man, to make the illustration specific, has borrowed \$5,000. He has taken that \$5,000 out in these new notes. He comes and pays them off with national bank notes. There, as you see, the national bank notes are

paid in, and the new notes are out in circulation. There is no inflation as long as those national bank notes stay in the bank. What the bank would do in a case of that kind I suppose is this: When it gets those national bank notes in its vault—I am speaking of the member bank—it may, if it wants to, send that \$5,000 of notes into the regional reserve bank and say, "I would like to cancel \$5,000 of my obligation," which I suppose it has a right to do. But it is more likely, I should suppose, for the time being at any rate, to hold those as part of its reserve and get the chance to put out other notes, the new Government notes, as best it can.

Senator NELSON. So, other than that, it will lead to no duplication or inflation?

Prof. JENKS. The point about inflation, as I think was suggested a little while ago, depends pretty largely upon the bankers themselves and depends upon how careful they are as to getting good security for the notes. Now, that is what I was going to bring out in a little different way. I think there is great danger under this bill of depleting the gold reserve of the country.

Senator NELSON. Before you go into that, I was going to ask you another question in connection with the subject. What provision is there in the bill for the regional banks acquiring the necessary gold reserve, assuming the reserve must be in gold, instead of lawful money—what provision is there in the bill; how can those regional banks secure under this bill an ample gold reserve? What machinery is there in the bill?

Prof. JENKS. There is no machinery in the bill by which they can secure a gold reserve, as I understand it. Of course the bill says, regarding the reserve, "gold or lawful money." There is no provision in the bill, as I understand it, that covers that point, except that the different member banks, to organize the regional reserve bank, have to pay in 10 per cent of their capital. I suppose that will be paid in in cash.

Senator NELSON. Suppose we make these notes redeemable in gold; ought we not in that case to require the subscription to the stock, or a part of it, to be paid in in gold?

Prof. JENKS. I would quite agree with that, Senator; I think so.

Senator NELSON. So that the regional bank could start with some gold as a reserve.

Prof. JENKS. I think so. I would quite agree to that.

Senator WEEKS. When you say cash, you mean gold?

Prof. JENKS. I mean lawful money.

Senator POMERENE. They would have the Government deposit, and of course there is a substantial amount of gold.

Senator NELSON. That is a fluctuating amount.

Prof. JENKS. Yes; but would it not be a wiser plan, as the Senator suggested, to have the capital subscription paid in part at least in gold? Because I was going to suggest that the reserve against these notes be kept in gold instead of "lawful money." I suggest that for this reason: If the banks are as careful as I should suppose they would be, considering their responsibilities and considering also the responsibilities of the regional reserve banks, and the fact that the Federal board is watching them all the time—if they are careful as to the quality of the commercial paper they take, I do not see any



danger of any extreme or dangerous inflation. Whenever the demands of business get larger the notes would come out, and whenever those notes are paid off the cash—whether it be in these notes themselves or in the national-bank notes or gold—goes into the vaults of the banks and goes from there into the vaults of the Federal reserve banks, as they redeem their obligations there. And if the Federal reserve bank wants to get rid of its obligation it will go back into the United States Treasury, and with this procedure there is no inflation. But, on the other hand, I can not help but feel there is danger of the country losing too much gold, and for this reason: These bank notes, of course, are not available for reserves at all.

The consequence is that when any of these banks take in over their counters greenbacks, or gold certificates, or silver certificates—either the gold or the silver certificates—they will hold those. They won't pay them out, because they are all available for reserve, and they will want to hold them, of course, as reserve. They will pay out the new notes, just as now, with national-bank notes, and hold the others for reserve, and they will keep paying them back again into the regional reserve bank. Now, the consequence is, if there comes any slackening in business at all in any way they will have been pushing out those notes as fast as possible, and there will be a tendency toward inflation. It will be a slight tendency, I think, because that takes care of itself. There will be enough of a tendency probably, to push prices just a trifle up—not seriously, but enough to make a demand for the export of money. Now, the almost inevitable result, if you have even a little surplus of money in the country, is a tendency toward the export of money, and the only currency we can export is, of course, gold. I am inclined to think, with the enormous business demands, because the people are borrowing all the banks will let them, the banks will want to loan money just as long as there is a profit in it and as long as they think it is safe; that the banks will always pay out the notes and hold back the gold as a reserve. But there is a tendency toward inflation. I do not think it is a dangerous tendency, except to this extent, that it is almost sure to lead to a considerable export of gold. Now, I think, if you adopt Senator Nelson's suggestion and say that the reserve must be kept in gold—

Senator POMERENE (interposing). You mean the 33 per cent?

Prof. JENKS. Yes—should be kept in gold, then we have a demand for gold in this country that would be quite worth while, and it would be but a short time until we could make arrangements to simplify the currency by having some of these other forms of currency retired.

May I say another word in reference to that export of gold? We have, at the present time, a very large amount of gold in the country—a very large gold reserve. If, through the substitution of these new notes for gold it should lead to an export of gold in an amount, say, of several hundred millions—because I believe that is entirely possible—it would, beyond any question, tend toward an increase of world prices, which we all feel is not a good thing for the country now. I believe that is really a serious danger—not so much of getting too many notes out, but the substitution of notes for other forms of money—that would lead to the export of gold.

Senator NELSON. Prof. Jenks, we have an abundance of gold in this country for any amount of currency we need, have we not?

Prof. JENKS. Surely; I think so.

Senator NELSON. And all we have to do is to husband that and keep it so that it won't slip away from us.

Prof. JENKS. I think so. That brings up another point along that same line. Isn't it a good thing to make provision just as soon as it can reasonably be done for the retirement of a considerable quantity of national-bank notes—I, myself, would say the greenbacks, too? We are not going to have the use made of these new notes to so great an extent as I think would be, on the whole, desirable unless we make provision for the retirement of some other form of currency.

Senator NELSON. Will you allow me to make a suggestion?

Prof. JENKS. Certainly.

Senator NELSON. Would it not be wiser to leave the greenbacks alone and provide for the gradual retirement of the national-bank notes?

Prof. JENKS. Personally I should favor the retirement of the national-bank notes first.

Senator NELSON. So that you would have one kind of bank notes; that is to say, practically, as you stated a moment ago, bank notes with a Government guaranty?

Prof. JENKS. Yes; in essence.

Senator NELSON. And it would be better to have this currency gradually supplant the national-bank currency?

Prof. JENKS. I agree with that.

Senator NELSON. But you must let greenback alone.

Prof. JENKS. I probably shall, in view of the feeling shown here. [Laughter.]

Senator HITCHCOCK. Now, I think you assented to a suggestion made by Senator Nelson, that the banks in joining this new system should be required to pay their capital of \$105,000,000 in gold?

Senator POMERENE. Only a part of it.

Senator NELSON. I did not suggest the entire subscription; I said at least a part of it.

Prof. JENKS. The point of the matter, I think, Senator, hangs on just this: If we are going to make these notes redeemable in gold it is desirable that we provide some means for the regional reserve banks to secure gold, and I can see no simpler or better way than to say they shall pay at least part of the capital subscription in gold, and in that way cover that.

Senator HITCHCOCK. We already have pretty good evidence it is going to be a serious matter for the banks joining the association to part with this large amount of cash capital, because at the present time we only have in these national banks about 8 or 9 per cent of their deposits actually in gold or lawful money; and if their reserves are to be depleted by taking gold or legal tender out of it, it is going to make much more difficult their joining the association and is going to require them to call in loans for the purpose of raising the means.

Prof. JENKS. Would it not be sufficient to provide, as I understand was really implied in the Senator's question, that the gold could be paid in more or less gradually?

Senator HITCHCOCK. You mean the capital?

Prof. JENKS. You could pay in the capital in installments also, because the demands will not come upon it immediately; but if you

give a few months' time—six months—they ought to be able to get the gold.

Senator HITCHCOCK. You mean the individual banks joining this association?

Prof. JENKS. Yes. If they call in loans, as you suggest, they would not need to call them in to any great extent, because the large majority of those loans mature in six months. It would check things slightly. But, at the same time, their customers have need for loans every day, and they would be glad to get loans through the new note system.

Senator HITCHCOCK. What I mean when I said they would call in their loans—

Prof. JENKS (interposing). You mean it would check the amount that is put out?

Senator HITCHCOCK. I mean when notes come due, they would require their payment instead of renewing them. Under the present system the body of loans throughout the country does not fluctuate from season to season. It would to some extent.

Prof. JENKS. When the notes come in, if they want them renewed, they would renew them in credit. They are not required to be paid, but they could make another loan in these new notes.

Senator HITCHCOCK. There seems to be a contraction of credit almost inevitable in the banks if they are going to be required to pay cash. It has even been suggested that the banks be permitted to make a part payment of cash and a part payment of commercial paper, discounted simultaneously. But if you take the other course and require the banks to pay all in gold or in legal tender, you are going to add to the apprehension that already exists.

Prof. JENKS. It may be arranged in this way, as I said before: Supposing they would pay part in gold and part in commercial paper. That would, of course, keep working toward the place where the time limit would expire, so that gradually you could substitute one for the other. But they do not need to get this large gold reserve immediately, because they will only need to redeem those notes as the notes come out, and are presented for payment, and these notes are only going to be gradually substituted for the other forms of money. It is sufficient if the substitution of the gold for the other type of security is made in proportion to the issue of the notes themselves.

Senator SHAFROTH. What is the use of having such a large gold reserve in these regional banks, when \$150,000,000 has been ample to sustain the whole structure of national bank notes and the greenbacks—probably a billion of dollars?

Prof. JENKS. There are two reasons, I think. The first reason is because it is of prime importance that there be no question of the quality of these notes in order to secure confidence; and, the second reason, the one I have given before, that, unless we do make a provision for these banks to hold gold to a very considerable extent in their reserves, we are almost sure to have a large export of gold because of the substitution of these notes for the other forms of currency.

And if we export gold to any very great extent it will, in the first place, lessen confidence in the security of the new system, and in the second place, if as much as four or five hundred millions go out in the

course of a year or two, that would have a tendency toward increasing prices in the world's market, and I do not think we want to do anything—

Senator SHAFROTH. Do you think any money will go out of the country except for the purpose of settling balances against us?

Prof. JENKS. Those balances, of course, shift with the course of trade, and it is, as far as I am aware, the universal experience—and if I may go back again to the old technical expression we have heard so much of, Gresham's law—that if you put into competition in any one country different kinds of currency the currency that, on the whole, is the cheapest for the people is the currency that is going to stay.

Senator SHAFROTH. Unless it is redeemable in gold?

Prof. JENKS. Well, unless it is redeemable in gold. Now, if you are going to make them redeemable in gold—

Senator SHAFROTH (interposing). The question purely is whether there should be a gold reservoir in the United States Treasury for the purpose of doing this, or whether we should have gold in each regional bank.

Prof. JENKS. I should say both.

Senator SHAFROTH. That would take four or five times as much gold.

Prof. JENKS. Yes; and I think it is a very desirable thing.

Senator SHAFROTH. I do not believe in locking up the gold for fun.

Prof. JENKS. But is it locking up gold for fun? Here is the situation, and I think it is what Senator Nelson has in mind as to the danger of inflation. When you have a dollar in gold you can not loan more than that dollar, but if you can issue notes on that dollar you can issue, if there is anybody who will give you good security for them, three or four times the amount of the gold, and still have a reasonable degree of safety. Three to one gives all the safety we want. When it comes to putting this money into circulation, the banks are going to prefer to put out these notes instead of their national-bank notes or the gold certificates; they are going to put those out, and by putting them out it drives these others all into the reserves, and it will only mean the very slightest inflation. Prices will go up a little here, and as soon as prices go up only a little here, we shall find that we are in a position to export gold.

Senator HITCHCOCK. The exports of merchandise will be checked; prices rising will check the export in merchandise, and that compels the gold to go?

Prof. JENKS. That is it. It is a matter simply of the cost of shipping gold to Europe. If we can make a demand in the banks for reserves of some hundreds of millions of gold, then we will check that tendency. It is as the Senator says, if these notes are absolutely redeemable in gold and we keep enough gold here we are not going to ship it abroad. Even then there is a tendency toward expansion, because for every dollar in gold the notes are perfectly safe, 3 to 1, and that is all the law requires. I believe in the bank-note system, largely because it can adapt itself so easily to the necessities of trade. But I should think it extremely unfortunate if we were to export, in the course of the first two or three years, \$400,000,000 or \$500,000,000 of gold.

Senator SHAFROTH. We have had some very large inflation in the issuance of banking currency, expanding from two hundred and some odd millions in 1909 up to \$750,000,000 now, and yet we see no movement of gold going away.

Prof. JENKS. I simply do not believe that there has been an inflation beyond the demands of business.

Senator SHAFROTH. But there has been a large amount of new money used?

Prof. JENKS. That is true.

Senator WEEKS. It has not increased any more rapidly than the business demanded it?

Prof. JENKS. I do not think so.

Senator WEEKS. I do not think so, either.

Prof. JENKS. I do not think there has been any inflation, except a temporary inflation.

Senator WEEKS. Where there is an increased demand there is going to be an increased inflation now?

Prof. JENKS. May I explain that again? May I explain this with reference to the question of inflation. When business has been best, at times our national banks have issued considerable quantities of notes, but no more than business needed. When there came a slackening of business, we may have had a little too much currency at times, and at times we know gold has gone abroad. That export has not been enough to be at all serious. I think these new notes are likely to bring about a condition which is a good deal more serious, and that for this reason: There is a better opportunity for the banks to make money, to make their profits in loaning these notes and holding the other kinds of lawful money in reserve. These new notes can not be held in reserves. Whenever they get currency available for reserve they are going to keep that in their vaults instead of the new notes. Whenever they are called upon to make a loan they will pay out the new notes. That is good judgment.

Senator WEEKS. Do you think they ought to be made legal reserves?

Prof. JENKS. No; I do not think so. What I think should be done is this: To make provision as fast as can be done for the retirement of our national-bank notes and see to it that we keep our gold here. If we retire the national-bank notes as soon as we can, then I should say that will make a void for a lot of these notes. I should be glad to see the system come down to nothing except gold and these notes and small currency. I think it would be wise to have these notes in denominations of not less than \$5. I should leave the small coins and small certificates for the ordinary small change, because that is not so elastic as \$5 notes and notes above that. I should be glad to see the present national-bank notes retired as soon as possible. Then if we have enough gold here we are perfectly safe. If we send abroad \$500,000,000 of gold, or two-thirds of that, we shall feel it in increasing prices.

Senator WEEKS. I want to discuss the question of sending gold abroad. Say Europe owes us money and we owe Europe money all the time; if that condition obtains either way, eventually the debt has got to be paid. We may delay the payment of the debt by various artificial means and the payment of the debt may be delayed, because the creditor in that case may find it to its advantage to loan its credit in the debtor country.

Now, suppose we have a balance of trade against us—it is not usual, but suppose we do have a balance of trade against us for a couple of hundred million dollars. In the ordinary course of business, if it were an individual transaction, we would have to pay that, and we can only pay it by shipping gold. That is one of the things you have in mind.

Let us suppose the interest rate is materially higher in this country than it is abroad, which is ordinarily the case. Is it not true that that money is likely to be loaned in this country so that we would not ship gold unless there was some scare which would induce the owner of that money abroad to draw it home and loan it out there at a lower rate? When this system is established—assuming it will be established—are we not going to have the means of preventing the shipment of gold under such conditions? For instance, we should, in my judgment, authorize the regional banks to invest some part of their capital and deposits in foreign bills, and instead of shipping gold we simply would send home their evidence of indebtedness against us, or we may increase our interest rate and should do it, which would have a moral influence in checking the exportation of gold.

By various other artificial means, such as Mr. Fisher indicated to us yesterday, in selling them short-time notes, either municipal or Government notes, it has been suggested that we refund some of these 2 per cent bonds in short-time Government notes, and use them for that purpose. Do you not think we can in that way, if that whole question is treated properly and scientifically and practically, that we can control the question of gold exportation from this country so that there will not be any probability of our losing gold in an amount that would embarrass us? That is a pretty comprehensive question.

Prof. JENKS. That is a pretty comprehensive question. As regards the way in which the question is put, I think I should agree to every individual statement, but at the same time I would answer the question you have asked in the affirmative again, that there is danger, I think. May I explain that?

In the first place, these various measures that you have suggested are, part of them, at any rate, as you say, artificial methods. Take, for example, the raising of the rate of discount. I suppose you mean by the Federal reserve board?

Senator WEEKS. I do, and the raising of the rate of discount would have a tendency to induce the owner of the money to loan it here because he could get a higher rate.

Prof. JENKS. That is perfectly true.

Senator HITCHCOCK. We only postpone the day of settlement.

Senator WEEKS. So that we can settle in some other way.

Prof. JENKS. There is where the point comes. It is an artificial method that must be applied by a group of men who are not really in touch with business, although they are in touch so far as getting reports is concerned. It is an artificial method that has to be employed from day to day. Is it not better to have a system that works substantially automatically, so that it will adjust itself? There are times when it is a good thing for this country to export gold and there are other times when it is a good thing to import gold. It all

depends upon the natural course of prices. As you say, Senator, we may at times postpone settlement. We may at times, perhaps, hasten settlement, if you want to.

But all of that is ignoring this fundamental condition that the banks are going to want to substitute these new notes for the money we now have on hand. As has been said repeatedly, there is money enough now in circulation to do our business very well under ordinary conditions. But if we are going to get the new notes into circulation we must either retire some other currency that we have in circulation now, or else we are bound to have, if these new notes are put into circulation, a surplus of currency, which will mean that we shall ship gold. I do not think it will make inflation to such an extent that it would be likely to cause a crisis. I think it would be much simpler for gold to flow abroad, as it would, unless we adopt these artificial means. But if we do adopt them, there is no telling just where we are going to stop, because this process is going to keep on for years. Why should it not?

If you are a banker you are going to use these new notes. If we provide that the gold shall be in the reserves there is a reason why the gold will stay here, and then we shall soon retire some of these other forms of currency, which I think should be done.

Senator WEEKS. I think so, too. I have grave doubt whether the condition which you indicate is likely to exist; yet if there is any probability of it I admit that precaution should be taken to prevent it, and that is why I am in favor of a bank-note circulation, because I think that is absolutely responsive to trade, and it is impossible, as a practicable proposition, to get out more circulation than the needs of business require.

Prof. JENKS. I think that is so when you have a sound system to begin with.

May I state, in a little different way, the conditions under which gold goes abroad? You say that in the trade between different countries and this country, if the balance is against us we shall have to pay, or if it is the other way we shall get the balance.

What do we pay that balance in? The statement is ordinarily made, and especially by banks, that we have to pay that in money. As a matter of fact we always pay balances in whatever is the cheapest to pay them in. That simply means this, that if we have a pretty big wheat crop, so that the price of wheat is low, we are paying those balances in wheat; and if we are having a big cotton crop and the price of cotton is low, they are being paid in cotton.

Senator WEEKS. But the net balance is being paid in gold?

Prof. JENKS. Yes; although you suggested a moment ago that it will be done by artificial means. The net balance is not necessarily paid in gold. It is, of course, when we come to the bank statements, but ordinarily it shall be paid in other things. What I am afraid of in this system, as it stands, and what I think is almost certain to happen, is that we will find it cheaper to pay in gold than in anything else. That means that whenever anything occurs to increase prices here a little bit, then other people want to sell here.

Senator HITCHCOCK. Exports are checked?

Prof. JENKS. Exports are checked and the imports are increased at the same time.

Senator HITCHCOCK. Exports of merchandise are checked and imports are stimulated.

Senator WEEKS. You forget that this tariff bill is going to so stimulate our foreign trade that there will not be any question about the settlement of our indebtedness.

Senator HITCHCOCK. It is also going to stimulate our exports.

Senator WEEKS. That is what I mean.

Prof. JENKS. So far as I have seen the signs in the stores, they think it is going to stimulate the imports. But it is immaterial. I always feel that this currency question is much more important than the tariff question.

Senator HITCHCOCK. Certainly.

Prof. JENKS. I feel pretty strongly on this matter, that there is this tendency toward an expansion which may not run to the dangerous length of overspeculation, or to the extent of bringing on a crisis, but which is almost certain to run to the extent of a pretty large export of gold.

Senator HITCHCOCK. Can you give us any idea, Prof. Jenks, of the effect of an expanding currency upon the prices of commodities?

Prof. JENKS. Well, yes; speaking generally, I think so.

Senator HITCHCOCK. Does an increase in the supply of gold tend to increase prices?

Prof. JENKS. Yes; beyond all doubt.

Senator HITCHCOCK. Does an increase in the supply of paper currency have the same effect?

Prof. JENKS. Unless that is immediately so responsive to the demands of business that there is really no more money in circulation than is needed to meet its immediate demands.

Senator HITCHCOCK. Does an increase in bank credits have that effect?

Prof. JENKS. It all has the same effect.

Senator HITCHCOCK. Of raising prices.

Senator SHAFROTH. To the same extent as gold?

Prof. JENKS. No. We are fixed on a gold basis, as practically all the leading commercial nations of the world are. This gold basis is really the basis of practically all of the currency in these different nations, and also to a very considerable extent—it is in the terms of gold that we have all these credits. Whenever we have any new device in the currency system that tends to make the use of gold more effective, that has much the same effect as if we were to increase the amount of gold. I think that the putting of this new currency into circulation here is going to make gold more effective; if it does, it will have the same tendency, and so far as that is true, it will have the same effect in increasing prices that an increase in the gold supply would have.

Senator HITCHCOCK. It is proposed in this bill to very materially reduce the limit on reserves held by 7,000 national banks. What effect is that likely to have upon the volume of currency and upon prices?

Prof. JENKS. I should say again that while I am inclined to approve of that myself, I nevertheless feel that the effect is as your question intimates, practically the same as increasing the amount of currency. By currency we mean money in circulation, in distinction



from the money locked up in the vaults of the banks and that in any country.

Perhaps, I may venture to suggest something that I was saying to Senator Shafroth a little while ago, that as regards this question of the effect of the increased supply of gold upon prices, I feel that that is by far the most important element in the increase in prices that we have had the world over since 1897. In the same way again, the quantity of gold was by far the most important element in the decrease in prices that we had between 1872 and 1873 and 1897. I was saying to one of the members of the committee that I had made at two different periods some special studies which seemed to make that clear.

In 1897 I was asked to read a paper before the New York State Bankers' Association on "The causes of the fall of prices since 1873." By means of diagrams that showed the course of prices and the output of gold and silver and things of that kind, taking account of minor influences that always come in, it seemed to be clearly established that the chief reason for the fall in prices was the lessening output of gold, together with what was of still more importance, the very largely increased demand for gold in Europe, as several of the countries went over to the gold standard.

Then about a year and a half ago I was asked to read a paper before the State Bankers' Association of Michigan, and I suggested the question of "The causes of the increase in prices," and I applied the same principles, and see if they would work. Taking absolutely the same data, bringing them up to date, it established, with substantial clearness, that the main cause of the increase in prices had been the very largely increased output of gold without a corresponding increased demand for it.

Senator SHAFROTH. Has there been, at the same time, a great increase in the use of bank currency in France and Germany?

Prof. JENKS. There has been; it is all along the line. In all countries of the world, we are getting more and more to substitute methods of business for gold. You take, for example, our own country. Our country has more fully developed, particularly in the eastern part, the use of checks than probably any other country. In Germany they do not begin to use the number of checks that we do. But nevertheless they are getting to use them more and more during the last 10 or 15 years far more than earlier.

Senator HITCHCOCK. On the whole then, there has been since 1897 all over the world a great increase in the volume of the circulating medium?

Prof. JENKS. Beyond all doubt. In addition to that there have been improved methods, so that it has tended to stimulate the effect. That is the point in this bill. You are going to improve your method of handling gold so much that it will make it more serviceable than before. There is that tendency toward expansion of currency unless we retire more largely some of the other media of circulation. If you will retire other currency and require gold as reserve, we shall keep our gold.

Senator NELSON. I see your theory is that the rise and fall of prices is governed by the volume of currency?

Prof. JENKS. Not entirely, but that is the most fundamental thing.

Senator NELSON. Have you not overlooked the fact that in this country at least one of the main causes is that production has not kept pace with the demands for consumption; is that not a great factor?

Take it, for instance, in the matter of beef just now. It is not currency, it is because the ranch business is becoming obsolete, and we are raising less cattle in this country, and beef is becoming scarcer.

Prof. JENKS. I quite agree with that. My point is this: If you take any individual article like beef, you, of course, will find your immediate answer in the relation of the demand to the supply. If you take the great mass of commodities—of course, the best estimate that we have of those are in the figures collected by the Government—we get the average price as nearly as possible. Take those the world over and you will find a very decided increase in prices, some special commodities down and some up.

Senator NELSON. There is no great difference in the volume of currency in this country this year and last year?

Prof. JENKS. No; that is perfectly true.

Senator NELSON. Now, then, I want to call your attention to this fact. Have you observed the difference between the price of corn this year and last year, and the price of cotton this year and last year, and also the price of potatoes this year and last year. Can you charge those differences to the volume of currency?

Prof. JENKS. That is the point I made a moment ago, when you take single individual articles, and that is especially true of agricultural products, because when you take those you will find a temporary explanation from year to year in these local influences you spoke of. If you draw a chart of the course of general prices over a series of years there will be very little fluctuation from year to year but you will find the great waves of change over periods of years.

Senator NELSON. Is it not a fact with this country, Prof. Jenks, that our population, our body of consumers has been increasing faster than our producers have, especially producers of raw material?

Prof. JENKS. It is certainly true as regards the producers of raw material, but as regards the manufacturers it is not true.

Senator NELSON. Compare the difference between our urban and rural population, you can see the great change.

Prof. JENKS. I quite agree with that in regard to individual cases.

Senator NELSON. The urban population is a body of consumers, while the rural population is a body of producers?

Prof. JENKS. Yes; I grant that with regard to individual cases.

Senator BRISTOW. Has not this vast increase in agricultural prices had a tendency to lift the entire price level?

Prof. JENKS. Beyond question. On the other hand, there have been some counter influences.

Senator BRISTOW. Not in agriculture?

Prof. JENKS. Not so much; a little in improved methods.

Senator BRISTOW. Do you not think this increase in the price of agricultural products is due practically wholly to what Senator Nelson called the congestion of the population in the centers?

Prof. JENKS. If you add to that also the difference in crops. As I was saying the other day, I am not sure that the short corn crop this year is not going to offset some of the effects of the traff, because that

affects very materially the general level. Those are annual fluctuations.

Senator BRISTOW. I can see that a short corn crop would, because the wheat is not very high and corn is very high, relatively.

Prof. JENKS. Yes.

Senator BRISTOW. But you take this movement from the farm to the city, and it seems to me that that is as much responsible for the advance in prices as the circulating medium.

Prof. JENKS. That, beyond any question, is considerably so all over the world, because that tendency is practically universal. But at the same time, if you will go back over a period of 50 or 75 years and note the general changes in prices, you will find that the fundamental reason is, the output and use of gold, to my mind—of course, there are differences of opinion—but to my mind, that is more important than any other one of these things.

Senator REED. What is?

Prof. JENKS. The supply of gold as it relates to the demand for it.

Senator SHAFROTH. Mr. Barry testified before the committee a few days ago, and he said that while there has been an apparent rise in the price of commodities, that so far as fixed investments are concerned, the prices are no higher than they were 12 or 15 years ago. He cited the stocks of railroads and urban property, and things of that kind. What do you think of that theory?

Prof. JENKS. That is true to a considerable extent, but I do not think it affects the question particularly. It is not true as to railroads.

Senator REED. Nor as to railroad stocks, either.

Prof. JENKS. It is as regards a good many stocks.

Senator REED. But the general average price of railroad stocks, except those companies that have absolutely flooded their treasury with watered stock, is much higher, the aggregate of the stock is higher—I mean the value of the whole stock issue is greater, but the value of an individual share may not be so great, because they have issued so many shares.

Senator SHAFROTH. I think the increase in farm lands has been going up because of the increase in the prices of products.

Prof. JENKS. There is another point in connection with that also. There is always a tendency in all countries as the demand for farm products increases, and the people have to use more and more intensive methods of agriculture to go to lands that originally were not quite so fertile as the other lands, and there is always a tendency for the price of agricultural products to go up, and that will continue.

Senator REED. May I get back to a matter that concerns the bill? You stated, in discussing the difference between bank circulation and other forms, that one of the virtues of the bank circulation was that it responded to the business needs of the country. Now, I understand you to say that there has been going on in this country in recent years a real expansion outside of the mere matter of the amount of money, growing from the fact of an additional use of money through checks, so that the same dollar may be used many times in a day without passing from the place of deposit. That has been going on extensively?

Prof. JENKS. Yes.

Senator REED. There has been an increase of gold, which has been an expansion. Now, on top of all that expansion, is it not true that

the national bank circulation, instead of retiring, as it ought to have done under those circumstances, has been increasing right along in this country?

Prof. JENKS. There is this other point, though, that the demands of business have also increased very greatly. And when we are speaking of an increase of the currency we always ought to speak of it in relation to the demand for the currency.

Senator REED. But the demands of business—and we are coming right to the point I wanted to get at—always multiply in the face of an inflation, do they not?

Prof. JENKS. Surely.

Senator REED. So that as you get inflation you get more demand and then more inflation to meet the demand, and these bank notes that are supposed to be an automatic check and to reduce that demand have utterly failed to do it, and have gone right along with the inflation, and therefore I think, Professor, that that is an idle dream that has been put before us many times—that the bank notes will retire automatically.

Prof. JENKS. Our national-bank notes will not, not our present notes.

Senator REED. Certainly not. In 1911 there were \$687,000,000, dropping the odd dollars. In 1912 there were \$705,000,000, and there is a steady increase of those notes almost from the first, with the exception of a very few years when there was a decrease, and it seems to me those facts demonstrate that a bank-note circulation follows an inflation just like any other character of money.

Senator WEEKS. Will you allow me to make this suggestion? I do not know anyone who ever contended that the national-bank currency which we have outstanding fluctuated with the volume of trade. The trouble with the circulation is that it has depended on the price of Government bonds rather than on the needs of the commercial community. If a bank could make 1 per cent or 2 per cent, or some other per cent on circulation, or a prospective profit on the principal of the bond which it purchased, then it would take out additional circulation.

Senator HITCHCOCK. Why will it not be so in this case? If a bank can make money by borrowing from the reserve bank, why will not the result be to stimulate loans?

Senator WEEKS. Because the security which the bank holds is paid, and it has no need for the circulation any longer. In the case of the Government bond the security was never paid.

Prof. JENKS. Yes. I was about to say that I do not agree to Senator Reed's proposition for practically the same reason. Our present bank-note issue is not a bank-note issue in anything like the same sense as provided in this bill, or like a bank-note issue in Germany, France, or Canada. Canada is one of the best illustrations we have.

Senator REED. I beg pardon for interrupting—

Prof. JENKS. (interposing). Before you ask another question, I was going to suggest some means by which, I think, this system would now contract, and I was going to make one or two suggestions with respect to a method of making it contract still more promptly.

Senator REED. That is what I wanted to get; but before we come to that let us consider this. I will waive the present bank note as a

demonstration, although to my mind it has not been fully answered, although I think that the considerations offered are entitled to weight. But I go back to the proposition I made a minute ago, to which you assented, that an increase in the volume of money increases prices, thus making a demand for more money. The increase in prices and the increase in volume of money stimulate industry, stimulate business, apparently, at least, and the greater the quantity the greater the demand. Thus we have an endless chain, if you please, constantly in operation. The appetite grows by what it feeds upon. And therefore I do not believe, and I have to be convinced, that there is any bank-note issue in the world or that can be devised that will automatically retire itself unless there is attached to its issue conditions forcing its retirement. I want to hear how that is going to be done under this bill.

Prof. JENKS. I am very glad you put the question in that way. I think there are two things to be said about that, and I quite agree with you when you say they either have to be forced to retirement or else there must be some inducement. Inducement is better than force—

Senator REED (interposing). When I say "forced," I only mean that there must be a force created to cause their retirement. That force may be in the form of an absolute command or it may be in the attaching of conditions which make it desirable to get rid of that piece of paper.

