

Senator HITCHCOCK. Why, it may come from many different sources.

Mr. MORAWETZ. What source?

Senator HITCHCOCK. Suppose it is thrown open to public subscription?

Mr. MORAWETZ. Then the people to get money to pay for their subscription will have to draw the money out of the banks.

Senator HITCHCOCK. It does not detract from the investments of the banks. Let me instance you: A bank is making 10 per cent on its capital. It is required to take out one-tenth of that and be content with 5 per cent. That is a real sacrifice. Now, shall a bank in the United States be required to make that sacrifice and then be subject to a higher discount rate than European banks are? How high a rate of discount were you estimating, in your judgment, when you thought the rate of discount would be high?

Mr. MORAWETZ. Why, the rate of discount I should say would be adjusted according to the reserves of the reserve banks.

Senator HITCHCOCK. At that time?

Mr. MORAWETZ. For the time being.

Senator HITCHCOCK. Now, then, if it is a high rate, as you seem to think it ought to be, is not that a direct burden upon the borrowing public?

Mr. MORAWETZ. I do not think so. So far as the deposits in the reserve banks are concerned, they are the same as cash in vaults. They continue to be reserves of the banks which may be the depositors in the reserve bank.

Senator HITCHCOCK. Do you think, as the authors of this bill argue, that this will result in reducing the rate of interest to the borrowing public?

Mr. MORAWETZ. I think it will ultimately; yes. It will take time to adjust it, however.

Senator HITCHCOCK. How do you reconcile that with having a high rate of discount and make it difficult for the banks to discount?

Mr. MORAWETZ. When I say "high rate," I mean higher than a low rate. It will be a steadier rate.

Senator HITCHCOCK. Let me instance you: Suppose the rate of discount in a Western town—the bank was lending money at 6 per cent.

Mr. MORAWETZ. Yes.

Senator HITCHCOCK. What rate of discount will the bank have to pay in order to get money from the Federal reserve bank?

Mr. MORAWETZ. That, I would say, would depend on the condition of the Federal reserve bank. If the Federal reserve bank found that credits were expanded, it would make a discount rate of 7 per cent, perhaps. If, on the other hand, it found that money was accumulating, and that the rate ought to be lowered, it would make a 5 per cent rate, and that would bring down the rate of the banks. It is in that way that the Bank of England regulates the discount rate—indirectly regulates the discount rate for the whole country. The bank rate nearly always differs a little from the open-market rate—I mean the current rate.

Senator HITCHCOCK. Then, I understand you to argue that the discount privilege is not likely to be very largely used?

Mr. MORAWETZ. It will not be largely used when money is easy; it will be largely used, it will be valuable, only when money grows tight.

Senator HITCHCOCK. Now, if these Federal banks start out with \$100,000,000 capital, \$400,000,000 deposits, and \$150,000,000 Government deposits they would have available \$100,000,000 in capital, and they would have two-thirds of \$400,000,000 itself, for loans, which, we will say, is \$275,000,000, and they will have available two-thirds of the Government deposits, which will be \$100,000,000—or \$475,000,000. Now, will there be a demand for anything like that amount from banks that are members of the organization?

Mr. MORAWETZ. I do not think there will be a demand for that amount when money is easy.

Senator HITCHCOCK. Then, how are these reserve banks going to pay expenses if they are not going to be able to loan out the cash they have, and they have these enormous running expenses to pay, because they are clearing houses for the whole country?

Mr. MORAWETZ. Well, whenever money rates go up, then the banks will avail themselves of the rediscount privilege and the central bank will make money—will make a high rate of interest.

Senator O'GORMAN. The rates will be regulated according to existing conditions?

Mr. MORAWETZ. According to the existing conditions. There will be times when the earnings of these reserve banks will be small. There is no doubt about that, when money is very easy. However, in this country money rarely is easy for a long time. When money is easy the banks will prefer not to rediscount their paper, but to keep it for themselves. I do not doubt myself that these reserve banks will be able, while keeping a large reserve, 50 per cent reserve, which they ought to keep in normal times, to make the 5 per cent dividend on their capital and something over.

Senator O'GORMAN. You do not think they will?

Mr. MORAWETZ. I think they will. I am sure they will.

Senator HITCHCOCK. Have you made any computation of the cost of clearing these checks and drafts for the whole country?

Mr. MORAWETZ. I have not. I think that this scheme would considerably reduce the cost of clearings of member banks among themselves—that is, the members of a particular reserve bank—because it would be by simply book entries and would involve no cost except a little postage. Clearings among the different reserve banks also could largely be adjusted without shipments of coin, and, so far as it should involve expense, the expense would have to be paid by the different banks. But I do not think it would amount to a very large sum.

Senator HITCHCOCK. Do you think that the rate of discount in these banks—say there are a dozen of these regional reserve banks—should be under the control of the Federal board?

Mr. MORAWETZ. No. As I stated a little while ago, I think the Federal board should have or may properly have the power to require a reserve bank to raise its rate of discount, if it is too low. But it ought not to have the power to lower a rate of discount which the board of directors think is necessary.

Senator REED. Now, Mr. Morawetz—if you will pardon me, Senator?

Senator HITCHCOCK (interposing). Go ahead.

Senator REED. One of the great reasons for undertaking to establish this system is to prevent a congestion—congestion is not the

right term—it is to prevent a squeeze, if you please, in the money market.

Senator POMERENE. Contraction in the money market. It is to prevent the accumulation of large sums of money in given places, which may be very necessary to have in order to relieve a stringency.

Mr. MORAWETZ. Yes.

Senator REED. If you take away the power of a controlling board to reduce the rate, do you not defeat one of the principal objects of this legislation?

Mr. MORAWETZ. I do not think so. I think that the great majority of stringencies in this country invariably have resulted from too low discount rates. The cause of all money stringencies—the ultimate or original cause of all money stringencies—is interest rates so low as to invite the overexpansion which causes the trouble.

Senator REED. Well, that you maintain is the primary cause?

Mr. MORAWETZ. Yes; the primary cause.

Senator REED. Let me give you a concrete illustration—I do not mean to interrupt you. But these 12 banks, if all the banks of the country join, or the greater proportion of the banks, State and National—they are powerful institutions, they will have enormous capital. That, indeed, is the very object of the bill, to make them powerful; and most advocates of this system who have appeared here have advocated making a smaller number in order that each bank might be more powerful.

Mr. MORAWETZ. Certainly.

Senator REED. So that it may come to the aid of the country in time of distress. That thought implies that there will come a time of distress, a time when banks become somewhat frightened; when the public gets somewhat frightened.

Now, if each of these 12 banks, being great reservoirs of money and power, are run by the bankers who are the directors, of course the first thing that they will desire to do will be to protect their banks; make them safe.

Therefore, when a stringency comes on, when a shiver goes over the financial world, their disposition will be that which obtains in every bank, to conserve their resources and get ready for the evil day, and be sure they are very ready.

The very purpose of this bill is to draw on this reservoir at a time of that kind; to make it so that the small banks of the country and the banks of the cities will have a place to go that is not drawing in money at the time all the other banks are drawing in money, but stands ready to pay it out. Do you think it is wise to take away from this central board the power to say that the time has come to pay it out?

Mr. MORAWETZ. I think it very unwise to do that, because it would lead to unsound banking, and it is not right, in my judgment, to say that these banks are established to