Prof. JENKS. Yes. Now, as regards your first proposition, I would agree that an expanding currency—other things equal, unless there is a corresponding expansion of business—does tend toward increasing prices; and also that a tendency toward increase in prices does tend to make business go on faster. People want to expand their credits, and that is the fundamental cause of most of our crises, if they are monetary crises. And the trouble has been ordinarily, whenever we have had a monetary crisis, that there has not been this inducement toward a contraction of the currency. That has been the danger in many cases where we have had Government note issues or speculative bank-note issues not properly controlled.

There are two ways in which we can see to it that the currency does lessen when a normal business demand slackens. One is along the line of the German system, by which, when we get a certain amount of money out we put a tax on any larger amount and leave the banks to raise their rates of interest.

Senator REED. I call that a force.

Prof. JENKS. That is a force. Another way, which, on the whole, I think, better, is the plan that is used in Canada. It is this: Each bank being anxious to get its own notes out so far as it can with safety, takes up the notes of every other bank and sends them back for redemption immediately. Now, as has been intimated here a number of times this morning, and was said a moment ago by the Senator—

Senator REED. That certainly is a force, but it is not applied by the Government but by the other banks.

Prof. JENKS. All the better, because it is much more nearly automatic. They are both forces; that is true.

Let me suggest again that when a man makes a loan and gets these notes out there are that many in circulation. If he pay back his debts in notes, either of that bank or any other bank, that lessens the circulation by an equal amount, so that ordinarily in the course of business we have the expansion of the currency and contraction of the currency just in accordance with the normal demands.

Now, may I speak of the system you have in the bill. You have a system under which people will borrow. They will get these notes into circulation. We are speaking now, of course, of the member banks. When the notes are paid into the member bank, whether they are paid in these notes or in the notes of another Federal reserve bank, they will be held in the vaults of the member bank, and will be paid out over and over again. The system will not work automatically in the way it does in Canada. That is, they will not be sending any of the notes of the other banks back, and if those notes get quite a long way from home, there will be a considerable element of expansion.

Now, there are two ways in which that can be covered. The bill itself covers that in part by taxing the notes that are advanced to the separate regional banks, and if it seems that the demand is getting too strong the tax rate would be raised. That, again, is not automatic.

Senator REED. That rests in human discretion.

Prof. JENKS. And that I do not think is wise. I was going to make another suggestion that perhaps may help. The amendment that was made to the bill providing that no reserve bank should issue the notes of another reserve bank was a very wise one, and that they redeem the notes of any other reserve banks that may come into their hands. That is wise. Why not extend that principle further? There are two ways: In the first place, say that no member bank shall pay out over its counter any notes except those of its own regional bank. That would strengthen the law a great deal along that line. The only objection I can see to that is the cost of shipping the notes that come in from any other regional bank back to the home regional bank, and I think the home regional bank could very well afford to pay that. That would go a long way toward strengthening the redemption system. That would bring it much more near the Canadian system.

Senator POMERENE. Would the Federal board, under the terms of this bill, have that authority?

Prof. JENKS. I had not supposed it would have that authority; and it seems to me the wise thing to do is to provide for that in the bill. And, further, what makes the Canadian banks return notes so promptly is that they are making money by doing it. Why not apply that same principle here?

Senator POMERENE. Let me see if I understand your limitation. Assuming that there is a regional bank in New York and a member bank of the Chicago regional bank would receive a New York note; then you would have that returned to New York, would you?

Prof. JENKS. What I mean is this: Supposing a member bank in Chicago—not the regional bank—gets this New York note. It would be allowed to lend that out over its counter, as I understand it, under this bill. It is only the Chicago regional bank that can not issue it

Senator POMERENE. I understand that, but that does not quite answer the thought I had in my mind. Would you refuse to permit the member bank of the Chicago regional bank to pay out a Chicago note also?

Prof. JENKS. Oh, no.

Senator POMERENE. That is, I mean after it had been once paid in.

Prof. JENKS. That I do not think is of very great consequence, whether it does that or not. The bill, as I understand, provides that it could pay out its own regional bank notes over and over again. Personally I should like to have every regional bank not allowed to pay out its own notes the second time, as was intimated before—practically the Bank of England plan. It would be a little more expensive, but, in the first place, it would be an absolute check against counterfeiting, as these notes are being retired all the time; and another advantage would be, as in England, that you are in touch with your circulation all the time. But I think that is of much less importance.

Senator REED. Are you not thereby circumscribing this to such an extent it would cease to have any value as money?

Prof. JENKS. Not at all, I think.

Senator REED. Let me see if I understand you. Suppose I run a member bank in Kansas City; Senator Bristow runs a member bank across the street. I go over to Senator Bristow's bank and get \$100,000 from the regional bank on 30, 60, and 90 day paper.

Prof. JENKS. You mean from his Federal reserve bank?

Senator REED. No; from you, as a Federal reserve bank. A man comes in to borrow \$100,000, and I pay it to him in cash. He walks across the street to Senator Bristow's bank and deposits that \$100,000. Senator Bristow then has practically to cancel it.

Prof. JENKS. No; I do not mean that at all. The point I make is this: Suppose that you get \$100,000 from your regional bank in Kansas City. There is no reason why you can not pay that out back and forth as much as you like. But suppose a customer comes in, and when he makes his deposit with you he deposits some notes from the Chicago regional bank. Then I should say you should not take those and loan the Chicago reserve bank notes over your counter.

Senator REED. What value do I get out of them? What good are they to me if I can not lend them out?

Prof. JENKS. You can get them redeemed through your regional bank.

Senator REED. I must send those in to be redeemed?

Prof. JENKS. You must send them to your regional bank, which is across the street, as you say. Your regional bank would charge them against the Chicago bank.

Senator REED. I can not find this bank across the street; it is 600 miles away.

Prof. JENKS. Then you send them to your regional bank, wherever it is, and the regional bank should pay—

Senator REED (interposing). And have a constant stream of money going in every day by express?

Prof. JENKS. Absolutely; a stream of notes for redemption. Not necessarily by express; I should make a sound provision to use the parcel post these days.

Senator REED. And I send these bills by parcel post?

Prof. JENKS. I think I should.

Senator REED. I should want to cancel them before I send them, then.

Prof. JENKS. That is something you can arrange. There is this point to that, Senator—

Senator REED (interposing). Is there not a plan that is much simpler than that and that will absolutely work? Let me suggest it to you.

Prof. JENKS. I have not finished with my plan yet.

Senator REED. I thought you had. Proceed, then.

Prof. JENKS. I was going to say that I do not think that plan is as cumbersome as it might appear to be. In the first place, we know it is workable, because it is the plan that is worked continually in Canada and has been worked for years, and they pay the express charges without difficulty and are glad to do so for the sake of getting the notes of rival banks out of circulation.

Now, if you are a member of the Kansas City regional bank you are going to get 40 per cent of the profits they may make. You would be rather glad to have that currency circulation reasonably profitable.

Senator REED. We are going to take that out of this bill, I think.

Prof. JENKS. That is something, of course, I have not any discretion about.

Senator REED. I do not know, but I am just judging by the talk.

Prof. JENKS. I am not sure that it would be wise to take it out, because here would be an inducement to keep your circulation down. Now, if instead of paying that currency from Chicago out over and over again over your counter whenever you get the chance you send it to your regional bank you compel them to redeem it. You do not need to send it every night, but certainly as often as every week, and you would very likely send it every two or three days, as in Canada. And your regional bank could afford to pay the express charges in order to have that done, and you could afford to have them paid to get them out of circulation in your region.

Then there is another thing about it: By far the largest proportion of the bank notes in circulation in your region would be those of your own regional bank, of course. There would be relatively few from the Chicago region or the San Francisco region. That would help very decidedly this situation.

Another thing that would help still more is this: Why should you charge interest to the regional banks for having these notes issued to them unless it is necessary to keep the rate fluctuating from time to time to contract the currency? If the Federal reserve board charges interest to the regional bank, that interest is almost sure to be added to the loans to the customers throughout the country, and why should a farmer in Texas or a grain grower in Minnesota pay a half per cent or 1 per cent, or 2 per cent, maybe, for his bank notes, to put revenue into the Federal Treasury, unless the plan is absolutely necessary to contract the currency? If it is, I say by all means do it.

But it seems to me that by far the better system, and one that would tend to keep the rate of interest somewhat lower, one that would make the bill far more automatic, also relatively lessening the



power of the Federal reserve board, would be not to charge interest and to let them have the profit that is suggested; but to provide they shall issue over their counters only the notes of their own Federal reserve bank and send the others back for redemption. Then you will get a system that will work practically as automatically as the one in Canada, I am inclined to think.

Senator REED. I may suggest something that may be utterly chimerical, but I make the suggestion. Suppose we write into this bill that when money has been issued by any Federal reserve bank it shall at the end of not to exceed 90 days—or some other period—turn over to the agent of the Government an amount of these bank notes—I call them that to distinguish them—equal to the amount that is issued. That is to say, a reserve bank to-day issues upon proper collateral to member banks \$1,000,000. At the end of 90 days that Federal reserve bank must turn over to the Federal reserve agent \$1,000,000 of their circulation, and if it can not do that it has to turn in other money. Now, you have expanded the currency by \$1,000,000 and you have provided absolutely to end that expansion at the end of 90 days, which is the maturity of the paper that was put up. What is the use of all this circumlocution? Why not just do it? Maybe I am wrong—

Prof. JENKS (interposing). I really think you are.

Senator REED. If I am, I should like to have somebody point out where.

Senator HITCHCOCK. I rather sympathize with that position of Senator Reed. It seems to me the plan you propose, Professor, and which seems to be contemplated by this bill, is going to involve tremendous shipping of currency. It is going away from civilized methods and getting back to the dark ages where actual transfers had to be made. At the present time it is a mere matter of credit which is transferred on the books of the banks, very largely, but you propose the physical shipment of currency.

Prof. JENKS. Only the physical shipment of currency from sections of the country remote from where you are doing your business.

Senator HITCHCOCK. But this is a country which does business in a very homogeneous way. We have no national lines, and business does not run according to State lines.

Prof. JENKS. The essential thing, of course, is to see that you have your contraction prompt; that you get your bills out of the way and redeemed.

Senator REED. And then, if this is workable, as I suggested, you do not have to keep the printing presses running printing new money and a lot of clerks destroying it. You set aside this money when it comes into the Federal reserve bank, this \$1,000,000; you take \$1,000,000 of these notes out of circulation and put them over with the Federal reserve agent and he holds them. Day after to-morrow that bank needs another \$1,000,000 for a similar transaction. It comes over and gets \$1,000,000 of this currency that has been through the channels of trade and takes it and loans it out, and at the end of 90 days it has to retire that \$1,000,000 again, and you do not have to keep the printing presses running. Maybe there is a hole in all that—

Senator POMERENE (interposing). You make a fixed quantity of it?

Senator REED. No; that does not make it a fixed quantity.

Senator POMERENE. There is \$1,000,000 issued, and you destroy \$1,000,000 at the end of 90 days.

Senator REED. That is exactly the point. The point is, we have issued this \$1,000,000 for the purpose of floating certain commercial transactions which we have been told all along are to pay this off. They are to do it within 90 days. At the end of 90 days, therefore, the use of this money for that particular transaction has ceased. If you leave it out longer you have an inflation. Now, this provides that the bank shall take it by direct methods—not by the indirect method of canceling bills that come into the wrong place—shall take up \$1,000,000 of that currency.

Suppose we have \$150,000,000 out, for the sake of illustration; that is, what we think is safe. We have issued \$100,000,000. To-day the banks issue \$5,000,000 more. Now, we have \$105,000,000 out. To-morrow there is \$5,000,000 more of this paper that has to be taken up. It is carried over here and retired with the Federal agent. The next day they need \$5,000,000 more. They have taken out of the aggregate that is circulating around, and they have this money over there with the Federal reserve agent. They have gathered it up, and they simply take it and issue it upon this collateral. Then every time that collateral comes due—every 90 days—they have to have a contraction that equals the expansion, and that 90 days does not mean each period of 90 days; you are contracting and expanding all the time.

Prof. JENKS. That is the question, I think, the Senator here had in mind, and I was going to ask a question. What you mean, I understand, is this, that on every day a provision shall be made that there must be paid in to the Federal reserve agent as much money, or as many notes, or the equivalent of those notes, as was taken out 90 days before.

Senator REED. Yes.

Prof. JENKS. So it keeps up a continuous process. So far as that is concerned, that is practically provided in the bill now, and I do not see that it affects the situation.

Senator REED. If that is provided, that ends it, does it not?

Prof. JENKS. I do not think it does quite. What is provided is this, that the Federal reserve agent has reported to him every day, of course, what the situation of these accounts is. If a collateral note is paid off, he is either going to have the Government notes back or have some other collateral notes substituted.

Now, if the business is expanding, the chances are 10 to 1 that he does not get these bank notes in; and I do not quite see now that he ought to get the notes in, because he has substituted, we will say, for the \$50,000 of collateral notes that are due to-day \$50,000 others; and I am inclined to think that your plan would involve a good deal more shipment of money than mine would.

Senator REED. I do not think it involves any.

Prof. JENKS. In this way: These loans are not made by the regional banks themselves, but through the different member banks that are scattered 100, 200, or 500 miles away.

Now, if those actual physical notes that are sent out from this regional bank have to go back to the regional bank so that they can be

turned over at the end of 90 days and the equivalent amount of them substituted, you have got a good deal more of shipment under your plan than I have under mine. Perhaps, however, I misunderstood you.

Senator REED. No; I think you have gone into a detail that I did not take up.

Prof. JENKS. Yes.

Senator REED. Well, the member bank now owes the regional bank \$1,000,000, which it got from the regional bank 90 days ago?

Prof. JENKS. Yes.

Senator REED. And its collateral is up with that regional bank?

Prof. JENKS. Yes.

Senator REED. If the regional bank collects that collateral, it has now got in its vaults all the money it loaned out, and the \$1,000,000 is still kiting around the country somewhere—the \$1,000,000 of currency.

Now, the question is, how to get that back.

If you provide that the bank which got the accommodation wipes out its obligation by either—its obligation is already wiped out by the payment of this collateral if it is done in that way. I do not assume that it will be done in that way; I assume that those collateral notes will be collected by the member bank and remitted to the regional bank; and I assume that there will be passed through that regional bank, consequently, a large flow of this currency; that it will go there in vast quantities and that all it has got to do is to take the \$1,000,000 of that that is coming in, retire it from circulation for the time, and turn it over to the Federal Government.

Senator POMERENE. Is it your contention that this \$1,000,000 shall be set aside at the end of 90 days?

Senator REED. Set aside; yes; at the end of a given period. In other words, I go down to a bank—I look at the transaction in this way: I go down with my credits to a Federal reserve bank, with \$1,000,000 of promissory notes.

Prof. JENKS. Yes.

Senator REED. Now, I in fact borrow from the Federal Government, for temporary use, \$1,000,000 of this currency. The purpose is now, if I understand the thought of this bill, to carry me until the transaction involved in that 90-day paper which I put up has been completed and the paper has liquidated itself. That is the theory of this bill. Now, at the end of 90 days, that collateral has all matured.

Senator NELSON. And is paid.

Senator REED. And is paid. Now, either the member bank has collected that or the regional bank has collected it. Assuming, for the present, that the regional bank has collected it, then at the end of 90 days, the regional bank is whole. It has got its money back, but it has got \$1,000,000 of its notes floating around.

But, coming to that regional bank must be a constant stream of this bank currency, and I would make it the duty of the officers of that bank, at the end of 90 days, to take \$1,000,000 of those notes and retire them. Then the transaction is completed; it is over.

If the member bank was to collect the collateral, it would be reimbursed now. And then I would make it the duty of the member

bank in that case to notify the regional bank, and the regional bank would deduct from the amount of credit to that member bank \$1,000,000 and retire at once \$1,000,000 of this paper.

Why is not that workable? I am not a practical banker—but you have got to pay that debt; and they have been telling us the reason there was not any inflation in this bill, or any dangerous inflation, and the reason it was a safe money was because the money was issued upon promissory notes, which represented an actual commercial transaction which liquidated itself. Now, that is—

Senator NELSON (interposing). Now, if I understand, Senator Reed, will you allow me to put your question into shorter form?

Senator REED. Certainly. You generally can do that better than anybody I know.

Senator NELSON. If you would not take any offense, I would like to do it.

Senator REED. No; I would not take any offense at all.

Senator NELSON. Would that be better, when one of those regional reserve notes, or currency, is redeemed by the Federal reserve bank, that that was the end of that note; that it was retired from circulation? Would not that cover the point?

Senator REED. That is what I mean.

Senator NELSON. Would not that be the safest way of regulating the currency automatically?

Prof. JENKS. As far as I understand, the bill does that now pretty well, except that it does not cancel its own notes.

Senator SHAFROTH. It holds them.

Prof. JENKS. It holds them. But there is a point that I am not quite sure I understand, and that is this: I think that most of these notes will be collected through the member banks.

Senator NELSON. You mean redeemed?

Prof. JENKS. Yes; redeemed. Well, now, I ought to put it this way: I ought not to have said "note." I mean the commercial paper.

Senator NELSON. The collateral for the currency.

Prof. JENKS. Yes; the 90-day paper which the Federal reserve bank is holding will be sent back to the member bank for collection. When that is collected it will be paid in these notes—this currency—and if it is paid in these notes, the proper credit is given to the member bank and some other commercial paper substituted in the regional bank.

But, now, why should that member bank—why should that cancel the currency note from its own regional bank? And the present bill does not provide that it should. It lets it hold that as long as it wants to. And I think that is all right; that will avoid shipping the notes back and forth. If they are to be shipped back and forth, as the Senator suggests, there would be a great deal of shipping.

Senator REED. I do not think there would be any at all, if we follow it on. Let us take this transaction: You are a regional bank and I am a member bank.

Prof. JENKS. Yes.

Senator REED. And I go to you and say, "I want to borrow \$1,000,000."

Prof. JENKS. Yes.

Senator REED. And I say, "Here is \$1,000,000 collateral." It is put up with you simply to make you say, "I issue my obligation for

\$1,000,000." It is due in 90 days. At the end of 90 days I have got to take it up. You give me the money. I take it home to my bank and loan it out.

The 90 days expires. I owe you \$1,000,000. I have a balance there with you. I have been maintaining a balance. You charge me \$1,000,000, and instantly substitute \$1,000,000 for these notes that have been coming through your window, putting them with the representative of the Federal Government, who locks them up; they are no longer in circulation.

Now, I have no credit with the bank whatever. Of course I have to send you the money, or I have to send you a draft for that \$1,000,000 on some other bank. And almost all of it will be done in that way. And all there is in the whole scheme of physical labor is the book entries and the action of the Federal reserve agent coming over to the bank across the aisle each day, and saying, "There is \$1,000,000 of this paper to be retired; give it to me." And he takes it and locks it up.

Prof. JENKS. Let me ask you one question further. Now, supposing when he comes over and asks for that \$1,000,000 I should say, "I have not \$1,000,000 here in the notes that have been coming in, but I have," we will say, "\$700,000 in those notes, and I will turn over \$300,000 to you in lawful money."

Senator REED. That is all right. The money has been shrunk that much. Now, you know mighty quick, when you get the notes, you will say to him, "I want to swap those notes for lawful money."

Prof. JENKS. I understand that the bill provides for that at the present time, with this exception, that if the notes that are on hand at the Federal reserve bank are its own notes it turns them over and they are held there to be issued again. If they are the notes from some other regional bank, they are canceled and sent back for redemption.

Senator REED. I am not in favor of issuing a sectional currency in this country. So far as I am concerned, I want a dollar that has got the Government of the United States stamped on it; good not only in every part of this country, but I would like to see it good in every part of the world.

Senator HITCHCOCK. I think it might be a pretty serious embarrassment to the western reserve bank to have suddenly dumped upon it a large volume of the reserve notes of another bank, because it can not pay those notes out without a penalty of 10 per cent. It can not hold them in its reserves, which it is obliged to maintain. It has got to suffer all the loss while it is sending them to the Treasury for redemption.

You take a western reserve bank; perhaps it would be a week or 10 days before it could get that back from the Treasury. And I agree with Senator Reed that there ought to be some way in which these reserve notes ought to be as good for any use in one part of the country as in another.

Prof. JENKS. They are as good till they reach the reserve bank. I do not see how they can be as good for reissue and still insure their prompt redemption so as to contract the currency. So far as that point of delay that you are making just now is concerned, that would seem to be a matter of the credit, that could be arranged with the Treasury and reserve agent promptly. There is no delay necessary.

Senator REED. Why will not the currency be made absolutely stable for this reason? Let us take the illustration a little differently.

Prof. JENKS. Yes.

Senator REED. Take your illustration. Here is \$1,000,000, which it is the duty of Senator Bristow, as Federal reserve agent, in your regional bank, to see that the \$1,000,000 that I have got from you is retired to-morrow.

Prof. JENKS. Yes.

Senator REED. To-morrow morning he comes in to you and says: "Here is that paper that you issued to Senator Reed's bank and it is due and I want you to retire it."

You say, "We have only \$700,000 of his paper." "All right," says Senator Bristow, "give me your \$700,000 and give me \$300,000 gold." And he takes that over and puts it in the Government till.

The gold that you have there is a complete answer to any danger or any question of inflation. You have it there to redeem these notes on demand. You have it there for every purpose. It is a little better than your note.

The whole scheme amounts to no more than this, that I issue my check and I start it kiting around the country. It comes due and you are my agent of redemption. Well, when it comes due the check is not there. You say, "All right, let the check stay out for \$100, give me \$100 in gold, and I will retire that gold from circulation." There is the same amount of circulation out, and while that circulation which is out is not of the highest type, as long as the gold is there locked up to represent it and redeem it at any moment it is pretty good.

Prof. JENKS. Yes; that is all right.

Senator NELSON. Prof. Jenks, you must not think that we are spending time unnecessarily—

Prof. JENKS (interposing). I think that is an extremely important point, Senator Nelson. It is a new matter that I had not seen before.

Senator NELSON. This matter which Senator Reed and others have been discussing is to me very important.

Prof. JENKS. Certainly, it is important.

Senator NELSON. Let me put a case like this to you: We will say that you are a member bank and that Senator Reed is a regional bank.

Prof. JENKS. Yes.

Senator NELSON. And you deposit with him \$100,000 of commercial paper due in 90 days.

Prof. JENKS. Yes.

Senator NELSON. And you get \$100,000 in his notes?

Prof. JENKS. Notes; yes.

Senator NELSON. Or currency.

Prof. JENKS. Yes.

Senator NELSON. You loan that out to people around the table here, let us say.

Prof. JENKS. Yes.

Senator NELSON. By and by that currency comes back to Senator Reed for redemption, and he has to redeem it.

Prof. JENKS. Yes.

Senator NELSON. In the meantime the 90 days have run and that commercial paper is paid. It has been paid to the bank that issued

the notes. The commercial paper has been paid; the 90-day paper has been paid; and there are the proceeds of that 90-day paper with Senator Reed and there are the notes. Now, should not the proceeds of those notes that have been paid wipe out that currency? If you are going to keep that currency in circulation after you have got the commercial paper redeemed, you must put other commercial paper in there in place of it.

Prof. JENKS. Surely.

Senator NELSON. So, if you put other commercial paper in place of it you must return the money that has been collected on the 90-day paper to the member bank.

Prof. JENKS. Unless you are substituting one piece of commercial paper for another.

Senator NELSON. If you change it before they are paid.

Prof. JENKS. Yes.

Senator NELSON. But if you do not change it before they are paid, what then?

Senator HITCHCOCK. We have been going on the assumption that the Federal reserve bank secured this currency from the Government upon a definite length of time.

Prof. JENKS. I did not suppose so.

Senator NELSON. Oh, no.

Senator REED. No; I did not mean that. The Federal Treasury gives to its reserve agent—will furnish its reserve agent with a large amount of these bills and instruct him how he is to pay them out. And he will have it on hand in these banks all the time, undoubtedly.

Prof. JENKS. Oh, yes; undoubtedly. He could not go to Washington every time any demand came in.

Senator HITCHCOCK. They will change from day to day.

Senator REED. And every day the Federal reserve board will be notified as to how much money there is out.

Prof. JENKS. Yes.

Senator REED. And when they see that there is more money out than the law allows—and I am in favor of putting an absolute limit upon it—they, of course, stop. And beneath that point which I hope the law will fix they will have a discretion, and if they see that there is too much money going out will raise the interest rate; so that the interest rate to-morrow will be so much. Or they will say, "We will not issue any more." I know you shake your head, Prof. Jenks, at the absolute limit of the law.

Prof. JENKS. Yes.

Senator REED. But I have got more confidence in the law than I have in the best human judgment when it comes to matters of this kind.

Prof. JENKS. I agree to that also, but I should think——

Senator REED (interposing). There should be a limit. I think it might be generously fixed.

Prof. JENKS. Yes.

Senator REED. But there should be some point that this board can not exceed until Congress and the President pass another law changing it.

Prof. JENKS. Why not put the limit on the basis of your reserve, which will make it all absolutely safe? Then you have got it adjusted to the demand of business, whatever it may be.

Senator HITCHCOCK. One o'clock has come, shall we take a recess?

Senator SHAFROTH. I suggest, Mr. Chairman, that we meet again at half past 2.

Senator HITCHCOCK. All right. We will take a recess until half past 2.

(Thereupon, at 1.05 o'clock p. m., the committee took a recess until half past 2 o'clock.)

## AFTER RECESS.

Senator HITCHCOCK. Prof. Jenks, will you resume your statement?

Senator NELSON. I would like, Mr. Chairman, to get back to a question that is not clear to me at all; and I am going to put the question in a little different form from that in which I put it this morning. Prof. Jenks, this currency issued by the regional banks is nothing but the promissory notes of the regional banks which are guaranteed by the Government?

Prof. JENKS. Substantially that.

Senator NELSON. A promissory note to obtain money.

Prof. JENKS. Yes.

Senator NELSON. Well, we will say that you are a member bank and I am a regional bank. You deposit with me \$100,000 in notes—90-day commercial paper—and you get \$100,000 of that currency from me. You put that currency in circulation, it goes around, and ultimately it comes back to me?

Prof. JENKS. Yes.

Senator NELSON. I redeem it as the regional bank. Now, it may not come back until after all that commercial paper has been paid and collected.

Prof. JENKS. Yes.

Senator NELSON. We will suppose that you did not want to renew those notes or put in new notes. You allowed the notes to be paid, they were collected, and the money went to the regional bank, and the reserve notes that were issued upon it came back to the regional bank. Now, in that case are not the notes paid?

Prof. JENKS. The notes are paid.

Senator NELSON. The notes are paid, and they ought to be extinguished, and there would be no warrant to put them in circulation again in such a case. Now, the only warrant for keeping those notes in circulation, Prof. Jenks, seems to me this, that in order to continue them in circulation the regional bank must keep paper there—substitute paper for the 90-day paper?

Prof. JENKS. Yes.

Senator NELSON. And keep a continuing stream of that paper?

Prof. JENKS. Yes.

Senator NELSON. As soon as you cease to do that, and the last deposit of notes you have left there are paid or redeemed, and the money goes back to the regional bank that issued the notes, those regional notes are paid, are they not?

Prof. JENKS. Those regional notes are paid—redeemed.

Senator NELSON. They are redeemed.

Prof. JENKS. Yes.

Senator NELSON. And they ought not to be in circulation again. Do you understand my question? I will put it again, so that you can understand it.



Senator HITCHCOCK. Yes; I would like to hear you restate it.

Senator NELSON. Suppose Prof. Jenks is a member bank and I am a regional bank. He deposits commercial paper, 90-day paper, with me, and I issue to him \$100,000 in this new currency. He puts the currency out; it travels around through the world and finally comes back to me, the issuing bank. In the meantime those notes—that commercial paper that he deposited with me has become due and it is paid. Paid in to me, the regional bank.

Now, does not that, when those notes—suppose he does not care about renewing the notes or giving more notes.

Senator POMERENE. Renewing the collateral, you mean?

Senator NELSON. Yes; renewing the collateral. He allows those notes to be paid to me, the regional bank, in full. I get the money and the regional notes that are issued for that commercial paper come back to me. Now, are not those notes paid, those notes of the regional bank?

Senator HITCHCOCK. Well, my judgment would be that, as fast as the commercial paper is paid to the regional reserve bank, that bank will see its reserve increasing.

Senator NELSON. Yes.

Senator HITCHCOCK. And as its reserve increases it will reduce its obligation to the Government by turning in notes or gold without waiting for the particular currency to return; that it will be a daily transaction, that as the reserve of the regional bank increases by reason of the payment of commercial paper the regional bank will reduce its obligation to the Government, and it will not wait for the particular currency to come back; and when that comes back it may either be paid out for other loans or it may be turned over to the agent of the Government in the regional bank.

Senator NELSON. No. But as a matter of fact this new currency, while it is in form the obligation of the Government, is really the obligation of the bank, and it is a debt that you owe to the bank.

Senator HITCHCOCK. Yes; but I—

Senator NELSON (interposing). And if that debt has been paid, why should those notes circulate any longer?

Senator HITCHCOCK. It is like a national-bank note now. The national-bank note comes in for redemption at the bank. A man may come in and present it and get gold for it. But within five minutes afterwards the national bank, if it has a demand for loans, will pay it out to a man borrowing money, or will pay it out to a depositor who is withdrawing money.

Senator NELSON. But you see the Government bonds as security are a continuing security which remain there.

Senator HITCHCOCK. And for that reason the bank is not able to reduce its currency. It remains stationary. But under this new system, from day to day, as its cash reserve rises, it will pay off its currency obligation to the Government. It will not wait for any particular currency to come back; and on the other hand it will, even after it has come back, continue to keep it out until it has additional use for it and the state of its reserves requires its use.

Senator NELSON. Yes.

Senator HITCHCOCK. I think it is the reserve in the bank which is going to govern the volume of currency. Do you not agree with me, Prof. Jenks?

Senator NELSON. Let us go back to Prof. Jenks as the member bank. He has got this currency from me, the regional bank.

Senator HITCHCOCK. I think you are mistaken there.

Senator NELSON. And the currency he gets is the promissory note of the regional bank.

Senator HITCHCOCK. I think you are mistaken that he necessarily gets currency for it. If he runs a bank and he desires to discount paper with you—

Senator NELSON (interposing). There are two kinds of discount. I am putting a case where he discounts paper with the regional bank for the purpose of getting currency issued by that bank.

Senator HITCHCOCK. Well, let us say he discounts paper with you. It is for him to say whether he wants it in the form of notes of your bank or currency, but whichever way he gets it, he gets something which he can use in his business.

Senator NELSON. What do I get?

Senator HITCHCOCK. He does not necessarily get currency.

Senator NELSON. I am taking the case where the discount is made purely for the purpose of getting currency.

Senator HITCHCOCK. You may get gold.

Senator NELSON. Not necessarily. I deposit this paper under the provisions of the bill, and say, "I want to get currency for it."

Senator HITCHCOCK. The bill does not give him any right to say that he wants currency for it.

Senator NELSON. But, upon application, he may do so. It is, of course, in the discretion of the board to issue it.

Senator HITCHCOCK. No; it is in the discretion of the bank; but it uses that currency just as it uses gold or national-bank notes. And upon any application from a member bank—it will depend upon what that member bank wants—as to what that bank gets. It may merely want a credit upon the books of the reserve bank.

Senator HOLLIS. He has got a right to assume that he will get currency upon his application.

Senator HITCHCOCK. He has a right to assume that he will get currency, but it is not treated differently from any other form.

Senator NELSON. But what is that currency, except a promissory note of the bank to pay it—

Senator HITCHCOCK (interposing). That is right. Here is a national bank—

Senator NELSON (interposing). But he has deposited with me as security for the redemption of that currency commercial paper due in 90 days.

Senator HITCHCOCK. It is not for the redemption of that currency. It is for the payment of the notes—

Senator NELSON (interposing). It is for the redemption of payment of that currency.

Senator HITCHCOCK. No; I think not.

Senator NELSON. The currency is issued on that commercial paper and on nothing else.

Senator HITCHCOCK. I think you are mistaken, because that paper can be changed from day to day.

Senator NELSON. Suppose he does not want to change it?

Senator HITCHCOCK. If he leaves it to you, as the reserve bank, you can change it from day to day.

Senator NELSON. How can I change it, unless you have new sets of men who have given new notes to the member bank?

Senator HITCHCOCK. No; the bill gives the reserve bank the power to change that security from day to day.

Senator NELSON. But how can the reserve bank change it?

Senator HITCHCOCK. Very easily. If Prof. Jenks has deposited \$100,000 commercial paper with you and taken out either currency or credit, the very next day—you deposit that with the Government agent—and the very next day you can go to the Government agent and say: "I want to withdraw \$50,000 of that paper and I will give you \$50,000 of other paper in its stead.

Senator NELSON. But suppose Prof. Jenks does not care to do that? Suppose he lets that paper go to maturity and the money is paid in? Suppose he does not care to substitute other paper for it?

Senator HOLLIS. Then at the end of 90 days he walks in and gives you lawful currency to take the place of that issued to you; and he owns that absolutely because he has paid you for it; and those bank notes stay out to take the place of the lawful currency you turned in.

Prof. JENKS. May I answer the Senator's question as I understand it? It seems to me that he is perfectly right when he says this, that whenever those notes which have been issued for this \$100,000 of collateral come in and are presented to the bank and redeemed that closes that transaction, and those notes are redeemed and that ends it.

Senator NELSON. And they should not be issued again.

Prof. JENKS. And the Senator says they should not be issued again. Now that might be put in in this way: They may be canceled completely and some new notes of the same denomination printed; but in case the bank and the Government think it is wise, instead of having that extra expense of printing, they might have these same notes go out again; it is the same printing, but it is really a new transaction; it is substantially a new note.

It is just the same as if I were to issue my personal promissory note to the Senator for an obligation, if it would be likely that he would take it payable to bearer on demand, and without interest. Then, whenever I pay that note off he gives it back. Suppose, a week later, I have not torn that note up and I want to borrow some more money from him; if he wants to take the same piece of paper back again that is all right. It is a new note, of course. It would be unusual, but if I have in hand that form it may be used.

Senator NELSON. It is a new note?

Prof. JENKS. It is a new note absolutely. So I say this: If the note has been redeemed, and either that paper or some other piece of paper is put out, it is in reality a new note, a new obligation.

Senator NELSON. And should have a new deposit of commercial paper back of it?

Prof. JENKS. Oh, certainly, it would have a new deposit of commercial paper back of it.

Senator POMERENE. Does not the difference here arise from the fact that we provide that the reserve notes are not issued on the initiative of the member bank, but upon the initiative of the reserve bank?

Senator HITCHCOCK. Yes.

Senator POMERENE. And all that the member bank is concerned with is to get the proceeds of its discounted or rediscounted paper? And it is a question, primarily, for the reserve bank to make applica-

tion to the agent of the Federal Government for the reserve notes? And it is a question between the reserve bank and the agent as to when that collateral shall be renewed; and it is not a matter about which the member bank concerns itself?

Prof. JENKS. But, as I understand Senator Nelson's question—

Senator NELSON (interposing). Well, Prof. Jenks, will you tell me this: How can the reserve agent and the member bank renew those notes without action of the makers of them? They have got to be renewed by the makers of the notes, have they not?

Senator POMERENE. The reserve bank might take notes from the New York bank, or the Syracuse bank—I mean collateral notes—or the Buffalo bank, or any other bank; and it is a question between that reserve bank and the agent as to when this paper shall be redeemed and what additional collateral may be hypothecated from time to time.

Mr. FISHER. The point I understand Senator Nelson to make is this, that when the reserve bank finally returns these notes to the reserve agent and as they are redeemed and he takes something else instead, whether that closes that transaction. As I understand it, it does close that transaction.

Senator POMERENE. I think so.

Prof. JENKS. But it is still possible, under the law—and I judge is contemplated under the bill—that these same pieces of paper may be reissued a second time for new collateral put up. They do not need to print new paper every time.

Senator POMERENE. No; I should think not; I do not so understand the bill.

Prof. JENKS. I judge, also, if these notes are redeemed by the Treasury, that the Treasury sends those notes back to the Federal reserve bank and that the Federal reserve bank is authorized to put them into circulation again against proper collateral. They do not need to reprint every time; that is the point; but it is practically a new issue of notes every time after they have been redeemed once.

Senator POMERENE. Yes.

Senator HITCHCOCK. Now, do you think the effect of this is going to make it easier for banks to lend money?

Prof. JENKS. I think that, as the bill stands, it is going to make the banks rather more desirous of lending money, because there is a chance of a somewhat better profit than under the present national-bank note system. Under the present system, as I understand it, the direct profit of the banks on circulation is kept pretty low, below 4 per cent, including the interest on the bonds, as a rule. Under this system the profit of the banks would be substantially on the amount loaned above the reserve, whatever the rate of interest might be at the place where they were making the loans, less the interest that might be charged by the Government for the issuance of the note at the Federal reserve bank. That would presumably be the case. That, I should suppose, would be rather more than under the present circumstances, so I think they would be a little more eager to get the notes into circulation.

Senator HITCHCOCK. Now, if a man comes into a national bank in the city to borrow money, if he is perfectly good the bank will not be able to lend him because it is so near the limit of the reserve.

Prof. JENKS. Yes.

Senator HITCHCOCK. If he goes into such a bank, after this bill passes, that bank will be perfectly free to lend him, if his credit is good, because of its ability to rediscount his note or any other note like it at the reserve bank, and the operation would be profitable.

Prof. JENKS. Yes.

Senator HITCHCOCK. Now, I want to ask you, under those circumstances, whether the result will not be that there will be a probable expansion of bank loans?

Prof. JENKS. I think there is likely to be some expansion of loans. I do not see any reason for thinking there is going to be any very large expansion of bank loans. The reason for that is, that at the present time, although a bank may decline a loan, and sometimes I suppose has to, because it is near the limit of the reserve, that does not very often happen. It is only in times of extreme emergency that it happens. And there is where, it seems to me, is the special advantage of this bill. It is in times of real emergency when there is really a great emergency that the bank wants to go beyond a certain fixed limit. Under this bill, by means of rediscounts, it can. And, further than that, this bill allows the bank, without violating the law, to go below the fixed reserve of  $33\frac{1}{3}$  per cent, as you have it in the bill.

Senator HITCHCOCK. Has not the experience of Germany been, with a system very similar to this, that there have been periodic expansions of credit which have been followed by a severe strain upon their banking system and then a depression because of the contraction?

Prof. JENKS. I think we are bound to have anyway, no matter what system we have, certain periods of expansion and, following them, periods of relative depression, but we ought not to say that the expansion would be the cause of the contraction. Contraction is part of the phenomenon, but I do not think it is strictly because of expansion. If I may explain a little further what I mean by that, I should say that ordinarily most of the panics we have had come from what we might call simply the weakness of human nature. When business is running on well and there is a tendency toward prosperity, every business man is anxious to expand his business, of course. He is making a good profit, and he goes to a bank and gets credit, and he continues expanding that credit as much as possible. The bank shares that same feeling. It says, "This man is good, and I will loan him freely"; and so the whole movement of the country, at times, is toward expansion of credit. There is practically no limit. But if credit keeps on expanding and everybody is borrowing, the people begin to get speculative; they take more and more risks, and the banks share in that feeling for a while. But finally the banks see things are going too far, because they are likely to be conservative on that line, and then they will say to the borrowers, "I have got to stiffen my rates a little," and they begin to check down on credits. When they do check down on loans, naturally that makes the man who has been borrowing have some trouble to pay his obligations and there is a tendency toward stress. Now, if the banks start this process early enough, by putting the discount rate up promptly and keeping the brakes on steadily, that may prevent a too great expan-

sion, and then, perhaps, a sudden panic. But I do not see how, considering human nature as it is, we are going to avoid those times of expansion, followed afterwards, perhaps, by times of rather rigid depression. Then, in a little while the same process is repeated. I think that is inevitable in human nature. The difficulty we want to avoid is as many bankruptcies as possible. As soon as people get to this highest period of expansion, under the present circumstances when there are one or two failures the banks feel the danger and begin to contract loans. The banks who have deposits with the reserve banks call on them, and the reserve banks find their reserves called out by the smaller banks all over the country. Each one is grasping to get its reserve out, and they shut down suddenly and too emphatically upon loans; then the big failures come and we have a panic.

Senator HITCHCOCK. I think it was in March or April the bank statement showed a very low level for the reserves. They were down to the danger line, and since March, up to September, the banks have been strengthening their reserves, because it was seen they were down to the danger line. Now, suppose in March the banks had not been able to see the danger line indicated by the low reserve; suppose they had been able to go to the reserve bank and get additional currency to lend their depositors; then that danger line would not have been seen, the natural contraction would not have resulted, and we would have gone on expanding credit in this country. Would not that have led to a worse disaster if the banks had been in a position to put that off by rediscounting paper?

Prof. JENKS. I do not think there is that danger, for this reason: When we are getting down toward the danger line under this system—provision is made here that the reserves shall be a certain fixed amount—then we can see it is time to contract the credits.

Senator HITCHCOCK. You mean the reserve kept, not in the individual banks, but in the regional bank?

Prof. JENKS. In both.

Senator HITCHCOCK. I do not see how the individual bank would know, because the individual bank, if it finds its reserve low, all it has to do is to rediscount paper with the regional bank and fortify itself with cash.

Prof. JENKS. Of course that would appear also in the falling reserve of the regional bank when it did that.

Senator HITCHCOCK. That would at once strengthen its reserve and every bank could do the same thing.

Prof. JENKS. The regional bank, when it saw things going that way, would say, "We are not prepared to discount paper except at a higher rate."

Senator HITCHCOCK. The regional bank?

Prof. JENKS. The regional bank directors, as well as other banks, will be able to see it in time.

Senator HITCHCOCK. Where do they see it?

Prof. JENKS. The Federal reserve board notices the reserves are getting low and it will notify the banks. Its statements are to be published weekly, as I understand it; at any rate, so that the whole country will be notified if the country does get into that situation. Under those circumstances the presumption is that the regional

banks would already have begun to put on the brakes, anyway, at about the same time. But, if they do not, it is the business of the Federal reserve board to say you must.

Senator HITCHCOCK. Suppose the reserve of the regional bank appears to be getting low, down to 33 per cent—and you favor allowing them to go lower in the banks?

Prof. JENKS. Yes; and put the tax high enough to stop it.

Senator HITCHCOCK. Suppose they had gotten down to 33 per cent. Now, a bank having applied for currency, can go there and get, say, a million dollars of currency from the Government, and set aside \$300,000 for reserve and have \$700,000 for—

Prof. JENKS. Oh, I beg your pardon, it does not set aside 33 per cent of that; it has to set aside 33 per cent in gold, which is quite a different proposition.

Senator HITCHCOCK. It is not so very different, because by putting out that currency it draws gold in. Gold is coming in over its counter all the time. It could not set aside the reserve out of that particular million dollars, but by getting that million dollars of currency it would be only required to keep \$333,000 of gold or legal tender, so it would have \$667,000 to advance the banks.

Prof. JENKS. If it keeps the requisite amount of gold back of it continually, and is careful with reference to the credit of the people to whom it is making its loans, it is safe. But of course there is always that danger, and I think that always will be true under whatever system you get. We shall expand in times of good credit, of real prosperity, all along the line, and the regional bank will be doing the same as the individual member banks. There is always danger of that. That can not, so far as I can see, be absolutely avoided. Under the proposed system, when we are on the verge of a crisis, with our reserves down to substantially 33 per cent, and a case comes in where a bank is on the verge of bankruptcy unless it gets a little help to carry it over and it can put up good collateral, the reserve bank will say, "Very well, you can have that, but you must pay a good high rate." And the presumption is, seeing that coming, they will be putting up the rate before the crisis comes, and that is what is done in Germany and France continually. As soon as they see the reserves diminishing they put up the discount rate, and that does put the brakes on.

Senator HITCHCOCK. You rely, then, on the Federal reserve bank checking the loans of the member banks?

Prof. JENKS. The reliance is all along the line, but the ultimate reliance is upon the Federal reserve board. Next the reliance is upon the boards of directors of the regional reserve banks, and then, beyond that, upon the boards of directors of the member banks, and that is one of the great advantages in this bill—you have there one great system. Really, if the proper requirements are made for having the regional banks and the Federal reserve board working together, you have one great system, where, as the law is now, you have 25,000 different fellows working in different ways.

Senator HITCHCOCK. Suppose John Smith comes into the bank now and applies for a loan and the banker tells him: "I am sorry, Smith; you have perfectly good credit, but I am not able to loan you because there is such a strong demand for money and we are down to our reserve limit." That is an answer to John Smith.

Suppose, now, under the new order of things, John Smith comes into a bank and the bank says, "We are sorry, Smith, we can not lend you; we are down to our reserve." Smith says, "That does not make any difference; you can discount your paper with the reserve bank." That is no answer to Smith.

Prof. JENKS. I think it is an answer to Smith, because the bank would put it this way: If John Smith is perfectly good and the bank is confident he is all right, then it is up to the bank to rediscount his paper and accommodate him.

Senator HITCHCOCK. Now, then, apply that to the tens of thousands of borrowers and the thousands of banks; is not that one influence alone going to expand bank loans?

Prof. JENKS. It will, some, but I think it will do no harm, and the reason for that is this, that John Smith is told: "Under the present circumstances you realize that the rate of discount has gone up, and instead of your paying  $4\frac{1}{2}$  per cent, as I have been charging you before, because you are a good customer and have rather large loans, I have got to make it  $6\frac{1}{2}$  per cent," and that will rather open his eyes. And especially if it goes to 7, he will say, "I guess I will hold off a little bit."

Senator BRISTOW. When it goes to 7 what is the bank paying the Government for the money?

Prof. JENKS. What the bank would be paying the Government for the money would depend upon what the board of directors of the regional bank says, with the approval of the Federal reserve board.

Senator BRISTOW. How much would you, in your judgment, think that ought to be?

Prof. JENKS. I do not believe I have much of a judgment on that matter. I do not think that question could be answered categorically in that way. It would all be dependent upon the circumstances of business at that time.

Senator POMERENE. That would be a variable quantity?

Prof. JENKS. Yes.

Senator BRISTOW. Here is John Smith and his loan is turned down, and he says, "I will have to charge 7 per cent," when you have only been charging 6. He knows; he is an intelligent man and understands this bill. He knows on good security you can get money at the bank. You decline to do it and give those reasons. Now, suppose you lend this money at 7 per cent, how much is the bank to pay the Government for the use of that money?

Senator NELSON. The bill presupposes a tax of not less than a half of 1 per cent upon the currency.

Prof. JENKS. I do not think that covers it, Senator. It presupposes that tax, which I personally may be inclined to object to, but the point, I think, is rather dependent upon the discount rate. Now, I should suppose that the discount rate of the regional bank, in ordinary times, would not be high. I am not a banker; I have not much of an idea, but I should say, really, it would be very low—2 per cent, perhaps.

Senator BRISTOW. Two per cent?

Prof. JENKS. Remember, I do not want to be held to that as a definite thing, but I say when you get to this condition of affairs you



are speaking of, then I should expect the regional bank to put the rate up to 4 or 5 or 6 per cent, perhaps. You see, there is quite a difference between the question you are putting to me and the question that comes up in the Reichsbank in Germany or the Bank of England, or any of those that have a fixed rate of discount, and that difference is essentially this: In this country we are to deal only with the banks, but they also deal with the individual concerns. They go into the market in competition with other banks. The purpose of this bill, I think, is very wise. It does not deal with John Smith, no matter how big a man John Smith may be. It deals with other banks. And, moreover, the purpose of this Federal reserve bank is not to make profits. Its reserves are to back up the individual reserves throughout the country. It would, I should suppose, under the circumstances throughout the country, keep its interest rate down low enough so that it could pay the 5 per cent or 6 per cent and, if anything beyond that, enough to make it reasonably safe. But I do not think it should keep the rate of interest high enough to make big profits for the regional bank. They let the profits—and it in fact will have to—go to the member banks, or the member banks would not be in business with them.

Senator BRISTOW. Now, Professor, there are a number of sides to this. If this regional bank is loaning these member banks money for 2 or 3 or 4 per cent less than that member bank is asking its customers, your system will not stand 12 months in this country.

Prof. JENKS. Let us put the matter in this way: When the regional bank is rediscounting the paper of the member bank it is, after all, not of itself taking any large profits, while, if it would charge more than 1 or 2 per cent, the individual bank would not come to it. Why should it? The citizen knows that you are the manager of the local bank; you can loan money at 5 per cent, and where you get your money to loan, ordinarily, is from the deposits, on which you pay no interest at all. You have to keep a third of your deposits in your vaults in order to keep yourself safe and in order to be within the law, and you are getting a large part of what you loan for nothing.

Senator BRISTOW. That is not the fact, though.

Prof. JENKS. Not quite. Of course, we know in a bank with large deposits it has to pay 2 per cent.

Senator BRISTOW. The country banks pay more than that for the large part of their deposits.

Prof. JENKS. I suppose they do sometimes.

Senator BRISTOW. Usually.

Senator SHAFROTH. Most of the banks will require accounts of \$5,000 balance before they will pay any interest.

Prof. JENKS. I was going to say also in the case of most of the banks in the larger cities they require the small depositors to have an account of at least \$200 with no interest.

Senator BRISTOW. You take the average banks, and they pay interest on deposits of \$200 to \$500 on time certificates of deposit, the rates running all the way from 3, 4, or 5 per cent.

Prof. JENKS. That is another situation—the time deposit—that is another matter. We are talking about demand business. On demand business they do not.

Senator BRISTOW. No; on demand business they don't.

Prof. JENKS. On demand business, they do not, and a very considerable portion of their loans are made on these deposits.

Senator SHAFROTH. Three-fourths of them.

Prof. JENKS. Yes. Now, if they do that, why should they ordinarily go to the regional banks and pay any large amount of interest? In case of emergency, they will.

Senator BRISTOW. I will tell you why: They have loaned out all of their deposits, and along comes a farmer that is good, and they do not want to refuse him. He wants more money, and they are going to accommodate him. They can not turn him down. They have an excuse now. We are dealing with human nature.

Prof. JENKS. Certainly. That is an emergency.

Senator BRISTOW. He comes into my bank; our relations are very cordial, and he says, "I want \$5,000." I will say, "Now, I don't know, our reserve is down, and I do not know what is coming, and I do not like to spare it." He will say, "Well, that is true," and he will be satisfied. He will have to be. But now, he will say, "We have a new system here; we have a Federal reserve bank here that you are a stockholder in, and they will discount your paper and give you the money to loan to me, and I want it; I need it." That bank is going to ask for that money.

Prof. JENKS. Oh, yes. And, for that matter, under those circumstances, which is a real emergency circumstance, he will pay the regional bank whatever they ask to be able to let him have it, if necessary.

Senator BRISTOW. Yes. Now, then, he says, "Here, your bank charges me 7 per cent, and it comes down here to Washington and gets the money for four," and it gets the money from the Government, as the public understands this to be, because if that is not what it means, then you are buncoing the public.

Prof. JENKS. Under those circumstances which are not the normal I should say they will charge the going rate there, whatever that is.

Senator BRISTOW. Professor, that is going to happen in every bank in the United States, just as sure as this law goes into effect, and I think you are up against a pretty serious proposition.

Senator WEEKS. It seems to me you have probably fixed, in your mind, the rate of interest that will be charged by the reserve banks much lower than it will be in actual practice.

Prof. JENKS. Excuse me, I had not fixed any rate, at all.

Senator WEEKS. I mean the rate you stated. That is the French bank rate.

Prof. JENKS. Yes.

Senator WEEKS. But the actual result in European countries is that the rates have been substantially the same in the joint-stock banks and the central banks for a long period of years.

Prof. JENKS. Yes.

Senator SHAFROTH. It is a little higher in the joint-stock banks?

Senator WEEKS. Frequently; sometimes higher and sometimes lower. I agree with Senator Bristow that if there were to be a difference in the rate of 2 or 3 per cent the people would not stand for it.

Prof. JENKS. I agree to that, too, Senator.

Senator WEEKS. I do not think that would be a good thing. I think it would be a bad system, but I think, being in a developing

country as we are, the rate of the reserve bank should be higher than the European banks, and it would gradually equalize and lower the rates in the United States.

Prof. JENKS. Yes; I agree to what you say on that point.

Senator NELSON. But here is one point that strikes me: If a member bank can not charge a greater rate of interest than that paid to the reserve bank—

Prof. JENKS. It must.

Senator NELSON (continuing). It would have no profit; it would have the expenses of borrowing the money and loaning it again without any profit whatsoever.

Prof. JENKS. I do not understand Senator Bristow to imply that the rate should be the same.

Senator BRISTOW. I think the people might stand for 1 per cent, probably, or a half per cent, or something like that.

Prof. JENKS. Wasn't the point this, Senator, that the charge made by the smaller national banks would be made independently of the regional banks? The regional banks are primarily a reservoir to use when the member banks are pushed somewhat.

Senator BRISTOW. I will tell you, Professor, what I think. I think we are creating machinery here that invites me to go to my own bank and ask for credit when otherwise I would not, because I know there is a great reservoir here where this banker can get the money. I think that. I think we are creating too complex a machinery, a more complex machinery than is necessary to take care of a simple problem. What we need is an elastic currency.

Prof. JENKS. Yes.

Senator BRISTOW. And, they say, mobilization of reserves. The result of these hearings shows that there is not much to that. That is theoretical more than practical, because these reserves are being used every day now just about as much as they can. The fact is we have 6 per cent reserve in national banks, or a very little more. But, be that as it may, if there was some automatic way by which the bank at Salina, Kans.—that is where I live—could make me a loan, and let the loan depend on its action and its ability, but when the crisis came upon the center—the crisis, I think, never originates outside the center; it is never in the country; it is always in the center—when the crisis comes, so that the center can not get money to pay out to the exterior regions when they want it, but let it go to the Government with its assets and get that money. If New York, in 1907—that is where the crisis started—could have gone to the Federal sub-treasury with assets that were good and gotten \$500,000,000, which is down here printed now, there would never have been any panic. Now, why can not we make some simple addition to the present facilities without taking the chance. Nobody knows what this bill will do. We can guess at it; we can theorize on it, but what will be the practical operation of it is an experiment.

Prof. JENKS. Of course, that is true with reference to almost any new thing. But it seems to me, on the other hand, Senator, that unless you do have the machinery of something of the type provided here, you are not going to get what you have put down as the first consideration, and that is, your elastic currency. That is something that must be provided for readily and steadily all the time.

This point you made last, with reference to the time of emergency is what is provided for in this bill, first, in the way of their being ultimately in a position to rediscount—and it is not expected that they will rediscount from day to day, as I understand it—to rediscount pretty freely, and to get notes to practically an unlimited amount as long as they can put up the security.

Senator BRISTOW. If they shall not have to do it from day to day. But we have no currency except this and the greenbacks; and the national-bank notes are to pass out?

Prof JENKS. Ultimately.

Senator BRISTOW. All the currency we have is to be this currency, regulated by human judgment?

Prof. JENKS. Regulated by the demand of the local banks themselves. That is what it will amount to. I would not say it was entirely regulated by human judgment.

Senator BRISTOW. Would it not be? If the local banks want to issue these notes when it needs them, and then let them nominally retire and let the Government guarantee them?

Prof. JENKS. I, myself, said at the beginning of the hearing that my own personal preference would be for bank notes, properly secured. I said, so far as this bill is concerned, I think it is excellent along that line; although they were Government notes, they were issued only through the banks on the demand of the banks, with the banks responsible first, and responsible in practically all points up to the double liability of the stockholders and that the Government was only ultimately responsible, so that in effect, I think you have in this system here substantially what you are asking for, a bank note with a Government guaranty. That is what I think it really is, under a different name.

Senator BRISTOW. Yes; that is the theory advanced here by a number of people. Say that it is a bank note with a Government guaranty. Why should it not be arranged so that I could go into a bank at home, and if I borrow, say, \$1,000, the bank gives me credit for \$1,000; I simply deposit that. That is the way it is done, and that amount is there subject to my check.

Prof. JENKS. It is, now.

Senator BRISTOW. Now, if I wanted currency instead of credit, instead of a check book, why should not the bank give me its notes instead of a check book?

Prof. JENKS. As I said before, I think that this, with very slight modifications, could be so arranged that it would give its own note. I should say that substantially now the bank in giving these Government notes—is giving its own notes, because it is responsible for them just the same as if they were its own notes.

Senator BRISTOW. If that is true, why do we want the bank at Salina, Kans., to pay 5 per cent down here at its regional bank, and take 10 per cent out of the capital stock, and drain that little community of that much of its accumulations in order to do that?

Prof. JENKS. I think, perhaps, I see now the difference of opinion which we would have. I should say the reason why it had, the chief reason why it had to do that is because it is desirable to have a real system that will give a mobilization of reserves back here, so that if your bank finds itself more or less pinched at any time it

will be in a position to handle its reserves, whether or not it could under the absolutely independent circumstances it is in now. Even under our present system your bank out there has to keep a deposit in a reserve bank, and it is probable that it would anyway, even if it did not have to, as a matter of convenience.

Senator BRISTOW. Now, Professor, I think that the hearings we have had here have demonstrated this to my mind, that the reserve which we now have is much more elastic and more mobile than the reserve will be in the regional bank. It comes about in this way: Take the bank at Salina, Kans. It keeps its reserves at Kansas City, Chicago, and New York. Say it has \$1,000,000 deposits; it will keep \$90,000; we will say it has \$30,000 in each of these cities. Now, in the course of its business it will sell exchange, probably \$30,000 worth in one day on Kansas City and have very little demand on New York. Now, it has a little above the 9 per cent always. It has to be to make this secure. If it has more than 6 per cent in its vaults the amount runs up from \$60,000 in the vaults until it is \$75,000. It can go below \$15,000. It has reserves in all of these cities; it can take out every dollar it has in New York or Chicago or Kansas City, if the sum total amounts to that, and so the bankers have told us that some days they do sell their entire account in Chicago, and the next day or the next week there may be a run in some other city. But in all of the cities and at home they have that mobilization and versatility, while now they have to have 5 per cent at home and 5 per cent in the regional banks, and they can not credit one with the other.

Prof. JENKS. Under the new system I believe the larger part of this will be done substantially as it is now, so far as that is concerned; but they must keep these minimum reserves, and as you say, the larger part of the business they will probably handle as they do now.

Senator BRISTOW. Then you will be impounding 5 per cent in this way here, which is of no use to them except as an insurance.

Prof. JENKS. There is the point. And, of course, there is a little bit more than that. There is the insurance, which is quite worth while, because these times of stress come every few years anyway, and in addition to that they are getting some return on this 5 per cent.

Senator BRISTOW. On the capital; not on the deposits?

Prof. JENKS. On the capital; not on the deposits.

Senator BRISTOW. In times of stress the experience of the country is, and I think it would be admitted by all of us now, that the country banker never has any trouble to get money from his reserve agent if that reserve agent can get the money.

Prof. JENKS. That is the point.

Senator BRISTOW. He does not have any trouble. Most of them get enough. The testimony here has been that the country banker's reserve agent takes care of the country banker. If the reserve agent can take care of himself by going to the Treasury, as he could now, if it were made a little more flexible, and get this Government money we have printed down here, which has all the qualities which our timid friends want, there would be no trouble. Now, what is the use, as a practical proposition, in our taking the chances on disaster here when we can remedy the defect by such a simple process?

Prof. JENKS. Could not the question be put fully as well the other way? What is the use of our taking the risk of not having a pro-

vision of this kind, which is secure and certain, for something that would not be so sure and certain the other way? Just let me add one word further. Suppose we were to adopt the system you have in mind, and say we would permit—I do not know whether you mean the large private or national banks in the central reserve cities to get money there?

Senator BRISTOW. Any bank which has the assets.

Prof. JENKS. And then leave it to them to determine how they shall take care of their customers. There is a great deal of competition among the different bankers for currency all over the country in times of stress like that, and my impression is that the large majority of the people would prefer to have an institution of this kind provided in the bill, where they know they can go and there can be no chance for any question of discrimination on the part of some private banker who will have some customers he would be much more likely to want to take care of than of others.

Senator BRISTOW. I would let any bank that had collateral come in and get relief, any bank that wanted it. But, so far as the practical operation is concerned, if he had an opportunity to go to the sub-treasury which might be located in a reserve city and get relief, there is not a correspondent that would not take care of him because they know they could not hold him up.

Prof. JENKS. Yes.

Senator NELSON. I want to call your attention to this difference: Take a bank in a central reserve city; it is required to keep a reserve of 25 per cent, and technically under the law it has no right to pay that out. Now, this 5 per cent fund in the reserve bank can be used as a basis for discount?

Prof. JENKS. Yes.

Senator NELSON. There is not that inhibition against the use of that by the reserve bank that there is in the case of the central reserve bank?

Prof. JENKS. That is true.

Senator NELSON. So it can be made 5 per cent, and while it is a fixed amount it is not as fixed as under the central reserve system; it can be made the basis of discount by the regional bank, whereas under the other system the 25 per cent under the law could not be used at all.

Prof. JENKS. That is true. There was still another point I was going to make with reference to what has been said before. That question in regard to a subtreasury opens up the very broad question of the single central bank of the question of a Federal reserve board with active banking power, and, of course, that is an entirely different question.

Senator BRISTOW. I would like to have your judgment on that as compared with this.

Prof. JENKS. My own personal feeling on the matter is again largely on account of this matter of the mobilization of reserves, that the best system would be a single Federal reserve bank with branches that should be established where it is necessary, rather than a Federal reserve board.

Unless you can have that central bank, and have that handled in a way that would be for the interest of the country under very careful Government direction, I think the Federal reserve board should have

its powers as far as possible supervisory rather than immediately directive. That is one criticism that can be very properly made against this bill, that in a number of cases the Federal reserve board has so many powers given it, and it has such discretion given it, that it is in itself practically a central bank.

Senator BRISTOW. Why not make it in fact a central bank and let it operate the bank just like a board of directors operate the regional bank?

Prof. JENKS. Personally, I should favor that.

Senator NELSON. Would it not be better to have one central bank under the control of the Federal board, with all the powers that this board has, than to have a number of reserve banks?

Prof. JENKS. I think there is no question about that.

Senator NELSON. Would it not be perfectly safe if it was under Government control?

Prof. JENKS. I think so; that is my own personal preference.

Senator NELSON. Could not the reserves be utilized much better and be more available if there is 1 bank than 10 or 12?

Prof. JENKS. That is my judgment, clearly. I think the number of 10 or 12 is a very serious defect in the bill. If that number were put at 3 or 4, with the board so organized that they could have pretty ready intercommunication, I think that would do fairly well. I personally would prefer 1. I think it would be better.

Senator BRISTOW. I am trying, and I am glad to say this for the record, that I would like us to develop a system that will serve the country the best. I do not care who is the author of it or who gets the credit for it.

Prof. JENKS. Surely.

Senator BRISTOW. It is the best thing for all of us to devise and work out some scheme that will satisfy the people better by giving them the best service.

Prof. JENKS. Clearly.

Senator BRISTOW. I have been exceedingly hostile to the Aldrich scheme of a central bank. I believe it would be controlled by a few men for selfish purposes. That is my judgment. That practical plan which has been suggested here occasionally seems to me would be so much more simple than the one suggested in the bill; the control of it would be the same, because it would be controlled by the Government itself; and then if there was anything in the mobilization of reserves you get the best that can possibly be had, because you have a single reservoir, and then any bank that wanted to become a member would avail itself of the privileges, whether it was a State, national, or private bank, if they met certain requirements.

Prof. JENKS. I had not understood when you used the word "sub-treasury" that you had in mind a single central bank.

Senator BRISTOW. I did not.

Prof. JENKS. I should have agreed with you more promptly if I had thought that was what you meant. I supposed you meant some Government official whose main business was something else, and that I think is an impossibility. If you are going to have a central bank to do this business you want expert managers who know the business through and through and whose business it is to look after it.

Senator NELSON. And they want to be men independent of the banks?

Prof. JENKS. Yes; I would agree to that.

Senator NELSON. Absolutely under the control of the Federal Government.

Prof. JENKS. I should agree to that. I think I should prefer this, however, since we are speaking of this Federal reserve board: It would be better if we had a single bank with a board of directors. If we are going to have anything like the Federal reserve board named in the bill, I should like to have it made clear that the banks that are supplying the capital have some minority representation. I should not care to have them appoint the directors. I favor something of this kind, that out of a board of seven or nine they appoint two or three, or select a number of men from whom the President would make the appointments.

Senator NELSON. Present a list?

Prof. JENKS. Present a list. If they were to have a choice of three out of nine, I should say they should present a list of, say, 9 or 10, from whom the President could select three appointees.

Senator NELSON. Or two out of seven?

Prof. JENKS. Let them present a list of six or eight, and let the President take any two out of that list, or reject them all and ask for another list if he did not care to select any out of the list that was first submitted.

The banks, after all, are putting up the capital. They have great interest in it. In fact, they are the customers; they are the depositors. Everybody has a great interest in it, and it is extremely important that any system we have should have the confidence of the community, including the confidence of the bankers.

Let them have a direct representation, with men who have had experience. If they nominate 10 men, the President could take any 2 out of their list, and they would know they were men whose judgment they could trust, and they would know everything that was going on, and I think that would be better than the system proposed in this bill.

Senator NELSON. You think that would be better than the advisory-board system?

Prof. JENKS. I think so. If we are going to have the present system with the advisory board, I think the advisory board's functions ought to be changed. Say the chairman and the vice chairman of the advisory board be given the right to sit, without vote, with the Federal reserve board, so that they would know everything that was going on and have a chance to express their opinions in regard to all matters that were up for consideration. I think the common people of the country, who are interested in these banks, because most of them are depositors or are interested in the bank notes, I think they would prefer that. I was very strongly opposed to the Aldrich bill because I thought it was economically unsound to give so much control to the banks. The representation of the Government was an ex officio representation. I think the banks ought to have a representation, but distinctly a minority representation.

While we are speaking in regard to the board may I add that if we are going to have a Federal reserve board such as is proposed here it would be much better if ex officio members were not put upon it? What can the Secretary of the Treasury do in the way of actual direction when it nearly kills any Secretary of the Treasury to do his



present work? If he is chairman of the board, that implies that he is going to appoint committees. He can not give the work the attention which it ought to have. It seems to me that while the Government should have representation, and, for that matter, should have the controlling representation, it should surely be a representation by men who are appointed because they know the business and can give their whole time to it.

Senator NELSON. Devote their whole time to it?

Prof. JENKS. Devote their whole time to it. They can call on the Secretary of the Treasury for any information within his power to give, and they can do the same with the Secretary of Agriculture and the Comptroller of the Currency. There is another point, however, about the Comptroller of the Currency. He is in a position to examine these banks. He will be playing in two capacities. I think that is rather unfortunate. I think the Federal reserve board would be distinctly better if the three ex-officio members were left off.

Senator NELSON. Some people have suggested that we take off two and leave the Secretary of the Treasury on alone. What do you think of that?

Prof. JENKS. I should be inclined to leave the Comptroller of the Currency on rather than the Secretary of the Treasury, if I were to leave any of them, because his business is primarily with the bankers, and the business of the Secretary of the Treasury is primarily not with the bankers.

Senator NELSON. The business of the Secretary of the Treasury is with the entire fiscal system of the United States?

Prof. JENKS. Yes. And, moreover, the Treasury Department is so enormous and the demands are so strong that no man as Secretary of the Treasury can give any attention to this business that is worth while.

Senator NELSON. You think it would be better to leave on the Comptroller of the Currency rather than the Secretary of the Treasury?

Prof. JENKS. Yes; of the two I should prefer to leave on the Comptroller of the Currency. He is devoting his time entirely to the banking question, but to a different phase of the banking question, so I should think it would be better if none of them were left on and the entire board be made up of men who would give their full attention and time to it.

When it comes to the inauguration of this system, with the selection of Federal reserve districts, I think to make of these three men an organization committee, as is proposed in the bill, can not be a practical thing. They can not give any time to this very difficult task of organizing the system to begin with. They will have to depute it to secretaries and clerks. Instead of doing that, why not appoint three or five men who are men of the right type for the organization committee to begin with? That is simply in addition to the other. It seems to me a mistake, especially at the inauguration of the system, when they are going to make the whole plan, to put on men who are not expert bankers and who can not give any time to it. Why not put in three men that the President can pick out who are really experts and let them give their whole time to it and get the thing done right?

Senator HITCHCOCK. The sentiment of the committee is strong in that direction.

Prof. JENKS. I think as regards the board also, the ex officio members really can not do the work that ought to be done. If the board is going to have the powers given by this bill, it is extremely important that the members of the board should be able to give their whole time to the work. No man ought to take a position on that board if he is not an expert and is not willing to give his whole time to it. He ought to be well paid for it, and expect to give his whole time to it.

Senator BRISTOW. You spoke of the banks having representation on this board because they were the stockholders. How would it do to have the stock of this central bank a voluntary subscription?

Prof. JENKS. I had a suggestion along that line that I thought of putting before the committee later, but since you raise the question I will put it before you now. I do not feel that I can speak with quite the degree of positiveness about this that I should like to, but I think it is worth consideration. I think it is rather unfortunate to drive national banks into this system, or drive anybody into the system. It seems to me that, on the whole, the wise plan, as I said about the notes, is to make a system that seems best for the country, and make it so attractive that most of the banks would want to come in.

Now, this brings up the question of the bonds and of the way in which the banks come in. As it stands at this time you are practically to force them into the system. Would it do to say this to the banks: You have your 2 per cent bonds now on which you are issuing circulation. You may come in or you may stay out just as you like. If you stay out you keep your 2 per cents and continue as now; if you come in we will exchange the twos for threes and we will give you all the privileges of the system. If you do not come in you will get none of the privileges, but at the same time you are free to do as you please. I think the banks have some reason to feel that when the 2 per cents were issued they were supposed to hold them until 1930, and we can say to them, at the end of that time, "You will have to give up your circulation, and in the meantime you may be free to do as you like."

Then, in case the banks do not take enough stock to supply the capital that you want, say \$100,000,000, open the subscription to private individuals to take the rest. Then, of course, the banks are in this position: If they have not come in within the time of that subscription, and want to come in afterwards, they must find their stock; they will have to buy from somebody else. In that case you would be sure of your capital, and as sure of your control as you are now. You would not have a great group of people feeling that they were hurt and were rather disposed to stay out, or feeling that they were being coerced, or anything of that kind. I rather think that under those circumstances most of them would want to come in.

Senator SHAFROTH. Would not that policy lead to the principal object of the reserve banks being to make money, because their stockholders being paid stockholders, they naturally would want to get as big a dividend as possible?

Senator BRISTOW. Why not limit the dividend?

Prof. JENKS. There is another side to that. May I just add a word along that line? I rather think there will be no trouble, because you

have what is substantially, at any rate, a 5 per cent guaranteed dividend. It is not quite that, but I think it would amount to a 5 per cent dividend, and if you leave also a 40 per cent return on the amounts above that on the stock invested, you would have no trouble in getting investors, and you would find banks coming in and bidding for it before a great while, and I think you would have your stock above par.

Senator SHAFROTH. If you start with \$285,000,000 of deposits by the Government and \$400,000,000 of reserves and \$150,000,000 of gold reserves, you have over \$800,000,000 to start with, and you are bound to make money out of that?

Prof. JENKS. I think so. It seems to me that in all governmental matters it is a desirable thing to make the legislation rather attractive than compulsory, so far as it can be made so, and at the same time the rules must be rigid, in order to prevent abuse. I think most of the banks rather than keep their 2 percents and stay out would prefer to take their 3 percents and come in and give up their circulation and take their privilege of rediscounting; and incidentally that would bring about the other thought, which I think Senator Nelson has in mind, that we should get rid of all the present national-bank notes very promptly and substitute the other notes for them.

Senator HITCHCOCK. I would like to see how you can figure out a profit for the regional banks.

Prof. JENKS. I do not know that we can.

Senator HITCHCOCK. Suppose they make a margin of 1 per cent on their loans to member banks?

Prof. JENKS. It seems to be the opinion of a number of people here that they can not make more; that if they do there will be trouble on the part of the people; they would not stand for it at all.

Senator HITCHCOCK. What do you think would be a proper margin?

Prof. JENKS. On that question, as I said before, I should prefer not to give any figures, because I do not know. I am not a banker; I have not been in that kind of business at all, but there is this situation that is certain with reference to that: If they were to go into the regular banking business they could make large profits. They are not supposed to do that, but I should suppose that with the deposits they have and the loans they will make to other banks, it may be expected they will charge enough so they would be sure to pay their 5 per cent dividend and something beyond that, at any rate.

Senator SHAFROTH. To adopt the suggestion of the Senator from Kansas would make them make more money, if there is only to be a difference between the amount of discount and the amount the Government pays in relation to the matter. They must charge 4 or 5 per cent. If it goes to 5 per cent, it goes into their treasury.

Prof. JENKS. If you make the division a little differently and allow the Government to get more, would the people stand for that, too?

Senator BRISTOW. But when they discount a note they get all but just a bare margin, enough to permit the member bank to come out even.

Senator HITCHCOCK. Of course, that is all guesswork. I want to ask a few questions about something you suggested, Prof. Jenks, sometime ago. Do you think this bill provides for such a mobiliza-

tion of reserves as is brought about by the European organization of a central bank?

Prof. JENKS. No, I do not; I think there are too many regional banks.

Senator HITCHCOCK. Suppose there were only one bank. Would that be such a mobilization as they have in Europe?

Prof. JENKS. I see no reason why it should not.

Senator HITCHCOCK. Take the *Crédit Lyonnais*, in France. It is a customer of the Bank of France, but the law does not compel the *Crédit Lyonnais* to keep any per cent of its deposits in its own vaults. So the result is it only keeps till money in its own vaults. The rest of the money is loaned up virtually. That is absolute mobilization; the reserves are all in use; they are all centralized in the Bank of France. But in the system we have here the banks are required to keep a certain per cent of their reserve in cash in their vaults, and what is cash in their vaults is not mobilized. They are required to keep another certain per cent with the reserve agent, and only two-thirds of that is permitted to be used, so that is only mobilized to the extent of two-thirds, is it not? Is not our mobilization in efficiency far below the European mobilization?

Prof. JENKS. Under the bill as it stands it clearly is. If we were to have a single central reserve bank with its branches in different places, or even have two or three, or even four, your reserve banks would be in a much better position by charging one branch and crediting another with funds; to transfer their credits from one section of the country to another than they are now under this bill. Under this bill there is a provision for reserves here and there in different sections of the country. And even although there is a provision made in the bill that the Federal reserve board may compel them to rediscount—and if you are going to have the 12 regional banks, I see no way out of that—I do not think that is a normal, easy, ready way to do it. I think it is desirable they keep in their vaults a certain amount, say, 5 per cent, for cashing notes as they come in, for paying depositors, etc. They must keep a certain amount there, and it does not seem to me that is too large.

But when it comes to going back to the larger reserves, they ought to be held so they can be distributed wherever they are needed in different sections of the country, and I do not see how with 12 banks, even with your Federal reserve board to order them to rediscount, you are going to get that reserve in anything like as fluid a condition as they have in the European systems.

Senator HITCHCOCK. Perhaps the mobilization of reserves is not as good an expression as efficiency of deposits.

Prof. JENKS. Efficiency of the resources.

Senator HITCHCOCK. Yes; where they do not need reserves in any shape at all.

Prof. JENKS. The efficiency of the resources of the banks, I think, would be greatly increased with a central bank.

Senator HITCHCOCK. Is there not another reason why this is not effective, that the banks that do not belong to the system are not allowed to deposit, so, as far as they are concerned, there would be just as much scattering of deposits as there is now?

Prof. JENKS. Yes; though that depends upon what their credit is with the banks in the reserve cities, and, as indicated by Senator

Bristow some time ago, by the condition of those banks themselves in time of stress.

Senator HITCHCOCK. How do you estimate the relative importance of the mobilization of reserves as compared with providing an elastic currency? Which is more important?

Prof. JENKS. It is hard to answer where both seem so absolutely essential. My own feeling is that the thing of most importance now, under the present circumstances, taking the matter as a whole, is the question of the elasticity of the currency. I should put second the question of the disposal of the reserve. If we include in the question of the elasticity of the currency the system we have here for increasing that currency promptly, I should say that is far and away the more important.

Senator HITCHCOCK. That is what will save us from disasters in the shape of panics?

Prof. JENKS. Yes; under our present system of issuing notes I should think it would be the other way. But with the system you provide in the bill, where they can rediscount and get notes directly, I should say the note issue is far and away the more important.

Senator SHAFROTH. They dovetail into each other; when the reserve gets low, the notes issue.

Senator BRISTOW. The reserve is a minor quantity when you can get the notes.

Senator SHAFROTH. What would you think of this, Mr. Chairman: Provide that these reserves which are specified in this bill as a minimum could be drawn upon by the banks upon the consent of some person like either the Comptroller of the Currency or the president of the regional bank, so that instead of having it fixed as it were, and the bank trying to get along without doing that in emergencies, letting them go into that and run it down to zero?

Senator HITCHCOCK. I think the professor's suggestion about that is the best, that the banks be permitted to run below the limit on condition of their paying the tax upon their percentage of deficiency.

Senator SHAFROTH. That is good; but as a matter of fact, if you do not get that it seems to me that there ought to be some power that can give it in times of emergency.

Senator HITCHCOCK. I much prefer the automatic method.

Prof. JENKS. Of course, your bill now provides that the Federal reserve board may suspend that provision, which, I think, is unfortunate. But, on the other hand, this automatic provision—supposing you had a rule that there shall be 35 per cent of reserves, and that for every 1 per cent your reserve drops below that you charge a 1 per cent tax. It is suggested, I believe, that when you get below 30 per cent you charge  $1\frac{1}{2}$  per cent. Then you are in this position: When you get down to 30 per cent reserve you are going to pay 5 per cent; when you get down to 29 per cent you pay  $6\frac{1}{2}$  per cent; when you get down to 28 per cent you are going to pay 8 per cent, and so on. By the time you are down to 25 per cent reserve you can not make any loan at all unless a man is practically on the verge of bankruptcy—as in a case I heard of during the panic, when a large concern needed very much to borrow \$5,000,000—it was a huge concern. It got it at 6 per cent and paid \$1,000,000 bonus. Well, that was better than going into bankruptcy.

Senator SHAFROTH. Prof. Jenks, could you put down in concrete form that amendment you suggested, and exactly where it is to come in?

Prof. JENKS. Yes.

Senator SHAFROTH. And will you take with you one of these bills and make in it all other changes that you think advisable, and mark it "Amendments suggested by Prof. Jenks"?

Prof. JENKS. I should be pleased to do that.

Senator BRISTOW. I would like to ask you to amend this bill so as to provide for a central Federal reserve bank—a central bank governed by a Federal board. I have a preference—although I do not want to suggest it to you; of course, you would use your own judgment—for independent stock holding, the same as the Bank of France, so that the public would subscribe to the stock. Then any reputable banking institution that wanted to keep a reserve with this Federal bank could, by virtue of keeping that reserve, come to it for aid in time of need and get it on the proper collateral.

Prof. JENKS. I should have no objection to either of those.

Senator BRISTOW. Then any banking institution that was sound and had collateral could get it in time of need, and it would not break up in any way our democratic banking system, which, I think, is the pride of our country.

Prof. JENKS. For that matter, this present bill does not break up our present banking system.

Senator BRISTOW. Oh, I think it does; I think it breaks it up. This other could not. There is this concentration—

Prof. JENKS (interposing). I am not sure about that. I think the concentration in the other would be pretty nearly as much as in this; because, I think, if you are to have a bank of that kind, a national bank of that type, it should be the sole source of the issuing of notes. Ultimately, as I think it should be, it would almost of necessity need to establish a good many branches.

Senator BRISTOW. Of course, you have to have branches. But, Professor, suppose this Federal bank here in Washington could stand behind the notes of any banking institution in the country that had a proper standing—that was regularly examined by the Comptroller of the Currency, or whatever means we have for examining these banks—and that such a bank could issue up to the amount of its capital stock, whatever it is, of these bank notes?

Prof. JENKS. If by that you mean an independent issue of notes by that bank, I should not favor that; no. If you are going to have a central Federal bank, I should favor making it such a bank substantially as the Bank of Germany, as far as the note issue is concerned.

Senator BRISTOW. I do not know but what you are right; yes. It would issue notes and discount, and the Government would be behind it, because it would be a Government institution.

Prof. JENKS. That would be the point. I should be glad to do that.

Senator NELSON. Would you have no limitation at all behind the note issue?

Prof. JENKS. No; I would not in definite numbers of dollars. As regards definite figures there, it seems to me—

Senator NELSON (interposing). I mean definite proportions.

Prof. JENKS. Compared with the reserves? I would.

Senator NELSON. I mean of these reserve banks, of the amount of notes they could take out. Would you allow them to come in and apply on their commercial paper for any amount they saw fit?

Prof. JENKS. I would leave it discretionary with the central bank, of course, but I would limit only by the character of the paper you are going to put in and the amount of reserve that was kept.

Senator NELSON. But not otherwise?

Prof. JENKS. No.

Senator NELSON. You would not limit it in proportion to the stock and capital of the bank?

Prof. JENKS. No; I do not think I would. In a good many countries they do put the limitation at the amount of the capital stock, as in Canada. I do not see why that is necessary.

Senator NELSON. I know there is a limitation in Canada. What is that?

Prof. JENKS. The capital stock. They can issue up to the capital stock and not beyond, except from October 1 to January 31, when to move the crops they may issue, in addition, up to 15 per cent of the capital and surplus on payment of a tax. I do not think a fixed amount is a desirable thing myself. I do not see any reason why there should be any limit except a limit of absolute safety.

Senator NELSON. If we limit it to the capital stock, we could know then, in a general way, that they never could exceed that limit.

Prof. JENKS. We might want them to exceed that limit.

Senator NELSON. I do not think so. If this system prevails, we would never want them to exceed the amount of capital, if we get all the national banks into it.

Prof. JENKS. You mean the amount of the capital stock of the central reserve bank? I think we will.

Senator NELSON. The capital and surplus. The law contemplates they shall have a surplus of 20 per cent.

Prof. JENKS. Yes. I do not see any reason for that kind of limitation.

Senator NELSON. Would there not be danger, unless there were some kind of limitation, that we might get an undue inflation of our currency—that it might lead to undue speculation and to going a little too fast, as we commonly say?

Prof. JENKS. I do not feel that there is that danger, provided we have the proper supervision and provided we make our restrictions pretty rigid as regards the keeping of the reserves. I think the demands of business will attend to that and the proper methods of redemption also—a good many redemption centers.

Senator NELSON. Have not our troubles in the past come rather from poor banking than from bad currency; that is, from the banks unduly extending credits?

Prof. JENKS. It is still worse than that, I should say, Senator. Take the panic of 1837 for example. It was not merely that they were extending credits, but they were only too anxious—dishonestly so—to get these notes out that did not cost them anything.

Senator NELSON. Of course that is no criterion, that old State bank currency. I can remember as a boy seeing some of that old

stuff. But take the panic of 1893, and especially the panic of 1907, which the people at large call the bankers' panic. It did not arise from any vicious or unpropitious economic conditions in the country. The country as a rule was in a prosperous condition, and money was abundant in the country as a whole. It grew out of vicious banking and overextension of credit and an insufficiency of reserves.

Prof. JENKS. May I add just a word to that? In the main, I should say that was true, but it seems to me when it came to the panic finally it practically came from this, that there had been very prosperous years, there had been undue extension of credit until it was reaching the danger point, and then these larger banks that had been extending credit were practically forced to shut down on loans to a very considerable extent.

Senator NELSON. And shut down on their reserves. They would not respond on their reserves.

Prof. JENKS. How could they? Because here were the banks all over the country, each one anxious to strengthen its own reserves and pulling out its deposits from the others.

Senator NELSON. Do you know, Prof. Jenks, that, as a matter of fact, out in the Mississippi Valley a large number of our smaller banks, the banks with capital from \$100,000 down to \$25,000, never suspended at all, but kept open shop day after day, so the panic had no effect upon them?

Prof. JENKS. I know that, but it did have a little effect in some places. I remember going to a bank for some little loan, and the cashier said, "What do you want it for? We are taking care of our depositors and customers. If you need money to pay obligations"——

Senator NELSON (interposing). That was a case where you wanted to borrow. I am speaking about depositors. Our depositors could draw on their accounts without limit.

Prof. JENKS. Oh, yes; they could where I was.

Senator NELSON. That showed the healthy condition of the Mississippi Valley, which is the heart of the agricultural part of the country. We were in a good condition out there.

Prof. JENKS. Yes; and at the same time I do not think, Senator, it is quite right to say you were in good condition as long as they were shutting down on loans on good security.

Senator NELSON. Why were we shutting down? Because under this vicious system of reserves our reserves were tied up in the East.

Prof. JENKS. That is so, certainly.

Senator NELSON. If our banks had had their supplies at home they could have supplied the local demand.

Senator HITCHCOCK. Now, Prof. Jenks, I understand you feel there is some probability of an expansion of credits under this new system?

Prof. JENKS. Yes.

Senator HITCHCOCK. More than under the present system?

Prof. JENKS. A little more; yes. Not enough, I think, to be a serious matter, provided you look after the proper gold reserves. But, as I said before noon, I think it will come in this way: Every bank will want to hold in its own vaults and to keep to its credit in the Federal reserve bank and elsewhere the lawful money that it



can use as a reserve. The consequence is it is going to pay over its counter whenever it can do so these new notes, and pull the other kinds of currency out of circulation. It is a substitution of one for the other. Now, under those circumstances we are going to have piling up in our vaults rather more of this lawful money than, on the whole, we need. My impression is it does not need to pile up enough to have the effect of raising the rate of exchange on London and the prices more than 1 or 2 per cent until we shall begin to see our best money going abroad—that is, our gold. I think the expansion will not be enough to force any panic at all to begin with, but at the same time it is desirable that the people of this country have the utmost confidence in the new system, whatever it may happen to be. If we should have \$50,000,000 of gold going out people will say, "That looks very bad; things are going bad," even if we do not need that here; even if it would go under normal conditions. And if it got to \$100,000,000 it would be a very serious matter on account of the effect it would have on confidence in the country.

Now, as a matter of fact, there might not need to be more than a very slight expansion in order to send that gold out. It would be simply a substitution of these new notes for another kind of money that would send gold out of the country. We need just expansion enough to raise the rates of exchange so we will ship gold instead of shipping more goods, and that does not take very much. It seems to me that the simplest way of stating what leads to the export of gold is this, that we always pay our foreign obligations in whatever is the cheapest thing to pay them in. Usually we pay them almost entirely in goods of some kind or other, but in times when money is peculiarly plentiful and prices here are getting a little high on that account, then we export gold. And that is a good thing under ordinary circumstances. If we have a good stable system, whenever business is in such a condition that prices here go up a little it is a good thing for something to go abroad. It comes back in the same way, and there is no trouble about that if your system is sound.

Senator HITCHCOCK. One of the evils complained of in this country at the present time is the high cost of living.

Prof. JENKS. That is what I was saying before, that the high cost of living would be affected by that only to a very slight extent in the first instance. It might put up prices a trifle, but not enough, I think, to detect it. It would be felt somewhat by people doing the exchange business, sending the gold abroad. But within three or four years, if we let three or four hundred millions of gold go abroad, or even more than that, as we could without endangering our system at all, I think we should have another increase in world prices that would be unfortunate.

Senator HITCHCOCK. And in the cost of living?

Prof. JENKS. Certainly.

Senator HITCHCOCK. Why, then, do you favor a bill of this sort when it involves this danger?

Prof. JENKS. Here is exactly why I favor it. As I suggested before, we have under the present conditions the most inelastic system that any country in the world that pretends to do business has.

Senator HITCHCOCK. Is our system any less elastic than that of England?

Prof. JENKS. Distinctly so.

Senator HITCHCOCK. They issue no notes at all, except \$90,000,000, that are not represented by gold. The rest are all gold certificates, practically.

Prof. JENKS. They have enough notes in hand to do their ordinary business, and now and then they can issue an unlimited amount against the deposit of gold.

Senator HITCHCOCK. But they are nothing but gold certificates.

Prof. JENKS. That is eventually true.

Senator HITCHCOCK. What elasticity is there in the currency of the Bank of England? The Bank of England to-day can not issue a note except gold is deposited. When the gold comes out the note goes in.

Prof. JENKS. There is this, however, that tends to make their system—but not as far as that point is concerned—very elastic, and that is the elasticity of their credits. But as regards our currency, in connection with our reserves, we will have a good elastic currency if we provide for the proper system of redemption, which I think we have done in part, but that, as I said before, I think, ought to be extended further along that line.

Senator HITCHCOCK. I want to get back to what Senator Bristow said—

Prof. JENKS (interposing). May I just finish what I was saying here before you take that up? I do not think there is any material risk under this new system that can compare at all with the benefits under the new system, provided you will see to it that the reserves as fast as you can do it are put on a gold basis. You could do it within a year—six months, I think. And as long as your reserves for the redemption of these notes are to be in gold, if you will also make arrangements for the retirement as fast as necessary of the national-bank notes or of some of our other substitutes for money, so that these elastic notes will have the opportunity of circulation, you will have an excellent system. There is no danger of overexpansion if you make your gold reserves larger.

Senator NELSON. Prof. Jenks, is it not a fact that London is the seat of the international exchange market of the world?

Prof. JENKS. I suppose it is; yes.

Senator NELSON. And they require less currency, because it is a world clearing house, so that all the currency they require there is to settle balances on their international transactions?

Prof. JENKS. Yes; that is largely true.

Senator NELSON. Now, you take it, I believe, that these notes should be absolutely and unconditionally redeemed in gold?

Prof. JENKS. I should myself favor that; yes.

Senator NELSON. This bill proposes in one feature that we enter the international exchange market, as we ought to do, in order to do our business with foreign countries through our own banks. Now, we could not go into that field unless we have our notes, our currency, absolutely and unconditionally on a gold basis, could we?

Prof. JENKS. There is no doubt about that.

Senator NELSON. And under this system our regional banks here could establish branch banks in London, and those banks could, for this country, act as accepting houses and accept bills of exchange, and in that way we could carry on our business. In order to transact

our business now we have to rely on what they call accepting houses over there to accept our checks and bills of exchange. It is only after they have been accepted there by a merchant or bank or accepting house in London that they will accept them and allow them to circulate at par. Is not that true?

Prof. JENKS. Yes.

Senator NELSON. Now, we can, under this system, if I understand the purpose of it, if we adhere strictly to the gold standard, enter that field, and compete with the Europeans, at least so far as our own foreign trade is concerned.

Prof. JENKS. I see no reason why we should not.

Senator NELSON. And we need to do it.

Prof. JENKS. I think so.

Senator NELSON. And we are not in it at all now.

Prof. JENKS. No.

Senator HITCHCOCK. Here is a difference between currency and bank credits that I should like to have you clear up. I should like to see how under this bill any currency at all can be issued without inflation. If this plan is put into operation, we are going to have \$100,000,000 of capital that the regional banks can lend. They are going to have Government deposits, say, of \$150,000,000, of which they can lend two-thirds, or \$100,000,000. They are going to have \$450,000,000 of deposits of banks, of which they can lend \$300,000,000. So that before they advance any currency at all to the banks of the United States they will have \$500,000,000 of cash that they can lend to the individual banks. Now, does it not follow, therefore, that bank loans may be swollen to the extent of \$500,000,000 before any currency is issued?

Prof. JENKS. Is not the implication of that question that you are getting this \$500,000,000 without taking it from any place? Is not that money that you are speaking of now taken from places where it is loanable now? The Government deposits, for example, are—not entirely, but to a considerable extent—in other banks now.

Senator HITCHCOCK. Not very much. There has been only about \$60,000,000 in the banks until very lately.

Prof. JENKS. Some of them are. And what comes from other banks into this regional bank here can be loaned now.

Senator HITCHCOCK. Oh, yes; ordinarily the Government has to keep about \$60,000,000 in bank, but it has about \$150,000,000 in the Treasury, which now is to be put into the regional bank. So I have made it very moderate when I say the Government deposits will be about \$150,000,000, of which \$100,000,000 can be loaned. The capital of \$100,000,000 is taken out of other banks, and to some extent that is now being used probably. But the reserves amounting to \$450,000,000 are largely located in bank vaults now, and not available, because the reserves are not used except to a partial extent. So it seems to me inevitable that these reserve banks will have actual cash funds to lend to the extent of three or four hundred, or possibly five hundred millions before they will call on the Government for any currency at all; and you are going to have an inflation of bank credits without any addition to the currency or any elastic character given to it.

Prof. JENKS. There is this, it seems to me, that covers the question of bank credits as well as the bank currency. You are not going to

lend to people that are not going to make some use of the money and pay for it; so far as the expansion is concerned along the line of either credit or currency, that depends, I think, entirely upon the control that your banking system has over the lending of that money.

Moreover, my own feeling is that there is rather more of that money loanable now than you had in mind, but that is a matter of detail.

Senator HITCHCOCK. These reserve banks will have large funds at their disposal to lend before they ask for any currency at all.

Prof. JENKS. Yes. But then there is also this about it. They can not go directly to the lending public. They, of course, may advance to the other banks; otherwise they do not use it.

Senator HITCHCOCK. Yes.

Prof. JENKS. And, as I understand the essential purpose of this bill—and the same thing would be true of a national bank—it is to back up the other banks when they need help.

Now, if the other banks need that, here is a great reservoir that can be drawn upon, just as now we have from time to time in the Treasury lying idle, considerable money and in time of emergency the Secretary of the Treasury has, in exceptional cases, put it out into circulation. This will come out in a much more normal, easy, businesslike way than has been done heretofore.

Senator HITCHCOCK. We will assume that there is some truth in these figures given here; and the idea has just occurred to me, and I want to ask you what the effect will be in this big expansion of bank credits and loans, without a corresponding increase in actual currency; is that a healthy thing?

Prof. JENKS. Why, I consider it not in the least unhealthy to have the banks have resources by which they could supply the business interests of the country freely at rather low rates.

One advantage that I hope is going to come from this system is on the whole something of a reduction in the rates of interest throughout the country. So far as this system is going to make our loanable capital more easily available, and more promptly available than it is now, so far there is going to be a tendency to a slight reduction in the rate of interest, and I think that is desirable. That is the only effect, so far as I can see.

The fact is, of course, that no bank is going to loan money unless there is a legitimate demand for it for business purposes; and under those circumstances it is rather desirable to have the capital so mobilized that it can be readily supplied at reasonable rates.

I would like, if that covers that question, to take up a question which I did not finish this forenoon, which you, Senator Hitchcock, as well as Senator Reed, were asking me about, because it is connected with this.

Senator Reed, in speaking of the redemption of these bank notes, spoke as if he were opposed to having the notes of the different regional banks distinguished one from the other; and he put the question somewhat in this way: In case one of the member banks goes to the Federal reserve bank and borrows \$1,000,000, and takes that \$1,000,000 in notes and deposits securities that would mature, we will say, in 90 days, Senator Reed's thought was that this bill should contain a provision—the law should contain a provision—that at the

end of 90 days the Federal reserve bank should account to the Federal reserve agent for \$1,000,000 in notes, so far as it had notes in hand; and beyond that, in gold, provided gold is what is made the reserve; otherwise in lawful money; and his idea was that that should be embodied in the law.

He asked me what objection I had to that. And the committee adjourned before that was brought out fully. What brought that question out was the statement I had made earlier that I thought it would be desirable to extend the system forbidding the regional bank from paying out over its counter the notes of another regional bank. In case the system that the Senator was speaking about were put into effect, and the \$1,000,000 had to be immediately accounted for in either notes or lawful money, I do not see that the system would work at all, because I do not see why any of the local banks, the member banks, would take out notes under those circumstances.

The reason why banks take out notes and issue notes instead of gold over their counter is because they can hold the gold as reserve, and they can issue three to one on it.

Now, in case they had to account at the end of 90 days either with the notes themselves, to begin with, or the money that had been used as a reserve, lawful money, they would not make that profit because they would have to call in loans to meet the obligation; and they simply would not take it out, the currency. If you limit the question to any one bank, one can easily see how that would be. The bank deposits its collateral in the form, we will say, of 90-day paper, and takes out its bank notes, which it pays out over the counter. At the time that commercial paper is redeemable it is taken up, to be sure, but its place is supplied in nine cases out of ten by still other paper that is put in—commercial paper that is put in there instead.

And in that way, by keeping their notes out and keeping the security—only continually changing the commercial paper—and the reserve of one-third, they are able to make a profit on two-thirds; that is, on three times as much as they would if they had to lend the gold itself.

It seems to me that the Senator's plan would practically force them, in some way or other, to redeem those bank notes every three months or to pay up the full amount in lawful money; and if they were to pay up the full amount in lawful money they would not make any profit on it.

Now, as a matter of fact, if each one of the member banks was in the same situation as this one bank that I have spoken of, the Federal reserve bank would not be getting in, from day to day, enough bank notes so that it could pay back all of the loans that were out. It would probably get back, we will say, a quarter or a third, and the rest would have to be paid over in the lawful money of the country that they are holding as reserves, and that would take the profit all away.

Senator HITCHCOCK. Well, it can pay it in the notes of other banks.

Prof. JENKS. But they could not possibly get in the notes of other banks enough to cover. The main notes of other reserve banks that it got would be those that were sent in to pay obligations of member banks. They would not get the notes of other reserve banks in, any more than they would get in the notes of their own bank, unless the

proviso which I suggested were put in, that no member bank was allowed to pay out over its own counter the notes of any reserve bank other than its own. Then they would get the notes; otherwise, not. How would they do so? Suppose you were a member bank and had deposited \$1,000,000 in gold commercial paper, and had taken in \$1,000,000 of notes and were loaning them from day to day. You are keeping in your vaults or with the reserve bank cash to redeem any presented. But when it comes to a man paying the loan back to you, and he pays it in your own notes, you will not send them to the reserve bank; you will lend them to somebody else. Under the system as proposed in the bill, if, instead of paying you the notes of your own bank he pays the notes of another Federal reserve bank, you will do the same thing with them. There is no reason why you should send those notes in; you will loan those notes to somebody else the next day. The consequence is that you are not going to have a steady, regular redemption of the notes in this system.

Senator HITCHCOCK. That will lead to inflation.

Prof. JENKS. I fear it will, more or less. I think that is something of a danger.

Senator HITCHCOCK. Would not danger also result from the fact that all State banks would be permitted to use these funds as a part of their reserves?

Prof. JENKS. That is another matter that I think—I do not know that that makes any very serious difference, because they can use the national bank notes for reserves now.

Senator HITCHCOCK. And they do use them very largely.

Prof. JENKS. Yes; they do use them to considerable extent. But there is this point to be made: It does not seem to me in this bill that we have gone far enough in way of providing for a steady, regular contraction.

Now, the only way we have provided for the contraction is: That when the member bank gets in a number of these notes—that is, when they find that people are not borrowing enough money from them so that they are getting a pretty large supply of these notes on hand—then if they want to reduce their credits with the Federal reserve bank they will send them in; they do not want to pay interest on them any more.

Then, the Federal reserve bank will turn them in also, and they will be redeemed. But that will not happen excepting from time to time when the bank feels that it is carrying more of these notes than is desirable to carry.

On the other hand, if you make this further provision that not only the Federal reserve bank must not pay out over its counter any notes except its own notes, but that none of its members shall pay out over its counter any notes of any Federal reserve bank except its own, those notes of other banks will be coming in every day to a very considerable extent; the cost will be the cost of shipping some of those notes. But that, in my judgment, is a relatively small item as compared with a steady, regular contraction; and the reason for the contraction will be the same as in the Canadian system.

Senator HITCHCOCK. You will have to penalize the bank for paying these out, will you not?

Prof. JENKS. Certainly; as now you will penalize the Federal reserve bank.

Senator HITCHCOCK. That is another objection, then, to their belonging to the association?

Prof. JENKS. No; I would more than overcome that by issuing the notes to the Federal reserve bank without any tax, and there would be a decided difference arising from that. Your provision in the bill is that you must charge a minimum of one-half of 1 per cent tax. I would take that tax off. This other provision for sending the notes back would be only, if I remember rightly, according to the rate under which the express companies carry currency now—I think it would not be over one twenty-fifth or one-fortieth of 1 per cent.

Senator HITCHCOCK. Let us see, then; there is another dilemma. If you issue this currency to the reserve bank without any charge, of course you either make a very large profit for the reserve bank which pays that currency out to its members, or else you make a very low rate of interest?

Prof. JENKS. Exactly. I think a low rate of interest is desirable.

Senator HITCHCOCK. If you make a low rate of interest you stimulate borrowing and lead to inflation?

Prof. JENKS. If you keep a proper supervision over credits it need not do so. I do not think there is any danger of inflation.

Senator HITCHCOCK. Then I come back to my former illustration of John Smith coming into a bank to borrow money. Let us suppose you are running a bank, we will say, at Wichita, Kans., and John Smith comes in to borrow money from you now, and under the present conditions you have not the money to lend John Smith, because your reserves are down to your legal limit, and you tell John Smith that.

But, after a while this new system is put into operation, and you are a member bank and John Smith comes in to borrow money of you, and you tell John Smith that you would like to accommodate him but can not do so because your reserves are down, and John Smith thereupon says to you:

That does not make any difference if your reserves are down; you can always get currency from your Federal reserve bank at a low rate of interest, and therefore you can accommodate me if you want to.

There are thousands of member banks and hundreds of thousands of John Smiths, and how can you possibly avoid a great increase in the borrowing of money, because you have removed the great barrier which the banks now have in their reserve requirements. But there is no check at all if that bank can get indefinite rediscount from the reserve bank upon that paper.

Prof. JENKS. There is this to be said all along the line: Your national bank also has to keep its reserves against its deposits. But entirely aside from that, the whole question lies here: Is it not a desirable thing to have, on the whole, a low rate of interest and a lower rate of interest than we have now? One reason why I think it would be desirable to remove this half per cent tax is because I think it would, in all probability, lower the average rate of interest throughout all the Middle West and the West and the South by one-half per cent; and I think that would be a very desirable thing to do, provided you can be sure of your security.

Now, I think if John Smith comes in and can put up the proper security and can show he is going to use the money in a proper way—

and if he is one of my customers I know whether he is going to use it properly or not; otherwise I would not let him have it—I do not see why the loan should not be made. If, instead of charging him 7 per cent, I can let him have the money at 6 per cent or, better, at 5 per cent, it will be a good thing.

Senator HITCHCOCK. Now, take the case of John Smith again. Suppose he is going into the sheep business, and another John Smith is going into the sheep business, and another is going into the sheep business, and you get a great many John Smiths who are going into the sheep business. It looks profitable, but we all know that at times it has been enormously overdone, and has been followed by great losses all around. But suppose another John Smith is going into buying farms and another John Smith is going into the exploitation of an electric road. Where is going to be the check that the bank now has on the limit of its reserve against overlending? We know that there comes a time when they overlend. We know that there comes a period in every country where there is overexpansion and credit extended until disaster follows. How are you going to avoid it in this instance?

Prof. JENKS. But we know also that after that period of disaster there comes a period when credits are checked a good deal more than they ought to be, and everybody goes the other way.

Senator HITCHCOCK. Yes; and then they go the other way.

Prof. JENKS. I do not think it is possible to avoid those periods. That is human nature, and it is going to come. But I think it will go a long way to prevent reaching the breaking point if this plan is adopted.

Now, as to John Smith going into the sheep business and going into the farming business, we are not going to lend any money at all to John Smith, except on what we call bank paper, that is to say, it must be short-time paper; 90-day paper; the large majority of it should not be over 90 days.

Senator HITCHCOCK. That is, the reserve banks will not, but the individual banks will lend a great deal of money on paper that is not available with the reserve banks; they do not expect to rediscount all the paper they take in.

Prof. JENKS. That is doubtless true. But with that pressure on them, that they can not dispose of any paper with the Federal reserve bank that runs beyond 90 days, they have got that restraint upon them; and the question with them is what proportion of their paper shall go out for a period longer than 90 days—and the proportion ought to be kept pretty low.

Senator BRISTOW. Prof. Jenks, you say that you have got that answer to John Smith, that they can not lend it to him because his note does not mature in 90 days.

Prof. JENKS. I said let him have it whenever you could.

Senator BRISTOW. Yes; but if I understand your theory, that limits the credits to 90-day loans, which would be a safer loan than the loan to John Smith who was going into the sheep business, or enlarging his farming business.

Suppose that, instead of John Smith being in the sheep business, he sees a fine opportunity to prosecute some commercial business—say to buy and sell wheat, to go into the grain business—and he buys



his wheat and he buys it for the purpose of holding it for, we will say, 60 or 90 days, thinking the price is going to advance. He buys the wheat which he is going to sell, and he gives a 90-day note for it; and here is your merchantable product. And wheat goes down. That note is not as good as a six-months' note of the farmer who grew the wheat, because the farmer has got his farm and other things besides the wheat.

Now, you are taking the note that depends upon the wheat, which the man is likely to lose and break up on, and you are refusing the note of the farmer who has bought cattle and given a six-months' note—as he will have to do in order to market his cattle.

Prof. JENKS. So far as that is concerned, that is a matter for the judgment of the banker as to the nature of the credit. Of course it is true in our larger centers where wheat—using your illustration—is held in large quantities and is salable any day, that a great deal of money is loaned by the banks on elevator certificates; and if they allow a reasonable margin there it is a perfectly safe loan when that is done. But, on the other hand, if the wheat were, we will say, in the farmer's barn, it would be an entirely different proposition; the banks could not realize on it.

Senator BRISTOW. Why could they not?

Prof. JENKS. There is no bank that, as a practical matter, could go out on the farm and sell a man's wheat out of his barn. On the other hand, if the person who has given the note has his wheat in an elevator and has a receipt for it that he has assigned, that is an easy thing; and where the wheat is sold from day to day on the board of trade, it can dispose of it at any time within 24 hours.

The same thing holds on loans on farming lands. I would not say that I am positively opposed to this provision of the bill with regard to farm loans; but I should very much prefer that this provision relating to farm loans and to the savings be dropped out and provided for in other laws. There are systems of agricultural credits to which it would apply better than it would apply in this bill. That subject I should like to see in another bill.

The chief reason for my belief that mortgage loans are not good bank loans is they are too slow, they are not realizable; they are all right as a good security.

Senator NELSON. Is not that the case with these long-time railroad bonds which are sold on the market?

Prof. JENKS. That is a different thing.

Senator NELSON. They are not matured; they are simply auctioned off.

Prof. JENKS. As I understand, those will not be accepted anyhow as a basis for circulation.

Senator NELSON. But the big New York banks have been loaning on them, and they call them their secondary reserves.

Prof. JENKS. Yes; that is call loans; and this bill will dispose of that largely, I think.

Senator NELSON. We had a banker here from Minnesota who was speaking of the panic of 1893. He had said he had real estate mortgages; and of all the securities he had in his bank—of all the commercial paper he had in his bank he found those farm mortgages the most liquid. [Laughter.]

And he found that the life-insurance companies and other investors were ready to take them like hot cakes, that they would take them in preference to any other paper he had. And I knew of a case in that same panic where two banks in southern Minnesota stopped runs on their banks by passing out to the people who had certificates of deposit in those banks mortgages which they held. They told their depositors, "We lent out that money to your neighbors on these mortgages." They passed out the mortgages to them and that stopped the run. [Laughter.]

Prof. JENKS. I hope you will grant that those are very exceptional circumstances: and the people did not get cash, though their fears were stopped by the mortgages.

Senator NELSON. Oh, no; if you lived out in a farming community such as we have in the Mississippi Valley, where there are little country banks, you would find that the universal sentiment is that the safest loans they have are those kinds of loans.

Let me also tell you this: I live in a town where we have three banks; and the trouble with our banks is that they get more money on deposit than they can loan out. They used to invest it in what they call "mill" paper and "flour" in Minneapolis for  $4\frac{1}{2}$  or 5 per cent. By and by they bought the notes of a big Milwaukee brokerage house and it went into bankruptcy. They lost a good deal of money. They do not know how much money that institution had out. And the banks, while they invested in that kind of paper, were paying 8 per cent dividends. Instead of that in the last two years they have invested in Dakota real estate mortgages; and they have got twice the dividend and they have never had any trouble about the currency. Now, that is the way it works and your theories do not tally with our experience in the West.

Prof. JENKS. I was going to say that the main trouble there as regards the illustration you gave was that the loan made to the mill people was made on poor security really; it went to pieces.

Senator NELSON. The security itself was good enough, but they had overloaned.

Prof. JENKS. Yes; there is the point.

Senator BRISTOW. It is commercial paper that is floating all over the country now.

Prof. JENKS. Merely because paper is commercial paper is no reason one should lend on it. You want the paper which you as a banker approve because you know the parties and the nature of the security. You do not take any commercial paper that comes in.

I must say I think there is likely to be a weakness in this system as regards the Federal reserve banks. I think that a good many of our country banks sometimes do take commercial paper that is not first class. I do not see how the Federal reserve agent is going to exercise any great intelligence in examining that; he has got to get the indorsement of the local bank.

Senator NELSON. Well, let us take this case: A railroad bond is secured by a mortgage, and that is considered good security for these call loans—liquid security.

Prof. JENKS. That is the reason—

Senator NELSON (interposing). Now, in the case of a farm loan, it is a note secured by a mortgage, but sometimes it is a bond. It is

exactly on the same footing. And it is simply the question whether there is a market for those securities.

Prof. JENKS. That is it.

Senator NELSON. They have no stock exchange for those mortgages; but there is a constant demand for them; and the insurance companies and the savings banks in the East can see that. They prefer them to railroad bonds. There is a good market for them; and that makes them just as liquid as those securities they have on the Stock Exchange in New York. That is what you overlook.

Prof. JENKS. No. I agree with that; but I do not entirely; and the reason for that is this: With reference to those farm mortgages, it happened that the university I was connected with earlier in my experience, Cornell University, had, some years ago, some \$2,000,000, if I remember rightly, in farm mortgages, and they practically did not lose one dollar.

Senator NELSON. Yes.

Prof. JENKS. And they were getting their returns in. But they did not have to realize on them on short notice. If they had been in the position of many banks here that are likely to be called on to pay out deposits in 24 hours, those loans would not have been a good kind of loan for them.

On the other hand, if they had had bonds of the New York Central Railroad they would not have paid so much interest, and would not have been any more secure—perhaps not as good security as the farm loans.

Senator NELSON. But in the midst of a panic, such as 1907, those bonds were no more salable, because the people that had made call loans could not borrow the money from another bank on them. They had to get the money, and the result was that they were sacrificed on the stock exchange.

Prof. JENKS. I was going to say, with reference to those loans, that you can sell them on the stock exchange at any time—at a price. Of course the margin on the loans—the banker is supposed to be and is pretty careful to see that the margin is big enough so that it is secure.

Senator NELSON. Mr. Vanderlip, the head of the biggest bank in the country, says he is certain that, in the case of panic or money stringency, those were the worst kind of loans, that they were anything but liquid; and he thought the great virtue of this bill was getting away from those loans altogether.

Prof. JENKS. I quite agree with that; I think this bill, if put into effect, will to a very considerable extent turn investments, not only of New York banks, but other banks, away from call loans and stock-exchange loans into commercial loans up the State and elsewhere. Not only the big banks in New York make these call loans, but the smaller banks throughout the country, not merely put their money into New York banks at 2 per cent and have them loan it out, but they will send it to New York and say:

Loan this for me on the call market at 6 per cent or 7 per cent or 8 per cent, if money is tight.

Now, it is a bad thing for small country banks to speculate on the stock exchange on those call loans.

Senator NELSON. The national banks are partly driven to that because they have been cut off from the very best loans—real-estate loans.

Prof. JENKS. Yes.

Senator NELSON. Now, I want to ask you on another feature of this bill, and that is the savings-bank attachment to this bill. Do you think that it is advisable, especially in reference to the smaller commercial national banks?

Prof. JENKS. I was going to say—may I just add a word more on farm loans, and then I will answer that question.

Senator NELSON. Yes.

Prof. JENKS. As regards the farm loans, I think this is rather closely connected with the savings loans in a certain way, or with the savings department. In the case of most savings deposits, you take those savings with the understanding that you are to have notice before paying, 30 or 60 days' notice—some notice.

Senator NELSON. Yes.

Prof. JENKS. Now, I should say that, as a basis for a savings department, where, when you are called upon to pay, you have a right to the 30 or 60 day notice, then this kind of security you are speaking of is all right.

Senator NELSON. Are you aware of the fact, Prof. Jenks, that the small banks of the country practically are running a savings department?

Prof. JENKS. I understood that they were.

Senator NELSON. Yes. They pay interest on time deposits.

Prof. JENKS. Yes; I understood so.

Senator NELSON. If you limited the real-estate mortgages instead of basing them on capital—if you allowed them to lend 25 per cent of their time deposits on real estate, that would make it perfectly safe.

Prof. JENKS. I was wondering why that change had been made in this bill. In the earlier form of the bill there was a provision for time deposits, that has been stricken out of this bill—I think unwisely.

Senator NELSON. I do not know how that came in. I think it is the result of the caucus in the other House. [Laughter.]

Prof. JENKS. I think, myself, in regard to time loans, that it is a different thing. I have known savings banks in Illinois, where they are not restricted as these New York savings banks are, to have a very large part of their securities in good farm mortgages.

Senator NELSON. I want to tell you, Prof. Jenks, you go back in the interior, in the Mississippi Valley, and you will find the small banks with \$25,000 capital, and they have been a great blessing, and the banks with \$50,000 and \$100,000.

Prof. JENKS. Yes; I grant that.

Senator NELSON. You will find, on the average, that sometimes two-thirds of their deposits are time deposits—really savings deposits.

Prof. JENKS. Yes.

Senator NELSON. Why should not they, on that class of deposits, which are practically like savings-bank deposits, why should not they be allowed to lend a limited amount of their time deposits on real-estate mortgages?

Prof. JENKS. I think they should be.

Senator NELSON. I am glad you finally agreed with me. [Laughter.]

Prof. JENKS. I not merely finally agreed; I agreed at the beginning. I had not understood we were talking about time deposits; I thought we were talking about demand deposits.

Senator NELSON. If instead of a professor you were a farmer out West, you would be better qualified to speak about that. I hope you will take that in a Christian spirit. [Laughter.]

Prof. JENKS. Certainly.

Senator POMERENE. Professor, why would it not be wise, in view of the fact there are savings deposits in the national banks now, as I understand it, not permitted, perhaps, from the legal standpoint, but conducted rather by permission of the Comptroller of the Currency than by any legislative rule—why might it not be well to provide by a section in this statute for the plan now in force and omit, if I may say, so cumbersome a purpose in this bill?

Prof. JENKS. What I have said formerly with reference to this farm loan and savings department was this: That I thought provision should be made for agricultural loans, but made elsewhere. This bill is primarily a special currency matter. Now, why is it not wise, considering the extreme difficulty of this bill, to hold to the one main purpose of the bill and get that as nearly perfect as possible and take up, when you have the time, the matter of the agricultural loans and these savings loans, too? I think that would come in more naturally than the farm loans would, but you can handle that independently. I think one of the great needs of the country is an agricultural-loan system.

Senator POMERENE. I think so, too. You made a statement a while ago that there were other farm-credit systems which were preferable. Did you have any particular system in mind?

Prof. JENKS. I have in mind the mutual cooperative loan systems they have in Europe—Germany and elsewhere. They are quite closely allied, as regards the general plan, to cooperative loan and building associations and organizations of that kind. The general idea is much the same. I do not think that belongs in this bill.

Senator HOLLIS. That is already covered in a bill introduced by Mr. Fletcher.

Senator MARTINE. We have in the Senate now what is known as the Fletcher bill, covering this whole thing.

Prof. JENKS. Exactly. Why should we put it in here? I think you are quite right on that.

Senator BRISTOW. But that deals with an entirely different kind of country.

Prof. JENKS. That is true.

Senator BRISTOW. And if the banks in the small communities must be able to acquire all the deposits that are available, both time deposits and otherwise, or you rid the small communities of the facilities which they normally have now. If the banks are permitted, as they are now and ought to be, to take in all of those securities, then, in order that that community may have all the advantages of its

own resources in loaning to its own people for the good of its own community, they ought to have the opportunity to make this class of loans when they have the time deposits, it seems to me.

Prof. JENKS. As the Senator suggests, on the time deposits I have no objection.

Senator BRISTOW. That is all we contended for.

Prof. JENKS. You see, that provision was made in an earlier bill. There was a certain proposition for the time deposits, but that was dropped out of here. I have no objection to the time deposits.

Senator HITCHCOCK. Professor, do you think a uniform rate of interest should be established throughout the United States?

Prof. JENKS. I do not believe that is quite practicable. The conditions are quite different in different sections of the country, and I do not believe the conditions are such it would be practicable.

Senator HITCHCOCK. Do you think that one rate of interest should be charged to a reserve bank in the East and a different rate of interest should be charged to a reserve bank in the South for the use of currency?

Prof. JENKS. You remember my own preference is that the currency should be issued without any charge to either of them. But then, it seems to me, the situation is this: The rate of discount should be determined largely by the conditions of that section.

Senator HITCHCOCK. You think the directors of each Federal reserve bank should regulate the rate of interest?

Prof. JENKS. Yes. I think if you retain the bill that way it would regulate the interest, subject to the approval of the Federal reserve board. But I would let the initiative be taken by the local people, subject to the supervision of the board.

Senator HITCHCOCK. That means, practically, you would give to the Federal reserve board the power to establish one rate of interest in the East and another rate of interest in the West?

Prof. JENKS. Ultimately; but practically I should suppose the Federal reserve board, under most circumstances, would expect that the local reserve boards would handle that wisely.

Senator HITCHCOCK. Now, then, this is a Government facility we are providing: Should we charge the people in one State one price for a Government facility and the people in another State a different price?

Prof. JENKS. I do not think that is quite the right way to put it. It is this: The people in a locality are asking for an accommodation, and they pay for the accommodation the normal market rate, and the Government permits it to have the accommodation at the normal market rate. Now, if the normal market rate in Illinois is different from that in Massachusetts, well and good.

Senator HITCHCOCK. You say this is not a Government facility?

Prof. JENKS. No; I say they are going to ask for this facility, and why should not they pay for it?

Senator HITCHCOCK. Why should a man in Nebraska pay, to the same public corporation, backed by the Government, having special privileges from the Government, a higher rate for the use of the facility than the man in Massachusetts? Why should the bank in

Nebraska pay a higher rate when it has contributed one-tenth of its capital and one-fifth of its deposits to the reserve bank, than the bank in Massachusetts, which has made the same contribution?

Prof. JENKS. I think the situation is this, that it is only in the rather exceptional cases that these Government facilities are furnished. As regards the normal course of business the rate of interest is determined largely by what can be made on the capital invested, and there can be probably more made on it there than in the East and other places, because the supply is not so great?

Senator HITCHCOCK. I would have to question that right off.

Prof. JENKS. Local conditions largely determine, I think, the rate of profit on the investment of capital.

Senator HITCHCOCK. No rate of profit has been higher than has been made by the manufacturers of the East; no bank profit has been greater than the bank profit in New York City, anywhere in the world. And, on the other hand, there are out West borrowers with just as good securities as in the East, and I can not see the reason why a bank in Nebraska should pay more for the use of the Government facility there than should be paid for postage stamps there—something provided by all the people.

Prof. JENKS. The only difficulty as I can see—as a matter of fact, the rate of interest is largely determined by the profits that are made on capital in a normal investment as compared with the supply of capital there. Now, we do find higher rates of interest in practically all of the interior and relatively speaking undeveloped sections of the country, because of that added profit and because of that added demand, as compared with the supply. Those are the conditions that fix, that will regulate the normal rate of interest. That is what all the people pay for it there. Now, under those exceptional circumstances, the people go to the bank for accommodation, and they are granted the accommodation along the lines of what they are accustomed to pay, and along the lines of what regular business pays.

Senator HITCHCOCK. Of course I would have to dispute your assumption.

Prof. JENKS. Let me add a word; if you can show that the regular business rate of interest is the same throughout the country, substantially, then I would agree with you.

Senator HITCHCOCK. What we are going to do is to unify the country, to unify the banking system, which has been diverse. I think your argument falls to the ground there. But if your argument is true, then a man with a profitable business should be charged a higher rate of interest than a man with an unprofitable business.

Prof. JENKS. No; I do not think that follows. The profit of a man's business is not dependent entirely upon local conditions; it is dependent, to a very considerable extent, upon his skill, enterprise, and knowledge of the business, and things of that kind. That is where the chief source of his individual profit comes, and that does not determine the interest rate. The idea I had in mind and what I said was that the average profit upon capital, as compared with the capital that is available, determines the usual rate of interest, ordinarily. Now, it may be that under this system the facilities will

be improved a great deal, and if capital becomes as plentiful and profitable in the West and South as it is in the East, or substantially the same, that will of itself equalize the rate of interest. I think the bill has a tendency that way, but I do not think it will be uniform throughout the country.

Senator HITCHCOCK. Then you think a man doing business in the West who is prompt in paying his notes should be charged a higher rate of interest than a man in the East who is equally prompt in paying his notes simply because he happens to live out in the country?

Prof. JENKS. That is not all.

Senator HITCHCOCK (continuing). Where capital has been scarce, when the purpose of this bill is to unify the country and make the whole banking system into one?

Prof. JENKS. Let us put it the other way: Suppose you are a banker loaning money out in Nebraska. You find there is a demand for the capital you have there, so that you can loan it out on good security at 6 per cent right along; whereas, on equally good security, we find the supply of money in Massachusetts is such that a man is borrowing at 4 or 5 per cent. Now, you have a supply of money and you can get 6 per cent for it; you are not going to lend it at 4 or 5. When a man comes to you and asks for a loan you say, "Certainly, I will give you the loan, and I will give it to you at the normal rate. If you are not prepared to take that loan at that rate, here is Jones, next door to you, who is ready to take it." That is the way the business is done. The bank gets the current rate charged in the region where it is. It is the one that fixes that rate. Now, when it comes to get this additional help from the Government bank, why of course he applies, furnishes his security, and he gets it, and the rate of interest in the different sections of the country is determined by the local conditions largely.

Senator BRISTOW. You understand the bill, as it stands now, gives each regional bank the power to fix the rate of interest they will charge to the member bank?

Prof. JENKS. Yes.

Senator HITCHCOCK. And has to charge each member bank the same rate?

Prof. JENKS. Yes.

Senator HITCHCOCK. You also understand the bill gives the central board the power to require the reserve banks to modify that rate of interest?

Prof. JENKS. I understood so. My understanding of the bill was this, that the local reserve boards, the directors, fix the rate first, and they then have to get the approval of the Federal reserve board. Now, if they try to fix a rate higher than the Federal reserve board thinks wise, the Federal reserve board won't approve it, and it has to be put down. I think that is right.

Senator SHAFROTH. I think it has, perhaps, under this provision which says, "to supervise and regulate the issue and retirement of Federal reserve notes and to prescribe the form and tenor of such



notes." That provision, evidently, implies the power to fix the rates of interest, and all that, and determine the rate of discount and the issuance of notes.

Senator HITCHCOCK. I think, virtually, the Federal reserve board has such large powers that it could influence the reserve banks by control of the public deposit of the issuance of currency, and that a hint to them to raise or lower rates would be followed.

Senator SHAFROTH. Then there is a further provision here, "to perform the duties, functions, or services specified or implied in this act."

Prof. JENKS. Yes.

Senator HITCHCOCK. Is there anything further?

Prof. JENKS. I was simply going to add a word in connection with what you just said. I think, myself, the Federal reserve board should use its influence, as far as it can do so without disturbing conditions, to make a uniform rate of interest. It does not seem to me the business conditions of the country are such that they could now make it uniform, but I think, ultimately, you may have the rate of interest the same throughout the country, and I think they should use their influence to that end.

I would just like to add one word more in connection with what I said a while ago. It will take only a minute. It is this: I was speaking, some little time ago, with reference to the Federal reserve board and its constitution. It seems to me that whatever the composition of the Federal reserve board may be, provision should be so made that you would have only one member retiring each year, so that the board would really be a continuous board; and I think the time should be long enough so that no one President can possibly appoint a majority of the board after the first one has been appointed.

Senator HITCHCOCK. What would you think of having those members subject to recall by vote of the House of Representatives?

Prof. JENKS. I should not favor that at all.

Senator HITCHCOCK. Appointed by the President, confirmed by the Senate, and subject to recall by the House of Representatives?

Prof. JENKS. I should object to the second part.

Senator HITCHCOCK. For what reason?

Prof. JENKS. I think it is extremely desirable, in the light of what we have had going on in New York for the last few weeks, to keep anything like party politics out of the currency system, and I can not help feeling that a vote of the House of Representatives on anything of that kind would be sure to be colored by party lines.

Senator HITCHCOCK. Suppose that it turned out that a member of the board was misusing his office?

Prof. JENKS. I have not the slightest objection to having a member of the board removed.

Senator HITCHCOCK. Removed by vote of the House of Representatives without impeachment?

Prof. JENKS. No; I should say removed by the President, with charges filed, giving sufficient reasons.

Senator HITCHCOCK. You would rather trust the President than the House of Representatives?

Prof. JENKS. On anything of that kind. [Laughter.]

Senator NELSON. I have received a letter from Mr. G. D. La Bar, president of the First National Bank of Brainerd, Minn., which I desire to have go in the record.

Senator HITCHCOCK. Without objection the letter will be incorporated in the record.

(The letter referred to is as follows:)

THE FIRST NATIONAL BANK,  
Brainerd, Minn., October 14, 1913.

Hon. KNUTE NELSON,  
*United States Senator, Washington, D. C.*

MY DEAR SIR: Is the currency bill in the shape that it passed the House at all likely to go through the Senate? If so, how is a country national bank to compete with State banks? We are compelled to pay interest on time deposits—as practically all State banks do—and at the same time we are obliged to take the required amount of stock in the Federal bank, with an annual return of not to exceed 5 per cent, and also to carry the required percentage of deposits in the Federal bank as reserve, and on which balance we receive no interest whatever.

State banks would not be required to take stock in the Federal bank and receive not to exceed 5 per cent returns. Neither would they be compelled to carry a certain definite percentage of their deposits with the Federal bank as reserve and receive no interest whatever on such a balance. It is certainly a serious handicap for national banks that are compelled to qualify under the present bill.

We have heretofore been able to receive 2 per cent interest on reserve balances, which, in a measure, partially offsets the interest we have paid on deposits. We must continue to maintain some sort of balances in large cities for the purpose of drawing drafts to make the usual commercial transfers.

It seems to us that the new bill will have a tendency to contract rather than increase the loaning inclination of the country banks, particularly among conservative bankers, who dislike rediscounting paper, and having certain definite obligations maturing in large amounts at definite dates instead of the usual moderate withdrawals of deposits. I do not recall that we have rediscounted any paper in 20 years, and I am consequently very fearful of the new bill with its many peculiar and objectionable features.

The savings department plan of segregating assets does not appeal to us as practical or just.

Is it not possible to pass some bill which will enable banks to issue emergency currency with proper collateral, charging a sufficiently high tax, so that the same will be quickly retired, which, in addition to our present banking laws, would answer the requirements of the country much better than the proposed bill?

It certainly seems to us that the banks should have some voice in the matter, and that their suggestions should be given consideration and not entirely belittled and made to appear to the country at large as emanating from the big New York banks. We certainly have a few ideas of our own, and do not want to have our business endangered in the manner that it appears to us will be the case by the present Glass-Owen bill.

I have been with this bank over 30 years and have a considerable financial interest in it. We have built our bank slowly, but steadily and solidly, and we believe that we have been a factor in the upbuilding of the city, county, and even outside territory.

We trust that the provisions of whatever currency bill that is passed will not be so objectionable that it will compel us to change into the State system instead of continuing as a national bank.

Respectfully,

G. D. LA BAR,  
*President.*

Senator HOLLIS. Mr. Chairman, I wish to put in the record a letter which I have received from Mr. Frank H. Foster, cashier of

the Claremont National Bank, of Claremont, N. H., having special reference to the savings-bank provisions.

Senator HITCHCOCK. Without objection the letter will be incorporated in the record.

(The letter referred to is as follows:)

CLAREMONT NATIONAL BANK,  
Claremont, N. H., September 13, 1913.

HON. HENRY F. HOLLIS,  
United States Senate, Washington, D. C.

MY DEAR SENATOR: I have received your kind letter of September 9 and am much interested to learn that the savings-department section of the Federal reserve act will receive careful attention by the Senate committee.

I am going to take the liberty to present a number of criticisms which occur to me on the section as it stands, which I assure you are offered in an entirely friendly spirit. It is my hope, which I am sure is shared by most national bankers in New Hampshire, that the act will be passed and in such form that it will not result in a wholesale surrender of national-bank charters. Such result would be deplorable, both from the standpoint of the general public interest and the credit of the administration. It would inevitably bring heavy financial loss to all national banks through the depreciation in the market price of the 2 per cent bonds, which would follow any general withdrawal from the national system; a loss which would fall with equal severity upon banks which remained in the system. As I understand it, any national bank surrendering its charter is obliged to deposit lawful money to the amount of its outstanding circulating notes, and the bonds would then be released to it and would, of course, come on the market. Should any considerable percentage of the \$800,000,000 or so of twos now held by the banks be thrown on the market they would have to be sold practically on the basis of their investment value, and the market price, under these circumstances, might easily fall to 75 or 80.

Beginning with the phraseology of section 27: The section seems to take away with one hand what it offers with the other. First, on page 45, lines 2, 3, 4, and 5, and on page 46, lines 1 to 10, the purpose seems to be announced to exempt savings departments from restrictions existing in the present national-bank act. But there follows, on pages 46, 47, and 48, a set of new restrictions in regard to investments far more drastic than any existing in the present law.

Second, on page 45, lines 20 and 21, it seems to authorize savings departments to make loans on personal security, while the restrictive clauses, lettered A to F, on pages 46 and 47, eliminate loans on personal security altogether.

Furthermore, the language of the section is certainly ambiguous as to the status of savings departments now being operated by national banks under the present law, as it does not expressly state that such departments may not continue to be operated as at present.

Another criticism to which the section seems to me to be fairly open relates to the provisions requiring segregation of assets for savings-department business. It seems to me that segregation of assets is of little importance so long as no prior lien is created in favor of savings depositors upon assets so segregated. It is difficult to see wherein protection to depositors in savings departments would result, unless they were protected from loss made by the banks in their commercial departments. On the other hand, it is probable that the amount of capital stock segregated would in most cases constitute a smaller margin of protection to the savings depositors than they now have, where the whole capital, surplus, and undivided profits of the bank stand as a general guaranty fund for protection of all the depositors. I find that in the State of New Hampshire at the present time, as shown by the last published abstract from the comptroller's office, the national banks have in their capital, surplus, and undivided profits and stockholders' liability a guaranty fund equal to 60 per cent of their total deposits of all classes, and the percentage for the whole of New England is 52. In view of this very liberal protection to depositors, I can not see how the public interest calls for any separation of assets for the special protection of one class.

Again, on page 49, lines 1 to 13, a requirement is inserted in regard to deposits carried in other banks, making it necessary to carry separate accounts for such funds of the savings departments as may be deposited with other banks. This seems to be unnecessarily burdensome. Again, there is the provision, in lines 11, 12, and 13, forbidding the savings departments of the national banks to keep any current funds on deposit in the commercial department of the same bank. It seems to me that is the very place where they ought to be kept—at least a portion of them. As to the clause relative to a notice of withdrawal being required of savings depositors, that would be of very doubtful value to any bank. The requiring of such notice would only be resorted to in times of stress, and would in such case be a danger signal which would seriously imperil the bank in its commercial department. We have always gone on the theory that our assets must be kept invested in such a manner that we could meet heavy withdrawals without requiring any notice, and that to require such notice would come so near to being an act of insolvency in the eyes of the public that it would be of very little value to us.

The restriction upon investments of mutual savings banks imposed by New England and New York States, where such banks have been familiar to the public for many years, have been imposed, as I view it, mainly for the reason that the depositors are the bank, and any losses sustained must fall directly upon the depositors, whereas in national banks an entirely different situation exists, the stockholders necessarily assuming all risk of loss up to the amount of their stock and 100 per cent liability in addition. It does not seem logical to apply restrictions and regulations to national banks which may be entirely wise and proper in the case of purely mutual institutions. The management of every national bank must be credited with an honest purpose to safeguard not only the money of its depositors but also the interest of the stockholders, who must stand in the breach absolutely whenever a loss occurs.

If I were to be asked to make recommendations, they would take form somewhat as follows:

- (a) Require no segregation of capital or assets.
- (b) Allow not exceeding 50 per cent of savings deposits to be invested in loans on real estate in the State, Territory, or district where the bank is located, such loans being limited to 60 per cent of the value of the property.
- (c) Allow, say, 20 per cent of savings deposits to be invested, subject to the approval of the comptroller, obtained in advance of such investments, in the stocks of railroads or other public-service corporations in the United States which have regularly earned and paid dividends for five years next preceding date of such investments.
- (d) Require 9 per cent reserve against savings deposits, one-third cash in bank, one-third with regional reserve bank, and one-third with reserve agents.

If the principle of segregation of assets and restriction of savings deposits to certain specified classes of securities is to be retained in the bill, the lines should certainly not be so drawn as to needlessly exclude from the field of investment good notes, bonds, and mortgages obtainable in the locality in which the bank is doing business. As the restrictive clauses stand a great majority of country banks would be unable to invest any considerable percentage of their savings deposits at home, as will be seen by an examination of the clauses in detail, as follows:

(a) Page 46, line 15. Farm mortgages having not over five years to run and not exceeding 50 per cent of the assessed valuation of the property. Savings banks in New England are allowed to make loans on any real estate without definite maturity up to 60 per cent in some States and 70 per cent in others of the value of the property, and it is left to the discretion of the bank itself to determine the value for the purpose of loaning.

(d) Page 47, line 6. Under this clause all municipal bonds in the States of New Hampshire and Vermont would be ruled out by the 25,000 population limitation except bonds of the cities of Burlington, Manchester, and Nashua. Whether these would come in at all under the 5 per cent debt limitation I have not ascertained. Most of the States, in defining what municipal bonds may be purchased by mutual savings banks, do not prescribe any population limit. Some of them prescribe a 5 per cent debt limit, exclusive of debt incurred for

waterworks in the case of cities, and a 3 per cent limit exclusive of waterworks bonds in the case of towns.

(e) The limitations imposed in this clause seem rather unscientific for the reason that many second mortgages or general lien railroad bonds are better secured than some first-mortgage bonds, as is well known to anybody at all familiar with such securities. For instance, some railroads and public utilities are built largely out of the proceeds of their first-mortgage bonds, which might not be a desirable security for a bank under any circumstances, whereas such active bonds as American Telephone & Telegraph Co. general lien bonds, or the convertible bonds of the same company, which are not mortgage bonds at all, would be a perfectly conservative investment of bank funds, readily marketable at all times.

(f) Bonds of real estate corporations are not to be had in this part of the country, or at least I know of none such ever having been offered to us.

It seems to me that these proposed restrictions display the futility of attempting, by statute, to lay down rigid rules within which investments must be made governing banks all over the United States. Doubtless the purpose is a laudable one, but if the banking business of the country is to be strengthened and broadened the field for investment must not be narrowed to the vanishing point and a wide range must be left for the judgment and discretion of the officers of the bank itself, who must be credited with an honest purpose to safeguard the interests of their depositors and to loan the funds in their charge in such a way as to further the commercial interests of the communities which they are serving.

It does not strike me that it would be practicable to require that savings departments of national banks make their investments in conformity to the laws governing mutual savings banks in the States where they are located. It might work all right in New Hampshire, but mutual savings banks are little known outside the Northeastern part of the country, and the diversity and voluminous minutiae of the many State laws governing savings-bank investments, together with the practical nonexistence of mutual savings banks in some of the States, would make the administration of such a system very arduous to the authorities at Washington, and I believe unsatisfactory as well.

I wish it were possible for the new act to enlarge the powers of national banks to permit them to compete on more equal terms with trust companies—that is, to empower them, under proper regulations, to act as trustees and executors. I believe thoroughly in the proposition that a Federal bank charter should convey broad enough powers to enable the bank operating under it to transact any legitimate branch of banking, including the functions of trusteeship normally incidental thereto.

In conclusion, I feel impelled to strongly urge the elimination of the savings-department section altogether, or, if that should not meet with the approval of the committee, the substitution for it of a few short clauses reducing somewhat the reserve required against such deposits from the present 15 per cent and authorizing the investment of some portion of savings deposits in loans secured by real-estate mortgages and some reasonable percentage in approved railroad or public-service corporation stocks, leaving the existing field of investments otherwise untouched.

Thanking you for the opportunity given me to present these suggestions, I remain,

Very truly, yours,

FRANK H. FOSTER, *Cashier.*

Senator HITCHCOCK. The committee will now stand adjourned until Monday at 10.30 o'clock a. m.

(Thereupon, at 5.20 o'clock p. m., the committee adjourned until Monday, October 20, 1913, at 10.30 o'clock a. m.)

MONDAY, OCTOBER 20, 1913.

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

The committee assembled at 10.40 o'clock a. m.

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

Senator HITCHCOCK. The committee will come to order, and we will hear this morning from Mr. Victor Morawetz.

## STATEMENT OF VICTOR MORAWETZ, ESQ., OF NEW YORK, N. Y.

Senator HITCHCOCK. Will you please give your name, address, and business, Mr. Morawetz, so that we may have them in the record.

Mr. MORAWETZ. Victor Morawetz, New York.

Senator HITCHCOCK. And your occupation?

Mr. MORAWETZ. I am a lawyer.

Senator O'GORMAN. And you have, I believe, specialized in corporation and banking law?

Mr. MORAWETZ. I was for a period of 12 years chairman of the executive committee of the Atchison, Topeka & Santa Fe Railroad Co., having special charge of its financial affairs, and I am now a director of the National Bank of Commerce, of New York.

Senator HOLLIS. You might tell us what textbooks you have published and on what subjects.

Mr. MORAWETZ. I have given special attention to banking and currency questions for the last five or six years, and have published a small book and numerous pamphlets treating on this important subject.

Senator HITCHCOCK. Will you please proceed with your statement in your own way, and I would like to ask whether you care to be interrupted with questions, from time to time, or whether you prefer to finish your statement in consecutive order?

Mr. MORAWETZ. I prefer to be interrupted by questions whenever any member of the committee finds that I am not entirely clear or wishes additional information.

Gentlemen, for more than four years I have written and spoken in opposition to the central bank or Aldrich banking and currency plan. I have advocated the adoption of the regional or divisional reserve bank plan, which is, in substance, the plan embodied in the bill now before this committee. All my prejudices, therefore, are in favor of this plan. I am anxious to have the bill, now before the committee, perfected, so that it will carry into effect the plan which I have been advocating, and which I believe to be the best and most practicable plan for this country.

However, careful examination of the House bill before the committee, No. 7837, has convinced me that it contains a number of very serious defects, and that if it should become a law without amendment it would fail to carry into effect the beneficent purposes of its authors.

The first point to which I shall address myself is the issue of the notes provided for in this bill. The bill provides for an issue of notes which is to be printed by the Government and delivered to the banks,

which subsequently are to issue these notes. The bill says that the notes are to be Government obligations. Presumably, therefore, they are to be in the form of promissory notes of the Government. But the Government is not to issue any one of these notes; they are all to be issued by the banks.

The Government is not to pay any one of these notes; they are all to be paid by the banks. It is clear, therefore, that these notes are to be entirely unlike the present issue of greenbacks, which are promissory notes issued by the Government to pay its debts, and which are to be paid by the Government out of its funds. Under existing law the Government has pledged itself to maintain a very large reserve of gold for their payment.

The proposed notes, in truth and fact, are to be bank notes, although in form they are Government notes. They are, in truth and in fact, to be like our present national-bank notes, except that they are not to be secured by a deposit of Government 2 per cent bonds, but they are to be an asset currency secured by a first lien on the assets of the banks, and with a provision that the banks are to keep a reserve of 33 $\frac{1}{3}$  per cent for their payment.

The Government also is to be liable on these notes, nominally as maker, but really as guarantor. That is the honest fact concerning these notes.

Now, I have no quarrel with that arrangement except as to its form. It is artificial, and to many it is and to many it will be misleading.

Senator HITCHCOCK. Will you stop there to let us know how you think it will be misleading?

Mr. MORAWETZ. It is misleading to all those who do not study the provisions of this bill and ascertain the real facts underlying a certain amount of disguise.

The framers of this bill have been subjected to criticism, and I think very unjust criticism, within the last week on the ground that the bill provides for the issue of more greenbacks—fiat money, if you please. I say that criticism is unjust because these notes are not, in fact, to be Government notes; they are not to be issued by the Government; not one of them is issued by the Government. They are really notes of the banks, guaranteed by the Government.

Furthermore, it seems to me that this arrangement is likely to prove more or less misleading to those of our citizens who still adhere to the ideas which were prevalent 20 or 30 years ago, that it is desirable to pay the debts of the Government in its promissory notes and to have outstanding currency consisting of Government fiat money. They will not get under this bill what they may suppose they are getting.

And there is another consideration. It seems to me that a due regard for the opinion of foreign nations and of posterity is a reason for adopting a more direct method of issuing these notes. People will wonder why on earth the Congress of the United States found it necessary or desirable to resort to this indirect way of issuing what really amounted to guaranteed bank notes, and it is somewhat galling to my pride as an American citizen to think of the reasons which would have to be assigned to explain why these notes were put in this form.

Senator O'GORMAN. Let me ask you, Mr. Morawetz, is it unusual for Governments to guarantee bank issues?

Mr. MORAWETZ. Very unusual.

Senator O'GORMAN. Do any Governments guarantee bank issues?

Mr. MORAWETZ. I do not know of any Government which, in terms, guarantees the notes of any bank, though the great foreign central banks are so closely allied to the Governments that I believe there exists a practical guaranty by the Governments for their ultimate redemption. I should not myself see any objection to the Government of the United States guaranteeing this issue of bank notes. They will be perfectly good, and personally I see no objection to placing the guaranty of the Government on them.

Senator O'GORMAN. Then, so far as the responsibility of the Government is concerned, it will make no difference whether the Government becomes the primary responsible party for the purpose of redeeming the notes or whether it is acting as a guarantor behind the bank? In either event the Government is responsible for the notes?

Mr. MORAWETZ. In either event the Government would be secondarily responsible.

Senator O'GORMAN. In one case secondarily responsible and in one case primarily responsible?

Mr. MORAWETZ. In both cases secondarily responsible, because this bill would have to be read into the notes; it would be a part of the notes, and this bill says, in so many words, that the notes are to be paid by the banks; they are to be the primary obligors, and that the notes are merely loaned by the Government to the banks as accommodation paper.

Senator O'GORMAN. Then, in either event the Government becomes responsible for the notes?

Mr. MORAWETZ. Yes, sir.

Senator O'GORMAN. And as I understand you, up to the present time you only criticize the method or the form?

Mr. MORAWETZ. Yes, sir; I criticize only the form. I think it important that the form should be right, because of the reasons I have assigned and because of the precedent it might establish in the minds of many people who would not understand the real facts of the situation.

Senator O'GORMAN. Do you see any advantage in the form proposed by the pending bill with respect to the enlarged confidence that might result from the Government apparently being the responsible party behind the notes?

Mr. MORAWETZ. None whatever. If people should attach greater faith to these notes because they are executed by the Government as principal obligor, then they would be misled, because the Government is not the principal obligor, and it will not have a dollar of money of its own for their payment. It can draw only on the banks to get the money to pay these notes if they should be presented to the Government.

Senator WEEKS. You suggested, Mr. Morawetz, that if it were necessary to explain the reason for issuing the notes in this form in the future it would be an embarrassing thing to do.

Mr. MORAWETZ. I think so.



Senator WEEKS. What reason do you think could be assigned for issuing them in this form?

Mr. MORAWETZ. Political reasons.

Senator WEEKS. Any other?

Mr. MORAWETZ. I include in political reasons the platform of the Democratic Party.

Senator WEEKS. Then you mean party reasons?

Mr. MORAWETZ. Party reasons; yes.

Senator WEEKS. Any other reasons?

Mr. MORAWETZ. I know of none.

Senator HITCHCOCK. Suppose we assume, Mr. Morawetz, that among the 90,000,000 people in the United States there is a certain proportion, perhaps a large proportion, of people of an indiscriminating character, not able to understand the science of money, who will look upon these notes as money, and who think, primarily in their own minds, that money should be issued by the Government and that if issued by the banks, it gives the bank an unfair advantage and opens the possibility of imperilling the rights and interests of the common people, would you still say, taking that fact into account, that the Government, representing all the people, should nevertheless legislate so as to create bank notes which many of that class of people lack confidence in and which they reprehended as not desirable?

Mr. MORAWETZ. My answer, in the first place, is that the facts are not as assumed. We have to-day outstanding \$720,000,000 of national-bank notes which are accepted as good as gold by the people of this country. These national-bank notes have not even on their face the guaranty of the Government, but they are indirectly guaranteed by the Government under the legislation pursuant to which they were issued. So, the assumption that it is necessary to issue these notes in the form of Government notes is entirely unfounded; but even if it were so I should not consider it justifiable to issue the notes in this form, and I should educate the people to the true situation.

Senator HITCHCOCK. It is true, as you say, that throughout the country there is this confidence in these particular bank notes, but I think it is also true that there is a very considerable sentiment among the people that the issuance of those notes constitutes a special privilege to that class of banks, out of which they have made a great deal of money, as they think, at the expense of the people. Does not that prejudice constitute, at least in part, the sentiment for the retirement of those notes? I do not share it, but that does exist, does it not?

Mr. MORAWETZ. I think, Mr. Chairman, it will be harder to defend before the people the loaning of the notes of this Government as accommodation paper to the banks than to defend the guaranty of properly constituted bank notes by the Government, because, as I have stated, this paper is simply accommodation paper which the Government is to lend to the banks.

Senator O'GORMAN. Will you pardon me right there while I ask you a question, Mr. Morawetz?

Mr. MORAWETZ. Certainly.

Senator O'GORMAN. Would your view regarding the obligation of the Government be affected at all if it appeared that the Government

would receive a substantial consideration from the banks of the country for the assumption of this liability? For instance, I have in mind what has been suggested more than once, that the profits of the regional banks, if we have regional banks, in excess of the 5 or 6 per cent that will be returned to the member banks as a return on their capital contribution, that the excess of surplus ought to go to the Government, and it has been estimated that that would amount to many millions each year. What do you think of the proposition that in return for that affirmative benefit to the Government, the Government, to advance the system generally, should undertake to issue these notes and become primarily responsible?

Mr. MORAWETZ. I attach no importance whatever to that consideration. In the first place the Government of this country is not in the business of selling its credit. The fact that the Government may receive a profit from these regional reserve banks is no reason for the issue of the notes, or for the lending of the credit of the Government. The only reason why the Government might be warranted in lending its credit in this way is to benefit the whole country by providing it with an unquestionably sound issue of currency. Personally I hope that the regional reserve banks will be managed so that there will be no profit in them. I hope they will be managed in such a way as to keep our banking and currency system on an absolutely firm and sound basis. That is the benefit to be obtained by this scheme, and none other.

Senator WEEKS. Has it occurred to you, Mr. Morawetz, that there is a good deal of confusion in the minds of not only the average citizen but in the minds of many who have given some consideration to this subject as to the difference between money and credit instruments, and that many men who have taken the position, leaders and teachers in this subject, have believed that it was the duty of the Government to issue credit instruments as well as money?

Mr. MORAWETZ. No doubt there is that idea prevalent among many of the people, including some of the political leaders in this country, but it is not so anywhere else.

It has been asserted that the provisions of this bill for the issue of notes may lead to an inflation of the currency, with all the dangers consequent to an inflation of the currency. I do not share those fears. If we are to have in this country a flexible currency which will be subject to contraction as well as expansion, and which will adjust itself to the business needs of the country, it is absolutely necessary to place somewhere the power to control the issue of the notes, to limit their issue, to force their contraction when necessary.

Under his bill the several regional reserve banks are to have the power to issue notes subject, however, to an absolute veto power in the Federal reserve board representing the Government. This arrangement, therefore, is more conservative and safer than the Canadian plan, under which the banks have the power to issue notes without this outside check placed upon them. The only possible danger of inflation, of an excessive issue of currency under this plan, will arise from the number of regional banks. The more of these banks there are the more danger is there that they will put out more currency than the country really needs. If the number of these banks were limited to five or six, I should say that the danger of

inflation would be removed entirely, even without the veto power of this central board.

Senator HITCHCOCK. Can you outline how you think this tendency toward inflation will occur? As it stands now——

Senator BRISTOW (interposing). If Senator Hitchcock will allow me, before you go into that matter, I would like to ask a question. I understand you feel that there should be imposed in some board the authority to say when there shall be a contraction and when there shall be an expansion?

Mr. MORAWETZ. Not to say when there shall be an expansion, but to force a contraction when the country requires it.

Senator BRISTOW. And that would be a matter of judgment?

Mr. MORAWETZ. Yes, sir.

Senator BRISTOW. How are you going to provide against the very wide diversity of opinion that prevails among men as to what would be an expansion and what would not be?

Mr. MORAWETZ. It is a banking problem which experienced bankers do not have much difficulty in dealing with. It is a question which arises wherever there is a central bank, and in Canada, where there are nearly 30 banks, 10 or 12 of them, however, being leading banks, and practically ruling the others. They have no difficulty in these cases in determining the volume of notes that is safe.

Senator BRISTOW. This Federal board is not a bankers' board. It is a political board; it is a board appointed by the President to exercise political functions. Otherwise it would not be made a Government board. Government is politics; I do not mean partisan politics, but its functions are political.

Senator SHAFROTH. A people's board, you mean?

Mr. MORAWETZ. It is a governmental board.

Senator BRISTOW. A governmental board. One political school of thought in regard to banking matters may be in control or another political school of thought may be in control. If Mr. Bryan was at the head of that board he might say the currency out was not sufficient; that we did not have enough. If Mr. Aldrich was at the head of that board he might say it was excessive, and that there ought to be contraction. The difference of opinion among men is so varied that might there not be danger of precipitating this matter into politics and making it become a political question instead of a business question?

Mr. MORAWETZ. If you please, I will take up the question of party politics entering into this plan a little later. What I wish to say now is that I do not fear that there will be inflation of the currency so long as the number of the regional banks is limited. If there were no central board of control, there would be no danger of inflation, provided that the banks are required to keep an adequate reserve for the payment of the notes on demand. I should consider that the danger of inflation would exist even if there were no veto power in the central board.

Senator HITCHCOCK. We have had discussed at these hearings this question of possible inflation, and I was going to ask you to outline briefly the processes under this bill by which inflation might result. I do not know whether you mean an inflation of bank credits or an inflation of currency, or both?

Mr. MORAWETZ. I do not know how there could be inflation under this bill if you have a fairly intelligent management of these regional reserve banks.

Senator HITCHCOCK. I understood you to suggest there might be, under this bill.

Mr. MORAWETZ. It has been asserted. I say I do not agree with the criticism.

Senator O'GORMAN. Did you not say whether there would be inflation or not might depend upon the number of banks?

Mr. MORAWETZ. Yes; I do say that if you increase the number of these banks so largely as to prevent them from adopting a uniform policy they might put out so many of these notes unless restrained as to practically force all the gold and lawful money in circulation into the bank vaults, thereby increasing enormously the reserves and credit power of the banks.

It is this process which in Canada has resulted in this situation: The only currency in Canada which is current among the people consists of bank notes and small government notes and subsidiary coin. All the gold in Canada has been taken into the banks, which have issued their notes in exchange.

Senator O'GORMAN. Do you think there would be greater danger of inflation with 12 regional banks than with 5?

Mr. MORAWETZ. I think so. The same process has caused the national-bank notes all to be outstanding. They have displaced, taken the place of, that much lawful money, because every bank when it receives currency combs it out, keeps the lawful money, and issues its notes when currency is demanded. But to the people the notes and the lawful money and the gold are of equivalent value. When a man has more currency than he wants to carry in his pocket or keep in his till he does not pick out the national-bank notes and deposit them in the bank. He takes his currency without regard to its description and deposits it. But the bank immediately combs it out, as I have stated, and keeps the lawful money while issuing its notes whenever it can pay its debts in that way. By that process bank notes will become the circulating medium among the people as far as the people will take them and as far as the law permits them to be issued, while the gold or other lawful money will be taken into the banks.

Senator HITCHCOCK. What is the provision in Canada regarding the redemption of these bank notes? Suppose a bank receives one of its own notes, can it pay it out again?

Mr. MORAWETZ. I think not; no.

Senator HITCHCOCK. Suppose the bank receives the note of another bank?

Mr. MORAWETZ. I do not know whether they are permitted to pay it out, but I know the practice is to send them in for redemption.

Senator WEEKS. Well, they are permitted to pay it out?

Mr. MORAWETZ. They are permitted to pay it out.

Senator WEEKS. And whether they pay it out or not is dependent on whether it is profitable to put out their own notes?

Mr. MORAWETZ. Yes.

Senator WEEKS. If it is profitable to put out their own notes they do so and send the notes of the other banks in for redemption.

Mr. MORAWETZ. But this process of substituting notes for money in circulation among the people will go on without regard to whether or not there are easy redemption opportunities. When a bank sends the notes of another bank in for redemption in lawful money, that does not put the lawful money into circulation; it merely transfers it from one bank to another bank. It is in my judgment a delusion to imagine that easy redemption opportunities will restrict this process of substituting bank notes for gold or other lawful money in circulation among the people. The only thing that will restrict that process is an absolute limit on the amount of bank notes which can be issued.

Senator HITCHCOCK. Do you think that limit should be placed within the the judgment of a supervising board?

Mr. MORAWETZ. It has to be somewhere. Now, I should be satisfied if that limit were placed in the regional reserve bank with a veto power on the part of a Government board.

In the plan which I outlined some years ago for the creation of regional reserve banks, and for the issue of bank notes by them, I contemplated that the regional reserve banks would have a central bureau consisting of representatives of these banks, who would determine what amount of notes might be issued by the banks.

As I shall point out a little later, I think some such provision would be a beneficial one in this bill—I mean the constitution of a central board to deal with the issue of notes by the regional banks, instead of having each one separately deal with the Government.

Senator HITCHCOCK. Is not the power to limit or fix the volume of the currency the power to affect prices?

Mr. MORAWETZ. I do not think so.

Senator HITCHCOCK. Can you conceive of a condition of a considerable expansion of the currency that does not advance prices and stimulate business; or can you conceive of a contraction of currency that will not force sales and reduce prices? Are those not the inevitable consequences of those conditions?

Mr. MORAWETZ. There is a good deal of loose reasoning, as it seems to me, about the functions of currency. Nothing the banks can do; nothing the Government can do will put a dollar more of currency in actual circulation among the people. The people will carry in their pockets, and in their tills whatever amount of currency they find convenient; and no matter what quantity of the currency may be printed, they will not carry any more. If there is a surplus, they will deposit in the banks.

Senator HITCHCOCK. Does not the quantity in circulation in the pockets of the people, or in the tills, depend upon the activity of business, and is not the activity of business largely affected by the ease of loans?

Mr. MORAWETZ. Now you come to the real point. Business may be affected by the credit situation in the country—the ability to borrow from the banks. And this credit situation depends, first, on the ability of the banks to grant credit; secondly, upon their willingness to grant credits; and thirdly, on the confidence of the people in the future; their willingness to take credit and to embark in enterprises.

The only way in which an increase of the currency—we will assume of course that the currency is all kept at a parity with gold—the only

way in which an increase of the issue of bank notes can affect this situation in the least is by displacing gold, or lawful money, in circulation among the people; driving that into the bank vaults and thus increasing the reserves of the banks and their power to grant credit.

Senator HITCHCOCK. Suppose a law was passed compelling the banks to increase reserves; would not that inevitably contract the currency?

Mr. MORAWETZ. No; it would not contract the currency; it would contract their power to make loans.

Senator HITCHCOCK. Well, I mean under a note-issuing power. Suppose there was a power to issue currency, controlled as proposed in this bill, or as you suggest, by the banks; then suppose there were changes made in the law which increased the reserves from 33 $\frac{1}{3}$  to 50 per cent; would not that inevitably contract the currency?

Mr. MORAWETZ. It would not contract—it depends upon what you mean by contracting the currency. It would contract the power of the banks to make loans surely.

Senator HITCHCOCK. And it would also contract their power to issue their demand obligations, and that would contract the currency, would it not?

Mr. MORAWETZ. It would not contract the amount of currency in circulation among the people.

Senator HITCHCOCK. It would contract credits, would it not?

Mr. MORAWETZ. It would contract the power of the banks to make loans; yes.

Senator O'GORMAN. Therefore, it would have a restraining influence upon the credits that the banks would extend throughout the country.

Mr. MORAWETZ. Certainly.

Senator O'GORMAN. I do not want to anticipate you, Mr. Morawetz; probably you are going to touch on it again; but in view of a remark you made a little while since, I should like to ask you a question or two. You said that the danger of inflation under a system substantially such as is proposed in the pending bill would be less with 5 or 6 regional banks than with 12; is that correct?

Mr. MORAWETZ. Yes.

Senator O'GORMAN. The danger would be still less if you had but three regional banks, would it?

Mr. MORAWETZ. I think so.

Senator O'GORMAN. Would not the danger be entirely removed, if you had but one?

Mr. MORAWETZ. No. A central bank managed unwisely could inflate currency just as much as 3 or 5 or 12 regional banks.

Senator O'GORMAN. Yes. Now, would there be less danger with a single bank than with three?

Mr. MORAWETZ. I doubt it. I think if you had a number of these banks, each watching the other, it would tend toward conservatism, rather than to the contrary.

Senator O'GORMAN. Then you think it would be better to have 12 than 5?

Mr. MORAWETZ. No. I think 12—I think it would be better to have 5 than 12, for various reasons, which I will touch on a little later.

Senator O'GORMAN. Yes. Now, I have but one other inquiry to make at this time. You said a little while since, while discussing what you conceived to be the impropriety of the Federal Government issuing these notes, or taking primary responsibility for them, that there were certain political or party reasons which seemed to suggest this change; and I think there was some reference made, either by you or by some member of the committee, to some declaration of the Democratic Party in its last national convention on the subject. Now, was any declaration made that makes it necessary for the Democratic Party to insist upon a Government issue, rather than a bank issue?

Mr. MORAWETZ. I do not think so.

Senator O'GORMAN. Well, I have the language here. I do not find any such declaration.

Senator SHAFROTH. Will you read it into the record, Senator O'Gorman?

Senator O'GORMAN. The declaration made by the Democratic Party at the Baltimore convention last year is as follows [reading]:

We oppose the so-called Aldrich bill or the establishment of a central bank—

As I read that, the central bank referred to is the central bank in the Aldrich bill, which was a central bank to be dominated by private interests, which was the only kind of a central bank ever discussed up to that time—

And we believe the people of the country will be largely freed from panics and consequent unemployment and business depression by such a systematic revision of our banking laws as will render temporary relief in localities where such relief is needed, with protection from control or dominion by what is known as the Money Trust.

Banks exist for the accommodation of the public and not for the control of business. All legislation on the subject of banking and currency should have for its purpose the securing of these accommodations, on terms of absolute security to the public, and of complete protection from the misuse of power that wealth gives to those who possess it.

We condemn the present methods of depositing Government funds in a few favored banks, largely situated in or controlled by Wall Street, in return for political favors, and we pledge our party to provide by law for their deposit by competitive bidding in the banking institutions of the country, national and State, without discrimination as to locality, upon approved securities, and subject to call by the Government.

That is the only declaration made by the party; and it does not touch upon the subject to which your attention was invited a moment ago.

Mr. MORAWETZ. I can not deny it.

Senator O'GORMAN. That is all, Mr. Morawetz, for the present.

Senator WEEKS. Then the only reason you had in mind that could be assigned for issuing notes in the manner proposed in this bill does not exist?

Mr. MORAWETZ. It seems so.

Senator WEEKS. I wanted to ask you if you recalled any instance where a central bank had been managed with such lack of wisdom that there had been an inflation in the country served by that bank?

Mr. MORAWETZ. I know of no such instance; but my information is limited to the principal commercial countries of Europe.

Senator O'GORMAN. But you never knew of an instance in the history of any of the important commercial countries of Europe, did you?

Mr. MORAWETZ. None.

Now, gentleman, I wish to call attention to one provision of the bill relating to the issue of the notes which I regard as absolutely fatal to any sound or safe plan; and that is the provisions that the notes shall be paid or redeemed in gold or lawful money.

The objection to this provision for the payment of the notes in lawful money is not based on the ground that it would lead to inflation. There is no more danger of an undue increase of the aggregate amount of the currency if the notes are payable in lawful money than if the notes are payable in gold only.

But there is another danger. It is this: If the notes can be paid in lawful money, that is to say, in silver, or in greenbacks, the inevitable result will be to drain off from this country its gold and substitute notes in the place of the gold, without increasing the aggregate amount of the currency.

Senator O'GORMAN. I think you will find every member of the committee in perfect accord with you in that last observation.

Senator HITCHCOCK. Well, the Senator from Colorado is not in accord with that.

Senator O'GORMAN. I am not surprised.

Senator SHAFROTH. No; I can not agree to that. I do not see how you come to that conclusion, Mr. Morawetz, in view of the fact that we have had bank notes payable in lawful money to the extent of \$740,000,000 and we have not had our gold leave the country.

Mr. MORAWETZ. Because of the limit of the amount of the bank notes that could be issued, due to the limited amount of Government bonds available for their issue.

Senator SHAFROTH. Well, \$740,000,000 is a very large amount, considering what it was in 1900—\$236,000,000.

Mr. MORAWETZ. The country has grown since then. Will you let me take this question up in due course?

Senator SHAFROTH. All right.

Mr. MORAWETZ. Any indebtedness which we have to pay to foreign nations has to be paid in gold. The balances of trade have to be settled in gold. So that it happens every year—sometimes twice a year—that gold sufficient to cover these balances has to be shipped one way or the other way.

Furthermore the different interest rates in this country and in foreign countries sometimes results in shipments of currency from the country where the interest rate is low to the country where it is high, in order to obtain the profits resulting from the higher interest rate.

Now, as long as notes and gold and lawful money are at a parity, it is wholly immaterial to us in this country whether we use gold or lawful money. Foreign nations, however, can only use the gold, and when we have to make a payment to a foreign nation, it has to be made in gold. But subsequently, if we need more currency—if we require to use again the gold which we shipped abroad, what would happen under this bill, if you can keep lawful money in the banks as a reserve for the payment of the notes? Why, notes would be issued and the gold would not be imported. The gold would go out; but it would never come back, because notes would be issued whenever in this country there is a need for the additional currency.



Senator SHAFROTH. When balance had to be met coming to this country, would not they have to ship the gold in here?

Mr. MORAWETZ. No, sir. You could loan it out.

Senator SHAFROTH. Yes; but investments here invite capital also; and that means the shipment of gold here. We have had shipment of \$5,000,000 gold, on the average, a year since 1878; the flow has been inward.

Mr. MORAWETZ. It is true, because we have sold about 6,000 millions of dollars of stocks and bonds to Europe.

Senator SHAFROTH. Well, we have had a very large export trade also.

Mr. MORAWETZ. Although, on its face, our exports of physical property exceed our imports by about \$500,000,000 a year just now—

Senator POMERENE (interposing). More than that.

Mr. MORAWETZ (continuing). The true balance is heavily against us because of the enormous interest and dividend payments which we make abroad, the enormous expenditures of our people abroad, and the shipments of money by immigrants and other invisible exports.

Senator SHAFROTH. Yes; but that is a matter of guess, very largely, is it not?

Mr. MORAWETZ. I think not very largely. I think you can figure it out pretty closely.

Senator SHAFROTH. Well, I can not find statistics on it.

Mr. MORAWETZ. However, I will take that up a little later; that is a little off my question.

The point I make is that as long as these notes are payable in lawful money the tendency will be and the result will be to deplete the country of gold, to make silver and greenbacks constitute our bank reserves and leave this country in a very dangerous position in case of any contingency arising which would require a large amount of gold for shipment. If we should have a war, or if for any other reason a sudden demand should be made upon this country for a large amount of gold, we might soon find gold at a premium and our notes and silver currency at a discount.

Senator SHAFROTH. We had the Spanish War, didn't we, and gold did not go to a premium?

Mr. MORAWETZ. Oh, yes; that was a small matter—

Senator SHAFROTH (interposing). Do you anticipate we are going to have any—

Mr. MORAWETZ (continuing). And we had not these notes out.

Senator SHAFROTH. We had quite a large number of national-bank notes redeemable in lawful money.

Mr. MORAWETZ. It is a question of degree. This country to-day has vastly more uncovered paper currency than any other commercial country in the world, not absolutely, but also in proportion to the amount of gold in the country and per capita of population. There is not one of the leading countries in the world to-day which has anything like the amount of paper currency and silver that the United States has.

Senator HITCHCOCK. Do you call national-bank notes uncovered?

Mr. MORAWETZ. I do.

Senator HITCHCOCK. Because a gold reserve is not provided against them?

Mr. MORAWETZ. Practically no reserve.

Senator HITCHCOCK. Although they are protected by national bonds?

Mr. MORAWETZ. That does not protect them.

Senator O'GORMAN. It simply gives them the credit of the Government.

Senator SHAFROTH. You admit that the Aldrich bill was generally favored by the bankers of this country?

Mr. MORAWETZ. I believe it was by the majority of the bankers; yes.

Senator SHAFROTH. Do you not recall the fact that the currency which was authorized to be issued under that bill provided that it should be payable in lawful money, and did not even mention gold?

Mr. MORAWETZ. Yes; but that does not affect me.

I want to make a confession right here. A few years ago I suggested a regional bank plan providing for an issue of notes by the regional reserve banks and I proposed that the notes should be payable in lawful money. At that time I considered only the question of inflation, and I did not consider that to make the notes payable in lawful money would cause any inflation, but I overlooked this other danger. I confess I made a mistake then and I hope that this committee will not make the same mistake in the bill which you report to the Senate.

Senator SHAFROTH. How long ago did you get that plan up?

Mr. MORAWETZ. About four and a half years ago.

Senator SHAFROTH. My view is that making this money payable in lawful money has a tendency to preserve the gold reserve and therefore to make it easier for the Government to maintain a gold standard, because you do not have such a drain on gold. If you are going to have gold in each one of these regional banks, you are going to have 12 centers competing against the United States Treasury for gold which will take three or four times as much gold, scattered around in 12 regional banks, than it would if they were redeemable in lawful money and the lawful money redeemable in gold. It is a kind of buffer which the banks put up against paying it in gold, and therefore has a tendency to maintain the gold reserve and to maintain the gold standard. My usual illustration is, if a man has \$1,000 in this currency and goes to one of these regional banks and says, "I want gold," the regional bank can say, "No; it isn't convenient for me to give you gold; I will give you lawful money." Then the man sends it down to Washington, and says, "I want gold for my lawful money," and the Government says, "Yes." The regional bank locks up its \$1,000 and the Treasury here locks up its \$1,000.

Mr. MORAWETZ. What money will the Government have in Washington to pay for this silver in gold?

Senator SHAFROTH. Gold.

Mr. MORAWETZ. Where will it get it?

Senator SHAFROTH. It has got \$150,000,000 of gold—

Mr. MORAWETZ (interposing). It has not a dollar, sir; not a dollar of that belongs to the Government.

Senator SHAFROTH. It has got \$150,000,000 of gold reserve.

Mr. MORAWETZ. That is pledged for greenbacks alone.

Senator SHAFROTH. Certainly; and this proposes that there shall be a reserve of  $33\frac{1}{3}$  per cent.

Mr. MORAWETZ. Not for the silver.

Senator SHAFROTH. No; not for the silver.

Mr. MORAWETZ. You say a man can get his gold by going to Washington and presenting his silver—

Senator SHAFROTH (interposing). I do not know whether they have ever settled that or not, because silver is a full legal tender, and it seems to be taken current no matter whether the Treasury undertakes to do it one way or the other. But he has a right to demand gold; it is legal-tender money, and he gets it, and in that way the Government can act as a double redeemer. That is, with less money I can redeem greater quantities of outstanding currency by having the reserve bank cooperate with the Government in paying off and preserving the gold standard.

Mr. MORAWETZ. I candidly confess I do not see how that would operate in that way. I know in all cases I have observed bank notes took the place of gold in circulation.

Senator SHAFROTH. Did you ever hear of a national banker that wanted to make the present national-bank notes redeemable in gold instead of in lawful money?

Mr. MORAWETZ. I do not know of any case.

Senator SHAFROTH. Isn't it because it has a tendency to preserve the gold?

Mr. MORAWETZ. I think not.

Senator SHAFROTH. There is a less quantity of gold than there is of gold and lawful money, and consequently it would be easier to maintain the gold reserve if it were redeemable in one or the other than if it were redeemable only in gold, it seems to me.

Mr. MORAWETZ. I don't think it would operate that way. I think that the trouble with this provision is that no conservatism on the part of the banks and no conservatism on the part of the Federal reserve board can prevent the substitution of notes for gold as long as the gold does not have to be kept for the redemption of the notes.

Senator SHAFROTH. You know that the Bank of France prevents a run on gold by reason of the fact that their paper money is payable in gold or silver?

Mr. MORAWETZ. No, sir; I paid a premium this summer for gold in France. When I asked Morgan, Harges & Co. for gold they said, "We will give you 500 francs," \$100, "but do not ask us for more, because we have to pay a premium for gold when we ask for it at the Bank of France."

Senator SHAFROTH. What was the premium?

Mr. MORAWETZ. A very small premium.

Senator SHAFROTH. A tenth of 1 per cent?

Mr. MORAWETZ. I do not know.

Senator HITCHCOCK. Unfortunately we have a session of the Senate at 12 o'clock, and we shall have to take a recess. In order that we may be close at hand during the session, we will meet this afternoon in the Judiciary Committee room in the Capitol.

(Thereupon the committee took a recess at 11.55 a. m. until 2 p. m.)

AFTER RECESS.

Senator HITCHCOCK. Mr. Morawetz, I think you had perhaps better proceed with your statement.

## STATEMENT OF VICTOR MORAWETZ, ESQ.—Resumed.

Mr. MORAWETZ. Before the adjournment of the committee I endeavored to point out that the provision in the pending bill allowing the banks to redeem the notes in lawful money inevitably would result in driving a large amount of gold out of this country and substituting notes in its place, and this result would occur without any fault or lack of conservatism on the part of the banks or of the Federal reserve board.

The bill provides that national banks which fail within a year to come in under this plan shall be dissolved. If any considerable number of the national banks should be dissolved in this way there might ensue a very disastrous result, which appears not to have been contemplated or considered by the authors of this bill; there would be an enormous contraction of the currency, because the national-bank notes of these dissolved banks would have to be taken up in lawful money. The contraction of the currency which would occur, if only a third of these banks failed to come in, in my judgment, would very likely result in a very severe money stringency and possibly a great panic. For that reason it seems to me that this provision dissolving such of the national banks as fail to come in under this plan should be stricken out of the bill.

If the plan is a good one, as I believe it is in substance, let the plan be put in operation first and at the next session of Congress, or within a year, if you please, let Congress then deal with those banks which have remained out. It would be an enormous peril, not to the banks, but to the country, to force the dissolution of any considerable number of these national banks as long as they have their present issues of bank notes outstanding. I am confident, from conversations which I have had with officers of leading national banks in New York, that all or nearly all of them will gladly join in carrying out any plan along these lines which they believe to be economically sound. I believe they will willingly make large sacrifices of profits rather than stay out of any plan which they believe sound. This threat of dissolving these banks is not really a threat of doing a great injury to the banks themselves; the pistol is not pointed at the banks, but it is pointed at the country. The effect of that provision is practically to say to the banks:

You must come in under this plan; if you don't the country is going to suffer from a great money stringency and possibly a panic.

Now, I do not think that is permissible legislation.

Senator HITCHCOCK. May that money stringency be overcome by the issue of asset currency under this bill?

Mr. MORAWETZ. That is the very point. It can not be. If the banks stay out, the reserve banks would not be strong enough, if they can be formed at all—they won't be strong enough to issue the requisite amount of these new notes to take the place of the national-

bank notes which must be withdrawn, because you will observe for every one of these notes that may be issued the reserve banks must put up an equal amount of the prescribed collateral and, in addition, a reserve in lawful money equal to 33½ per cent of the notes. The fact ought to be recognized that the cooperation of the banks is essential in order to make this plan a success, and the banks will give their cooperation if they are given half a chance; but I think it is due to them, it is due to the country, that the Government should try to put this plan through with the cooperation of the banks and not force it upon them in the first instance. First establish these reserve banks with the cooperation of such of the banks as are willing to join, and then let Congress, which always will have the mastery, deal with such of the banks as refuse to come in.

Senator O'GORMAN. Would you permit the banks that refuse to come in to avail themselves of this rediscount privilege?

Mr. MORAWETZ. Certainly not. Only the banks which come into the plan and become members should have these privileges. I have not a doubt that practically all of them, particularly the big banks that I have come in contact with, will gladly come into this plan at considerable sacrifices, if it is made economically sound.

Senator O'GORMAN. You see it would be quite difficult to exclude nonparticipating banks from the privileges of the rediscount system, inasmuch as they could, by indirect and not entirely illegitimate methods, pass their paper on to a bank that is a member of the system and that bank would in turn enjoy the advantages of the rediscount features of this system.

Mr. MORAWETZ. It might be so if the member banks join with the banks that are not members to defeat the purpose of the bill.

Senator O'GORMAN. It is fair to say in this connection, Mr. Morawetz, that a number of bankers who have testified before you have, without any reservation, expressed the opinion that this plan, if devised, should have all the national banks in it, and they favor the compulsory feature of the proposed bill which compels them to come in or surrender their charters. It has been stated, in that same connection, that bankers are, of course, like other people and, if it is entirely optional with them to come in or stay out, they would be likely to defer their coming in at all events until some one else experiments, and that, in that way, it might be difficult to complete this system within any such period as the authors of the bill hope it would require.

Mr. MORAWETZ. I agree that all the national banks should be required to come into this plan, but I think that this requirement should not be imposed by Congress until it can be done with safety to the country. And it can not be done with safety to the country until after you have established the reserve banks and assured the success of the plan. It is possible, it is probable, that if you do not make this plan compulsory, but make it permissive merely, there will be established, at the outset, only three or four of these reserve banks. Under a permissive plan, I am confident, a strong reserve bank would be established in the eastern part of this country, New York, Boston, Philadelphia, and the neighboring cities. There would be enough banks there to form a strong regional reserve bank. I mean enough would come in.

Senator O'GORMAN. Do you mean by that one bank in that territory?

Mr. MORAWETZ. One for that territory. I believe that another bank could be formed without the compulsory provision, in and around Chicago; another one could take care of the Central West, and another one on the Pacific coast.

Senator O'GORMAN. Well, now, are you sure as to that Pacific coast proposition?

Mr. MORAWETZ. I am not sure as to the Pacific coast proposition.

Senator O'GORMAN. Would it not meet your view, as you have indicated during the day, to start out first with the reserve board in Washington, and then three regional banks to take the place of the banks in the central reserve cities, New York, Chicago, and St. Louis, and leaving the power confided to the reserve board to provide for one, two, or three, or possibly a greater number, ultimately, of reserve banks in excess of the initial number, as the needs of the country seemed to require and as the disposition of the country banks appeared to be favorable to the plan?

Mr. MORAWETZ. I should start with authorizing the central board to organize five of these banks, one for the Northeast, one for the Central West, including Chicago, one for the Pacific coast, one with its headquarters in St. Louis for the South and Southwest, or possibly one in St. Louis for the Southwest and another one in the South for the Southern States—the old Southern States. That would be five. But I should put the plan in operation as fast as any of these five banks should be organized. If three only should be organized, let it start with three.

Senator O'GORMAN. Or if one or two?

Mr. MORAWETZ. Yes.

Senator POMERENE. Would you have those three cover the entire country or only sections of it?

Mr. MORAWETZ. Only sections of it.

Senator BRISTOW. Then would you have a double head and operate the old system in one part of the country and the new system in another?

Mr. MORAWETZ. I do not think there would be any difficulty. Simply the banks in those sections in which a regional bank had not been established would be in the position of nonassenting banks. There would be no difficulty.

Senator WEEKS. You speak with considerable confidence of what would be done in the East and the Middle West. Do you think that could be done unless changes were made in the pending bill?

Mr. MORAWETZ. Certainly not. I think changes would have to be made in the bill—changes not to benefit the banks financially, but changes which experienced bankers deem necessary to sound banking.

Senator WEEKS. That is substantially what you are pointing out, or what you are intending to point out—the changes you think necessary or desirable?

Mr. MORAWETZ. Yes, sir.

Senator WEEKS. Now, do you not think, Mr. Morawetz, we have to use the greatest care not to produce confusion and uncertainty of what is going to come from this legislation or when it is going to take effect?

Mr. MORAWETZ. Assuredly.

Senator WEEKS. Otherwise, is there not going to be a natural contraction and hesitation and stopping of business enterprises of the country?

Mr. MORAWETZ. I believe that is going to happen no matter what legislation you pass, and I think that a great many of the voters of this country will charge the legislation which is passed, whatever it may be, with being the cause of it.

Senator WEEKS. You recognize we have a very delicate proposition.

Mr. MORAWETZ. You have a delicate proposition and you have a delicate situation to deal with.

Senator WEEKS. And we ought to be quite sure of what we are doing before we do it?

Mr. MORAWETZ. Certainly.

Senator BRISTOW. Now, Mr. Morawetz, before you leave that point: You spoke of starting with three, possibly, and adding the others later. If it will come in now as part of your remarks, just as well, what objection would you have to the Federal board which is created, having the immediate charge of the Federal bank itself?

Mr. MORAWETZ. You mean to establish a central bank which is to be managed by the Government?

Senator O'GORMAN. By the Federal board.

Senator BRISTOW. By the Federal board.

Senator O'GORMAN. Of seven commissioners.

Senator BRISTOW. Yes; of seven commissioners. This is the idea I had in mind, and that is, that this board which will not have any ex officio officers—I do not think there ought to be any Government officers on the board—but let them be in the active management of the bank itself so that they are coming in direct personal contact with the operation of the business and thus understand it. I do not say a central bank, because according to my view it would not be a central bank; it would be a Federal bank.

Senator O'GORMAN. A Federal bank of discount and reserve.

Senator BRISTOW. A bank of discount, a bank of reserve, and a bank of deposit of Government funds, and any reputable banking concern which has the proper assets could discount those assets at this bank, and let its operation be extended to the various sections of the country so as to meet the convenience of the people.

Now, what objection would you see to that?

Mr. MORAWETZ. Well, that is, in substance, the central bank or the Aldrich plan over again.

Senator BRISTOW. No. Now, I beg your pardon; you do not understand. This we will have now is the Aldrich plan with the head cut off. We have now, with the Aldrich plan, a bank managed by bankers, owned by bankers, operated by bankers—a private enterprise so far as the regional banks are concerned. Now, the central bank of the Aldrich plan has been left out, and in lieu of it a Federal reserve board of supervision has been created. Now, in substitution for that plan, I would create a bank that is not owned by the bankers, that is not operated by the bankers, but that is owned by stockholders and operated by the Federal Government for the convenience of the banking system of the country, but not controlled by the bankers at all.

Mr. MORAWETZ. I understand. It is to be a central institution or central bank, the capital of which is to be furnished by private indi-

viduals, if you please, anybody who wants to take stock in it or will take stock.

Senator O'GORMAN. Preferably by the banks who want to come into the system.

Mr. MORAWETZ. They are not to have a vote in it, but it is to be managed by the Government itself through this board.

Senator BRISTOW. The subscriptions will be wholly voluntary. Now, it is not a central bank, and I will tell you why: A central bank is the center of a banking system, connected up, and it is the head and the center. Now, it is not proposed that this shall be the center of a banking system, but this shall be a Federal institution which will come to the relief of the banking system of the country, the democratic system which now exists, when such relief is needed.

Mr. MORAWETZ. Of course, it is all a question of definition, whether you call that a central bank or not. I should call it a central bank; it performs the functions and is very similar, in substance, to several of the great central banks in Europe which are managed by government appointees.

Senator BRISTOW. I guess there is but one, and that is the Bank of France?

Mr. MORAWETZ. The Bank of Germany.

Senator BRISTOW. The system we are now discussing is more nearly like the Bank of Germany than the one suggested by the question.

Mr. MORAWETZ. I do not think so, but that is of no consequence.

Senator BRISTOW. Is the Bank of France called a central bank? That is, the Bank of France, is it not?

Mr. MORAWETZ. It is generally called a central bank; yes.

Senator BRISTOW. I have never heard it called the central bank; I always heard it called the Bank of France.

Mr. MORAWETZ. That is a question of definition. I consider it a central bank, a large central institution which is the principal depository of the bank reserves, and whose function is not primarily to make money for its shareholders but to act as the balance wheel of the banking institutions of the country and to keep the finances of the whole country sound and safe. But that is a matter of definition. This is one of the points I expected to take up later, but I will take it up now. To my mind, the particular objection to any such scheme, which I call a central-bank scheme for the United States, is that it would inevitably result in sectional controversies and inject politics into the management of the whole system. In European countries banking and currency questions never have been considered political questions. In this country banking and currency questions have been considered as fit subjects of party politics from the beginning of the Government up to the present day. The First Bank of the United States ended in 1816 or 1817 in bitter political controversies and in the dissolution of the bank. The Second Bank of the United States ended in the so-called bank war in Jackson's time, and the bank was dissolved, not because it was inefficient or because it was not a useful institution but because the banking question was seized upon by the two political parties as a suitable political issue, and Mr. Clay and Mr. Jackson made it the principal issue of their presidential campaigns. After the war we all know that the question of the issue of our Government notes became a political question—not an



economical question, to be dealt with on its merits. Sections of the country wanted the National Government even to pay the interest on its bonds in its own depreciated paper currency. Then for 12 years the silver question was the principal issue between the political parties—I mean the free coinage of silver at 16 to 1. After that we had the compulsory guaranty of bank deposits as the principal issue of a presidential campaign, and now this very question—this very bill we have before us—is a party measure and, possibly, will have to be forced through by party caucus.

Senator O'GORMAN. There is no substantial sentiment, of which I am aware, justifying that last conjecture of yours.

Mr. MORAWETZ. I hope it may not be so; but I was going on to say, if it should be so, I do not blame anybody; I do not think anybody here should be blamed. It is the result of the conditions which have prevailed in this country from Washington's time down. It is because the people of this country have chosen to treat banking and currency questions as fit subjects for party politics. What I am leading up to is this: The moment you have a central institution which is to dispense credit or take care of the banks throughout the country you immediately will have sectional demands made upon the central institution. At sometimes the South will want this central institution to lend credit to the banks of the South, so that they can help the planters to corner their cotton; at other times the West will want credit from this central institution to help the farmers to carry their products. And so it will be impossible, if you have a single central bank or central institution in this country, to avoid these sectional differences and sectional controversies, and the moment sectional differences and sectional controversies arise party politics will seize upon them and make them political issues.

Now that, to my mind, is the principal reason why one central bank or central institution for the whole of this country is unwise. It is wholly unnecessary. You can avoid these sectional differences by dividing the country into districts each as big as any country in Europe and quite big enough to have a central bank of its own. The central-bank system has been tried and has been found to work perfectly in every country in which it has been tried. The principle of the system unquestionably is sound. I would simply apply that principle, and you will have to apply it if you ever have sound banking in this country, but I would take each great division of this country separately and give it its own regional central bank.

Senator BRISTOW. Mr. Morawetz, suppose we do that. You have presented your views clearly, I think. Suppose we do that. Then do you favor giving the central board, which we create here in Washington the power to compel one regional bank to discount the paper of another regional bank?

Mr. MORAWETZ. I am convinced that it would not be wise to give the Federal board this power. I should give the Federal board some powers which are not given it by this bill, but I should take away that particular power to which you refer. If I believed that it was necessary to give the Federal board the power to hand over the reserves of one regional bank to another bank, I should consider the plan unsound. If these regional reserve banks are not strong enough to stand independently without giving that power to the Federal

board I should consider that they were not adequate to serve the purposes for which they are created, and the whole plan, in my eyes, would stand condemned. But I believe that if you establish not more than five of these banks they would be strong enough, and they would serve all the purposes for which they were created without giving this power to the Federal reserve board.

Senator BRISTOW. If it is necessary to give that power to the Federal reserve board then the Federal reserve board would become the tyrant of political attacks, unless upon the request of a regional bank it would call upon some other regional bank to discount its paper. Now, the South might be in need of help.

Mr. MORAWETZ. Yes.

Senator BRISTOW. New York or Chicago might think they could not spare the help which the South wanted, and decline, because they would feel their own section of the country needed all the resources. The South would appeal to the Federal board to require them to do it, and this would at once precipitate the political controversy which you seek to avoid, it seems to me.

Mr. MORAWETZ. Exactly. And, furthermore, I think that provision would lead to unsound banking. It would be an invitation to some of these banks to rely upon the Federal board to help them with the reserves of other banks; and furthermore—

Senator SHAFROTH (interposing). Do you think they would do this, Senator Bristow, in view of the fact that each one of the reserve districts has a right to present the bank paper to the reserve bank and have money issued on it? What is the use of going to another bank?

Senator BRISTOW. But the authority is in the bill; and Mr. Vanderlip and others have said that they believed that authority was necessary.

Senator SHAFROTH. Well, it may be necessary in very extreme cases; but I do not believe it would be necessary one time in a year.

Mr. MORAWETZ. With great deference to these gentlemen, I believe it is not necessary.

Senator POMERENE. I was going to ask you a question in that connection. As I understand, your position is this: That each of these regional banks, when organized, would have sufficient strength and power of itself to meet the demands of that particular section. Now, if that be so, then what harm could come from giving the Federal reserve board the right, in the event that an emergency should arise, to transfer from one regional bank to another?

Mr. MORAWETZ. Each of these regional reserve banks, if properly managed, would be strong enough. But if you are going to start in by saying, "Go on, if your reserves fall short; if you extend yourself too much we will help you by turning over some of the reserves of the New York banks or of the Chicago banks," you are going to make unsound banking; and furthermore—

Senator POMERENE (interposing). Well, for what reason would it be unsound banking?

Mr. MORAWETZ. Because they would be too free with their discounts. They would not keep up their discount rate to the proper point to prevent overextension in their sections of the country.

Senator SHAFROTH. If there were only one central bank, however, they would practically do the same thing, would they not? They

could take from the reserves of the central bank and say, "New Orleans needs more than this, and we will give it an undue proportion."

Mr. MORAWETZ. Yes.

Senator SHAFROTH. Or they may say, "California needs more and we will give it to them." And under one central bank it would have exactly this same power.

Mr. MORAWETZ. That would result in the sectional controversies which I want to avoid. And so this provision, I think, would lead to sectional controversies and ultimately would introduce politics into the situation.

Gentlemen, this country under its present system, without any regional banks or central bank, has prospered beyond all other nations. We have had occasional panics. Most of these panics were due to unsound currency conditions which no longer exist. Our currency to-day is all as good as gold, and there is no danger—if it is not increased—that any of it will ever become less valuable than it is.

All that is needed now, in my judgment, to prevent a recurrence of this scramble for money is to centralize to some extent—not wholly, but to centralize to some extent—the reserve money, so that it will be available when and where it is most needed. And that is the object of these regional reserve banks.

My advice would be, as I have stated, to limit the number of the banks to five; to establish them as fast as you can get them established by the voluntary action of the banks; and then, after you have your plan in working order, take up the question what shall be done with those banks which stay out. I think, ultimately, they ought to be coerced into coming in, but only after you have established a successful plan, and after this great difficulty of the present situation has been provided for—the difficulty arising from the outstanding national-bank notes. You can not dissolve any considerable number of these national banks until you have made adequate provision, through the regional banks, for the issue of currency to take the place of national-bank notes which will be redeemed.

Senator BRISTOW. Mr. Morawetz, you approve, as I understand, the appointment of this Federal board by the President, so that it is an appointive board?

Mr. MORAWETZ. I believe that if this system is adopted there should be a central board appointed by the President with the fullest supervisory powers, and also certain powers of controlling the operation of the banks. But these powers of control—these discretionary powers—should be strictly limited in such a way as to keep out sectional controversies and so as to prevent politics interfering with the operations of the board.

Senator BRISTOW. Well, if this central board is the supreme and superior authority, and if it is appointed by the President—

Mr. MORAWETZ (interposing). On certain subjects only.

Senator BRISTOW (continuing). Yes. Now, it seems to me—this is my view of it; it may be erroneous, of course, but I very firmly believe that the real authority in the management of this system—that is, the practical authority—exists in the board of management of the regional banks.

Mr. MORAWETZ. It ought to be there.

Senator BRISTOW. Now, why should not—

Mr. MORAWETZ (interposing). You say the board of management of the regional banks. Do you mean the board of directors of each bank?

Senator BRISTOW. Yes; of each bank. That is the real governing force in this system. The other authority is off here in Washington—not in direct contact with the system. Of course, there may be complaints here and there, and it interferes with the system more or less. It might manage it wisely and it might not; but why should not the Government appoint the board of directors of the regional banks if these regional banks are to be the real controlling factor in the administration of the system?

Mr. MORAWETZ. Because I do not think that such a management by Government appointees would be a good management. There have been cases in which the Government has appointed directors of Pacific railroads. You remember there used to be Government directors of some of the Pacific railroad companies, such as the Union Pacific. But I think that all railroad men will agree that the Government directors were not helpful to the good management of those railroad companies.

Senator BRISTOW. They were political appointees, were they not?

Mr. MORAWETZ. I am simply stating a fact.

Senator BRISTOW. Well, if it is wise for the President to appoint the supreme board, with authority in theory, why should not he appoint the managers who have authority in fact?

Mr. MORAWETZ. It is all a question of fact, not of theory. Now, as a fact, there is no doubt in my mind whatsoever that the business management of these institutions should be in the business men chosen by the banks. I think you would then have a good management. But the supervision of these institutions should be in the hands of a Government board, which should consist wholly of appointees of the President, and upon which the banks should not be represented.

Senator BRISTOW. Well, that is similar to the authority which the comptroller has over the present system.

Mr. MORAWETZ. Yes; and something more.

Senator BRISTOW. Yes; and something more. That is a theoretical supervision; and where something radical goes wrong, he takes possession—but it is after it has gone wrong.

Mr. MORAWETZ. That would not happen here. The comptroller has 7,000 and odd banks under him. Here there would be five; and you would have a body of eight first-class men, I hope, who would be appointed by the President, by and with the advice and consent of the Senate; and they would be in constant direct communication with each of these institutions and would have wider powers than the comptroller has over the individual banks now.

Senator BRISTOW. Mr. Morawetz, my objection to Mr. Aldrich's plan was that it was controlled by the banks, and that the central bank, which was the central authority and for which in this plan the central board has been substituted—was chosen by the banks; and I believe that certain great interests would control this institution so as to promote their desires when occasion required it.

And I believe that the country is against the plan suggested by Mr. Aldrich, because the country believes it would be controlled by selfish interests to serve their own purposes.

Now this system takes away the central bank and substitutes a board. But it centers the real control which the central bank under the Aldrich system had, in regional banks, and leaves the control of those regional banks exactly where Mr. Aldrich would put it in his system.

So my objection to this is that, instead of preventing the thing which the country feared would happen in Mr. Aldrich's bill, will actually happen by the control of the regional banks in this bill; and it is altogether—

Mr. MORAWETZ (interposing). I frankly must say that I think you are conjuring up a specter of the imagination.

Senator BRISTOW. Well, then, what is the objection to Mr. Aldrich's system?

Mr. MORAWETZ. I will come to that in a moment. These regional banks—what will they control? All they are there for, and all they are to accomplish is, to introduce a bond of unity among the scattered banks of the district to enable them, in a measure, to pool reserves, so that, in case of stress, or trouble, the reserves will be available to stave off a run upon individual banks, or a panic of any kind, and to furnish a general market for commercial paper, so that the banks will not be obliged to loan so much on stock-exchange collateral.

It is, to my mind, not a centralization scheme at all. It is a most democratic scheme. It is to help to strengthen the individual banks, the small banks particularly, and to make their credit—the whole of their credit—available for the commerce of this country, instead of forcing the individual banks to tie up a considerable part of their resources in railroad bonds and in stock-exchange loans.

Senator BRISTOW. Well, why could not all that you have said in behalf of these regional banks be said in behalf of Mr. Aldrich's system of organization?

Mr. MORAWETZ. It could, sir; it could. The fault of the Aldrich plan or of any central plan, as I have endeavored to point out, is that it inevitably will introduce sectional controversies and party politics into the management of the whole business.

Now, I brush aside as of minor importance in the Aldrich plan the controversy as to who shall control the board of directors of the central institution. I know that there are many who believe that some of the rich men of this country who would in some way, by hook or by crook, get control of that board of directors. I do not think so myself. I think the greater danger under the Aldrich plan was that the scattered small banks throughout the country—the country banks—would get the control of the management and that unsound banking practices—possibly inflation—might be the result under the Aldrich plan.

But, it is not a question of that; I do not care who controls the central institution. If it were controlled by individuals to-day, next year you would have the Government step in and take charge because sectional controversies would certainly arise. You never could work in this country a single central institution which would have to establish a uniform discount rate for all the country, or different rates for different sections, under any central bank, without having sectional controversies occur.

Senator BRISTOW. Well, it has been alleged, and we are urged to pass this bill because it is alleged, that it will break up what is com-

monly termed the "Money Trust"; and that the intention of this legislation is to break up the control of credits that has been complained of, and that this legislation is intended for that purpose. Well, Mr. Bryan, the Secretary of State, in his speech which he delivered at Waterloo, Iowa, has stated, last week, that that was what this legislation was intended to do. And he intimated that those of us who were insisting upon examining the subject with some care, before we approved or disapproved the legislation, were simply the agents of Wall Street in undertaking to delay legislation, because it was legislation that would interfere with the operations of Wall Street.

Now, with such eminent authority as that making such statements as that, it seems to me that we can not ignore the fact that this legislation is primarily intended, at least, to free the country from what it is believed to be the controlling authority of certain great financial interests. Well, if that is the case and these interests are in control of the regional banks—

Senator O'GORMAN (interposing). Will you permit an interruption there, Senator Bristow?

Senator BRISTOW. Certainly.

Senator O'GORMAN. You know that the authors of this bill have never stated that that was the purpose of this legislation. They have invariably claimed, and I think correctly, that the only need of this legislation is to provide a system whereby the elasticity of our currency can be promoted and whereby the metallic reserves of the country can be concentrated—mobilized.

Senator BRISTOW. That is true. I think that is true. But this other element has been—

Senator O'GORMAN (interposing). Injected.

Senator BRISTOW (continuing). Very forcibly, in a way, injected into this question. The papers have been full of it and it leads me to inquire if that is the purpose of this legislation, then should we not undertake to provide against that evil? And I maintain that with the banks in control of the actual authority, by having control of the regional board, they are just as much in authority now—will be under this law—as they otherwise would be.

Mr. MORAWETZ. Oh, no; not at all, in my judgment. This plan makes careful provision for keeping the control of each regional reserve bank out of the hands of any clique of banks. The division of the board into three classes of directors, and the division of the banks into groups for purposes of election, would wholly eliminate any danger of that kind. The few big banks, in New York, for instance—and those are the ones which I suppose are the "niggers in the woodpile"—would have very little to say in choosing the board of directors of the regional reserve bank which is to control them.

Senator BRISTOW. Well, now, Mr. Morawetz, you are a practical man, and I try to be one. Do you not think that the influential bankers in these regions will control the election of these directors?

Mr. MORAWETZ. I do not.

Senator BRISTOW. What makes you think they will not?

Mr. MORAWETZ. Because of my general knowledge of mankind and of the conditions existing.

Senator BRISTOW. Do you not think they would like to control?

Mr. MORAWETZ. Oh, yes; anybody would.

Senator BRISTOW. Yes; any great banker would like to have control of the management of this great institution with which he is doing business.

Mr. MORAWETZ. Yes.

Senator BRISTOW. Now, has it not been your experience that a few powerful men can carefully organize an election and control it—or a convention and control it?

Mr. MORAWETZ. Sometimes, if it is not too big.

Senator BRISTOW. Did you ever see a convention so big that a few powerful men could not control it?

Mr. MORAWETZ. Oh, yes; I have seen a good many unexpected results happen at presidential conventions. [Laughter.]

Senator BRISTOW. Yes; unexpected; that is true. But, nevertheless, the powerful men were there. It has been suggested—and I think with a good deal of practical sense and judgment—that men thoroughly familiar with our region of the country can name now the men who would control the election of the board of directors of the regional bank. I think that a few of us can tell who will be in control of the regional bank out in that section where we live.

Senator O'GORMAN. Are they good men? [Laughter.]

Senator BRISTOW. Yes; they are good men. But I think they have certain interests that they would protect first, and they would think they were doing the right thing in doing that; but it would be their interests with which they had a personal connection, which they would protect first.

Now, it is advocated by those who stand for these regional banks and their methods of electing directors, that it is a very democratic way of electing these boards of directors.

It has been my lot to attend a good many county and State conventions; and in a county or State convention every delegate has one vote, whether he comes from a township and is simply a farmer or whether he is a great lawyer living in the city; they are all on an equality; every man has one vote.

But it would be idle to say that the innocent farmer that comes up from the township has as much influence in the control of the action of that convention as the strong, aggressive man from the city.

Mr. MORAWETZ. Of course, intelligence everywhere ought to have, and does have, more influence than ignorance. This country would go to ruin in a very short time if superior ability did not give superior control, superior power. It ought to be so.

Senator BRISTOW. Now, in managing a convention—and this is a convention that is to elect the directors—intelligence plays a great part, of course, and it should do so. I do not want to discredit intelligence. But Sam Smith will say to John Jones, "You fellows down in your part of the county support our man for clerk of the court, and we will support your man for county superintendent."

And they fix up a slate the night before the convention meets; and the next morning it goes through—unless some clog gets in the wheels unexpectedly.

Senator O'GORMAN. Is that the way they do it in Kansas, Senator Bristow? [Laughter.]

Senator BRISTOW. That is the way they do it everywhere—New York, California, and Texas, and everywhere else.

Senator SHAFROTH. They do not do it when the direct primary comes into effect.

Senator BRISTOW. Now, in order to avoid the evils which have grown up in our political life under that system, the direct primary has been injected in and made a part of our political institutions. Now, we propose here in this bill, in selecting directors of this powerful institution that is to control the currency and banking system of a vast region, the old method. There has not been a method used by a political boss for 50 years that can not be used effectively in the selection of these directors, in my opinion.

Mr. MORAWETZ. I do not agree with you as to that. I think this is a very democratic system which will work perfectly, and I think the other system of having the management appointed by the Government will be sure to inject party politics into the selection of the directors and to introduce every vice which you very justly wish to exclude. I think it would have just the effect which you wish it not to have. However, of course, that is merely a matter of judgment.

Senator BRISTOW. I do not believe I have gotten your reasons clearly as to why it is desirable to appoint the general supervising board and not to appoint the actual operating board.

Mr. MORAWETZ. Because the one is a business board having the business management of this banking business and the other is a supervisory board, with only very limited powers of direction conferred upon it for the protection of the general interests of the whole country.

Now, under this plan each reserve bank is required to pay the notes of any other reserve bank which comes to it and is to collect them from the issuing bank. There is no provision in this bill which would enable the paying bank to recover from the issuing bank the costs of exchange and the loss of interest. I think that ought to be covered. Under this plan if the New York reserve bank should issue a million dollars' worth of notes and those notes should be sent to California, the California bank would have to hand out a million dollars of its gold or lawful money and it would have to then reimburse itself by sending the notes to New York and getting its gold back, and it would have no recourse under this bill for the exchange or loss of interest. That certainly is a defect which ought to be covered.

Senator HITCHCOCK. There is a provision in the bill under which the San Francisco bank could charge those notes to the Government account.

Mr. MORAWETZ. If it has a Government deposit there, and then the Government would lose. It would stand in the breach.

Senator HITCHCOCK. The Government would then be required to demand payment of those notes from the New York bank?

Mr. MORAWETZ. Yes. But there is another provision in the bill which requires a reserve bank to receive at par as a deposit checks drawn or drafts drawn on other reserve banks. That is subject to the same criticism. It is not fair; it is not wise.

It seems to me that an essential feature of this plan is to require these reserve banks to establish a clearing house, and each reserve bank to keep a part of its reserve in that clearing house, not for banking purposes, but to settle balances that can not be cleared,



whether they be upon notes or other claims, such balances to be charged to the several banks with proper charges for exchange. That, however, is a practical matter which the banks would easily and readily work out for themselves. All that would be required is to give them authority to do this under regulations to be approved by the central board.

Now, my judgment is that inasmuch as all these provisions relating to the note issues are very imperfect, and I think practically unworkable under the present bill, the best course would be to strike out of the present bill not only the provisions dissolving the banks which do not come in within a year, but also all the provisions relating to note issues, and to take up these subjects at the next session of Congress, or within a short time after the organization of these banks. I do not think that provision for the issue of additional notes is at all necessary. The United States has, as I pointed out this morning, a superabundance of paper currency. We have more uncovered currency, more currency which is not gold, than any other country in the world, not only absolutely but also in proportion to our supply of gold and per capita of population.

SENATOR POMERENE. That has probably answered the question I was going to ask you as to whether or not the ratio between the paper currency uncovered in this country and the gold was greater or less than the ratio between the paper currency and gold in the other countries.

MR. MORAWETZ. Much greater in this country. It is about twice as big in this country as in any other great country. We have outstanding, year in and year out, more uncovered paper currency than any of the great countries of Europe when its currency is expanded to its utmost.

SENATOR SHAFROTH. Do not the Dominion notes of Canada have a reserve of only 25 per cent behind them?

MR. MORAWETZ. Yes; I will take that up in a moment.

SENATOR POMERENE. Is not our commerce very materially different from that of the other countries, so that we really need more of the currency?

MR. MORAWETZ. I speak of the ratio between the paper and the gold. We do not need as much currency for circulation as does France, where nearly all the debts are paid in currency, and not by check. But in England they have practically no paper currency at all. There are outstanding £18,000,000—under £18,000,000—under \$90,000,000 of Bank of England notes, issued against Government deposits. Every other Bank of England note is issued against an equivalent amount of gold locked up in the vaults of the bank, and specifically set apart for its payment. So that Bank of England notes, for practical purposes, are the same as our gold certificates. Therefore in England there is gold enough to cover the currency for practical purposes. Yet England is the principal center of commercial credit for the whole world, and it is also the principal source from which the whole world draws gold when gold is needed. How do they do it? Simply because they have a proper reserve back in the Bank of England. It is not an enormous institution, but it is a properly managed reserve bank, such as we want to establish under this bill. The Bank of England is sufficient to keep financial condi-

tions sound and strong in England, and is sufficient to enable England to maintain her supremacy in commercial credits and in money transactions throughout the entire world.

In my judgment, if this bill is right, if it is worked out correctly, conditions in this country would be perfectly safe and sound without providing for the issue of another dollar of paper currency.

However, in urging—

Senator HITCHCOCK (interposing). Will you discuss, for a moment, the paper currency of France and Germany as you have discussed that of England?

Mr. MORAWETZ. The system in France and in Germany, of course, is different. The Bank of France and the Imperial Bank of Germany have the power to issue notes, asset currency, to a limited extent; but they use that power very sparingly.

As I have stated several times before, they never, under any circumstances, have as much uncovered paper currency in those countries as we have outstanding year in and year out. Each one of these banks is managed as a reserve bank ought to be, and I hope as these banks are going to be managed. They use their power of issuing notes solely as a means of keeping the financial situation in equilibrium throughout the country.

Senator HITCHCOCK. Is there any real restraint upon the Imperial Bank of Germany in the issuing of notes except that they must always keep a reserve of  $33\frac{1}{3}$  per cent?

Mr. MORAWETZ. Thirty-three and a third per cent. When they get beyond a certain point they have to pay 5 per cent tax.

Senator HITCHCOCK. Does that not seem to be a rather moderate limitation? Is there anything very stringent there?

Mr. MORAWETZ. No; but, gentlemen, a tax is not necessary in Germany, because the management of that bank would not dream of putting out notes merely to make money, and the tax is not really necessary to deter them from putting out notes when notes ought not to be put out.

Senator HITCHCOCK. At the time that Germany had her reserve below 40 per cent, how much uncovered currency did that involve?

Mr. MORAWETZ. I do not know the figures.

Senator HITCHCOCK. You are sure it would be less than we have?

Mr. MORAWETZ. Oh, yes; much less. I have forgotten just what those figures are. I think about one-half as much as we have, per capita.

Senator HITCHCOCK. In France the limitation is a little less than 6,000,000,000 francs; a little below 6,000,000,000 francs?

Mr. MORAWETZ. Yes; but they carry an enormous reserve of coin in the Bank of France, as you know.

Senator HITCHCOCK. Our uncovered currency is about \$200,000,000 of greenbacks—

Mr. MORAWETZ (interposing). \$200,000,000 of greenbacks, \$600,000,000 of silver, and \$725,000,000 of national-bank notes.

Senator HITCHCOCK. Germany has a great deal of silver?

Mr. MORAWETZ. Not nearly so much. France has more silver in proportion than Germany.

Senator HITCHCOCK. In speaking of uncovered currency I suppose you are only referring to demand currency?

Mr. MORAWETZ. I am speaking of all currency which has to be kept up to the gold standard. Silver, except subsidiary silver, is exactly the same, for practical purposes, as paper.

Senator POMERENE. I have been informed that the actual per capita circulation in France, and by that I mean in actual circulation, is about \$40 per capita. In this country, while nominally we have about \$33 or \$34 per capita, as a matter of fact we have only about \$17.70 per capita actual circulation. I mean that, taking the reserves from the total money of the country, which is in fact not in circulation.

Mr. MORAWETZ. About \$17, I think, is right. But you understand the reason for that is that in this country we pay largely by checks. In France scarcely anything is paid by checks. Every tradesman always collects payments and makes payments in money.

Senator HITCHCOCK. You recommend that this bill be passed after striking out the clause authorizing the issuance of additional currency?

Mr. MORAWETZ. I recommend—I think really the wisest course would be to do that, with the intention of dealing with the currency question separately at the next session of Congress.

Senator HITCHCOCK. In that case the reserve banks would have nothing to loan to the member banks and nothing with which to discount the notes of member banks, except the reserve in the vaults.

Mr. MORAWETZ. Except capital and deposits.

Senator HITCHCOCK. Would there not be a tendency to produce a stringency by that process of moving these reserves from their present place to the new place and not authorizing the banks which have been created to issue currency?

Mr. MORAWETZ. I do not think so. Of course you would not do it all at once. The transfers would be made gradually.

Senator SHAFROTH. There would be no currency, in that event, to take the place of the retired national-bank notes.

Mr. MORAWETZ. There would not be any retired national-bank notes. They would remain outstanding for the present. You can not deal with the question until you have your divisional reserve banks successful and sufficiently strong to enable them to issue notes in place of such of the \$700,000,000 of these notes as are retired.

Senator O'GORMAN. Where would your relief come from in a time of stress or in time of conditions such as we had in 1907?

Mr. MORAWETZ. The relief would come through the use of the reserves which have been pooled in the divisional reserve bank.

The trouble in 1907 arose from the fact that whereas there was plenty of reserve money each bank locked up its reserve and was afraid to use it to help the weak banks.

Now if this reserve money has been in a central institution, in a divisional reserve bank, it would have been available, and we would not have had the trouble. As a matter of fact, the trouble was stopped by this very process of pooling reserves through the clearing house. What you want to do is—

Senator HITCHCOCK (interposing). Was there not something more than that? Did not those clearing houses issue clearing-house currency which relieved the stringency?

Mr. MORAWETZ. Yes; but it really was not that. The clearing house forced the banks to accept these orders upon each other, but if the currency had been in the hands of the clearing houses so that the clearing houses might have said, "We will rediscount some of your paper; here is the money," the trouble would have been avoided.

This bill, if it works at all—and it will work—will give us five banks working on the same principle as the Bank of England, and each one of these banks will have a territory five times as big as the Bank of England.

Senator POMERENE. Mr. Morawetz, I think, in answer to a question a moment ago by Senator Bristow, you made a statement that you would take from the Federal board the power to make transfers from one regional bank to another, but at the same time you would give it certain other powers, but I do not think you went into that subject.

Mr. MORAWETZ. Not yet.

Senator POMERENE. Have you that in mind?

Mr. MORAWETZ. I have it marked down, and I will discuss it a little later.

Senator POMERENE. I would like to have your suggestion.

Mr. MORAWETZ. I recognize fully—I think anyone must recognize that these regional banks will have to be under very strict governmental supervision, and that certain discretionary powers must be vested in the governmental board. I think everybody must agree also that the greatest possible pains should be taken to exclude party politics from this central board.

Now, the bill as drafted here provides that of the four appointed members not more than two shall belong to the same political party, thus recognizing the likelihood of politics entering into it. It goes on then and provides that three of the seven members shall be appointed by the administration. In fact, two of them are to be Cabinet officers. Now, it seems to me that is a most unwise provision, because inevitably the result would be to make the administration responsible in the eyes of the people for the acts of this Federal reserve board. I strongly urge that all of the seven members of this central Federal reserve board shall be appointed by the President, by and with the advice and consent of the Senate, and that all the restrictions which are imposed by the bill in the selection of the members of this board be eliminated. We must trust somebody, and I think far and away the safest plan is to trust the President and the Senate to get good men for this board.

Senator HITCHCOCK. What do you mean by "good" men? What type of men will they be? What qualifications should they have?

Mr. MORAWETZ. Men of high character, who are not in politics, and who are not in the banking business.

Senator HITCHCOCK. For instance, would you appoint a lawyer who had never had any banking experience?

Mr. MORAWETZ. There are a great many lawyers who have not had banking experience who, in my opinion, would probably fill this position better than the average banker. The fact is, gentlemen—

Senator HITCHCOCK (interposing). Would you appoint a college professor?

Mr. MORAWETZ. Not too many of them.

Senator HITCHCOCK. Would you think there should be upon the board any men who are familiar with the workings of a bank?

Mr. MORAWETZ. Yes; I think so. I think probably one or two of them. I think it is better that they should not all be ex-bank presidents. As a matter of fact, men of the—

Senator HITCHCOCK (interposing). Why would you object to practical bankers?

Mr. MORAWETZ. I do not object to them, but I recognize the fact that the great majority of the successful bank presidents in the United States are routine men, who started in as clerks and worked their way up, and who really do not know very much about finance. They know all about discounting paper and making loans, and they know the mechanical end of banking. Some of them, of course, are very able financiers, but I am speaking of the average. I think there are many successful bank presidents who would be wholly inadequate to fill this position.

Senator SHAFROTH. You were about to comment on the qualifications of the lawyer as a member of this board, and you were stopped by a question. Will you go on with that?

Mr. MORAWETZ. I was about to say that there are a great many lawyers who have acquired a general business knowledge which would make them eminently fitted for this position.

Senator BRISTOW. What about newspaper men?

Mr. MORAWETZ. I do not know. I presume there are some newspaper men who might be fitted for the position. You can not, by any statutory definition, insure the appointment of good men to this office. You have got to rely on the President of the United States and the Senate, and there is no better reliance.

Senator HITCHCOCK. I was trying to get at your idea as to what class of men should be on this board, or what general qualifications they should have. Should they be men of experience in the financial history of the world, for instance, and familiar with the history of banks of issue; familiar with the experience of Germany and France and England and Canada, and with world commerce, or should they be men who understand the details of the banking business, or should they be college professors and theorists?

Mr. MORAWETZ. They should not be college professors or theorists.

Senator HITCHCOCK. Would a professor of political economy be qualified?

Mr. MORAWETZ. No; I do not think so. His knowledge of political economy would not disqualify him, but, I think, perhaps he would not have sufficient practical business knowledge to enable him to fill the position.

Senator HITCHCOCK. Would you object to nominating the eight men in the record here? [Laughter.]

Mr. MORAWETZ. I should object; yes, sir.

Senator SHAFROTH. You might start a boom for some of your friends. [Laughter.]

Senator O'GORMAN. Just in passing, Mr. Morawetz, so we may keep this record straight, you are a lawyer yourself?

Mr. MORAWETZ. I am a lawyer.

Senator O'GORMAN. And you know something about banking?

Mr. MORAWETZ. A little.

Senator BRISTOW. Now, it has been the practice in the national institutions to appoint a Secretary of the Treasury who has been a banker and then let him choose his assistants from newspaper boys who have been useful about the Capitol. Do you think that would be a good plan for this board, or do you think that would likely happen in the creating of this board?

Mr. MORAWETZ. I do not think that would happen; no, sir.

Senator O'GORMAN. Not under Democratic administration.

Mr. MORAWETZ. I think everything would depend on how this system is started, and I am satisfied, under the present administration, it would be started right. The standard would be high. It has been suggested that the men on this board should be men of high standing, similar to the judges of the Supreme Court, and, I think, the Interstate Commerce Commission, likewise, has been mentioned. I believe that if the standard were set high at the beginning it would be kept up.

Senator O'GORMAN. Mr. Morawetz, I am clear in my own mind that there is no reason a Secretary of Agriculture should be a member of this reserve board. I am equally clear that the Comptroller of the Currency should not be. I am a little in doubt as to whether there may not be some special reason why the Secretary of the Treasury might not be a member of the board. What is your impression as to that?

Mr. MORAWETZ. I thought over that a good deal, and my first impression was that it was desirable the Secretary of the Treasury should be on that board. But I have reached the firm conviction that it would be better not to have him on that board at all, so that the action of this board should not be considered the action of the administration.

Senator BRISTOW. Do you think, Mr. Morawetz, there is any more reason for putting the Secretary on this board than there would be for putting the Attorney General on the Interstate Commerce Commission?

Mr. MORAWETZ. There is some difference, but the illustration is not inapt. Of course, the Secretary of the Treasury represents the financial interests of the United States, and the United States will have large dealings with the banks. Nevertheless, I think the Secretary of the Treasury should stand apart, and he should be supreme in all things within his jurisdiction. If he were on this board he would only be one-seventh of the board, and he never should be put in that position.

Senator O'GORMAN. Then, apart from that, you would suppose that the Secretary of the Treasury would have all of his time occupied with the duties of that office?

Mr. MORAWETZ. I am very sure of it.

Senator O'GORMAN. And that it would not be fair to impose additional burdens upon him?

Mr. MORAWETZ. I feel that way. That is another reason and a very strong one.

Senator HITCHCOCK. It has been suggested that the Secretary of the Treasury, however, should control to some extent the deposits of the Government funds and, in that way, he probably would be able to influence the system.

Mr. MORAWETZ. That is a different matter. If the deposit of Government funds is to be discretionary, then, of course, the Secretary of the Treasury should exercise that discretion. You mean the choice of the banks?

Senator HITCHCOCK. Not altogether. A question has been raised here whether or not the bill wisely makes it absolutely obligatory upon the Secretary of the Treasury to deposit in these banks every dollar of Government funds as fast as it comes in. An emergency might arise which would make it necessary for the Secretary of the Treasury to accumulate funds or accumulate gold, or an emergency might arise in which the administration might not approve a certain policy of the board. It might feel that the policy was getting in the direction of inflation, and that the withdrawal of Government funds would tend to counteract it.

Mr. MORAWETZ. Perhaps I have a more trustful disposition than some of the gentlemen present, but I should trust the Secretary of the Treasury with a discretion in that regard, just as I would trust the managers, the boards of directors of the reserve banks, with the same measure of honesty and sense of fair dealing with which I would trust the Government officials.

Senator SHAFROTH. Is it not important that the Secretary of the Treasury should be on this board because the question as to whether Government funds shall draw interest or not is to be determined, and we have, at the present time, about \$280,000,000 of money that would be Government deposits?

Senator O'GORMAN. If you are going to give the Government all the surplus profits earned by the regional banks beyond the 5 or 6 per cent that will be paid to member banks as interest on their capital contributions, what advantage is there in giving the Government interest, because you are simply making the Government pay it?

Mr. MORAWETZ. Then, there is another point—

Senator SHAFROTH. It is not the way it is now.

Senator O'GORMAN. No; of course not.

Mr. MORAWETZ. As the bill is drawn, after paying 5 per cent dividends on the stock, part of the surplus is to be given to depositors by way of interest, and the Government would share in that. I do not like the provision in the bill requiring the payment of special interest on Government deposits.

Senator POMERENE. In that connection it has been urged that the Government should not have interest unless the member banks get interest.

Senator O'GORMAN. On their deposits?

Senator POMERENE. On their deposits; but, on the other hand, the member banks, a great many of them, if not the majority of them, pay their depositors interest. This is particularly for the benefit of the banks. Now, if the depositors in the member banks are to get interest, what reason is there why the Government should not, for the same reason, get some interest on the deposits it may have?

Mr. MORAWETZ. Why, because the deposits in the member banks are used in the regular course of the banking business, whereas the deposits of these reserve banks are not there to make money, but are there for the purpose of rediscounting.

Senator POMERENE. For the banks.

Mr. MORAWETZ. For the benefit of the banks, yes. This bill contains a provision which will make it necessary at the end of 20 years to go through all this turmoil over again, because at that time the charters of these banks are to expire. I suggest that this limitation be stricken out, the charters of these reserve banks being subject to withdrawal or dissolution at any time by Congress and the bill itself being subject to amendment, alteration, or repeal at the will of Congress. You will recall the cases of the first bank of the United States and of the second bank of the United States, which had similar provisions.

Senator POMERENE. That is, you would let power be vested in some administrative branch of the Government to renew the charters?

Mr. MORAWETZ. No, sir. I should have the charters run indefinitely until repealed. If ever there was a lesson of history which we ought to heed, it is that such banks should not be chartered for a limited period. The bill says:

The Federal reserve bank, so incorporated, shall have succession for a period of 20 years from its organization, unless sooner dissolved by act of Congress.

Now, what I would provide is, "shall have succession until dissolved by act of Congress." At the end of the bill, furthermore, there is a provision that the right to amend, alter, or repeal this act is hereby expressly reserved. Therefore this limitation of 20 years is wholly unnecessary for the protection of the public, but it makes it necessary before the expiration of 20 years to pass a new act of Congress to keep the banks alive.

The bill does not make specific provision as to the executive management of the reserve banks. It provides that there shall be a chairman of the board of directors, who is to be appointed by the central board. But it does not indicate what his powers shall be. In my judgment, the executive management of the bank should under no circumstances be in the chairman or representative of the central board. The business management should be in a president and other officers selected by the board, all of whom should hold office at the will of the board. The chairman appointed by the central board should merely preside at the meetings of the board of directors and should perform the other functions assigned to him under this bill as representative of the Federal board of control.

In section 15 there is a provision giving to the reserve banks the power to fix their discount rates, subject to the review and determination of the Federal board. The purpose, as I understand it, of that reservation of power to the Federal board is to enable that board to compel a reserve bank to raise its discount rate, if, in the opinion of the Federal board, the bank has established too low a discount rate that is depleting its reserves too fast by making rediscounts. I think that should be amended by expressing the purpose which I understand to underly this reservation of power, namely, that the Federal reserve board shall have power to fix the minimum discount rate of a Federal reserve bank. No reserve bank can be kept safe and sound if its board of directors can be compelled by some outside authority to lend out its reserves when they think the reserve ought not to be lent out, when the bank ought to strengthen itself. The control over the discount rate should be simply to enable the Federal



board to require the discount rate to be raised to such a point as the Federal board thinks necessary for the safety of the banks.

Senator BRISTOW. Well, now, would not that lead to one reserve bank raising, and, possibly by so doing, seek to fortify its reserve and another bank undertake to do the same thing, and so you will have a competition among the reserve banks for reserve?

Mr. MORAWETZ. I do not think so. Of course it is conceivable that the management of these five regional reserve banks, if there are five, or the management of a single reserve bank, may so manage their affairs as to harm the interests of the country. But you have to trust somebody.

I have already discussed the question as to the number of regional reserve banks. I only want to say that the whole plan is enormously weakened by having so many as 12. I do not think, myself, it will be practicable to carry out the plan at all, as under this bill they are compelled to start with 12 of them. I doubt very much whether it would be possible to establish 12 regional reserve banks at the present time with the qualifications prescribed in this bill.

Senator O'GORMAN. And, as you understand this bill, if 11 of the regional reserve banks were formed and organized and ready for business, they could not do anything until the twelfth was organized?

Mr. MORAWETZ. That is my understanding. But there is no possible advantage that I can see from having so many. The whole object, to my mind, of this plan is to have a separate reserve bank for each great subdivision of the country—I mean subdivision according to interests. The East, the South, the Central West, the Pacific States, and possibly the Southwest. Every additional reserve bank you establish will simply weaken the scheme. Now, the capital of these banks is to be subscribed by the member banks. There is a provision that each member bank shall subscribe for capital of its reserve bank an amount equal to 20 per cent of its own capital, of which 10 per cent is to be paid up and the other 10 per cent stand as an overhanging debt.

Senator O'GORMAN. It is a double liability.

Mr. MORAWETZ. It is a stock liability. Now, that provision is, to my mind, unwise. The interests of the member banks and the regional reserve banks are the same and their needs probably will come hand in hand. Whenever a regional reserve bank will want to call in the unpaid capital, the member banks will need it a great deal more than the reserve bank. Whatever capital is subscribed should be paid up promptly—that is, within six months or in installments; but it should be paid up. I should limit the subscriptions of the banks to 10 per cent of their capital, but I should authorize the regional reserve banks to obtain additional capital by issuing and selling to the public a 5 per cent cumulative preferred stock without any voting power, such stock to be free from taxation.

Senator HITCHCOCK. State taxation or national?

Mr. MORAWETZ. Both. It would be a very attractive investment. I have no doubt people would subscribe for any amount of it that would be needed, and it would greatly strengthen these banks and also interest the public in their management. I should be glad to see it arranged so that only a limited amount of this stock may be held by any one person.

Senator HITCHCOCK. Free from taxation. Do you think it would be necessary to offer such stock on a 5 per cent basis?

Mr. MORAWETZ. No; I should say 5 per cent would be a maximum.

Senator HITCHCOCK. It seemed to me it could bear less very easily if it is free from taxation.

Mr. MORAWETZ. At the present time I do not think it should bear less than 4 per cent.

Senator HITCHCOCK. Oh, not less than 4. I thought you said 5.

Mr. MORAWETZ. I did say 5.

Senator BRISTOW. Do you think, Mr. Morawetz, the Federal Government would have any trouble in getting subscriptions to the Federal bank stock with a 4 per cent dividend free from taxation?

Mr. MORAWETZ. No. The Government, as long as it keeps up the gold standard and as long as it issues obligations strictly redeemable in gold, I think, can obtain money at a  $3\frac{1}{2}$  per cent basis to-day.

Senator HITCHCOCK. Mr. Morawetz, do you thoroughly believe in this system of having the banks rediscount their paper in order to increase their business? Of course it is un-American thoroughly; it is a new departure. Now, are not there some evils in that we are likely to have?

Mr. MORAWETZ. No. The rediscount rate will always be kept up so high that there will be very little, if any, profit to the bank in rediscounting. There will be no profit to them in rediscounting except as they want to replenish their reserve.

Senator HITCHCOCK. That is not the case in other countries having a rediscount system. The rediscount rate is quite low, and it is to encourage rediscounts.

Mr. MORAWETZ. They vary, of course. They are regulated according to the prevailing conditions.

Senator HITCHCOCK. Then, is it possible that the discount rate will be high in this country and low in the European countries after the banks in the United States have contributed a tenth of their capital and impounded their reserves, neither of which is required in European countries? If, then, they are to be subject to a high discount rate—

Mr. MORAWETZ. In European countries the central bank has a capital, a considerable capital, as we propose here.

Senator HITCHCOCK. But I mean none of it has been contributed by the banks. The banks of Europe are not asked to make any sacrifices at all to their central banks—none whatever.

Mr. MORAWETZ. They did that originally.

Senator HITCHCOCK. No.

Mr. MORAWETZ. They did originally, because the capital had to come from somewhere.

Senator HITCHCOCK. In the case of Germany they bought up the Bank of Prussia and there was no forced contribution from any other banks. And in the case of the Bank of France, as I recall, a new institution was established.

Mr. MORAWETZ. The capital of the bank, the money of the bank, has been taken from somewhere.

Senator HITCHCOCK. Not necessarily from the banking capital of the country.

Mr. MORAWETZ. Where would it come from?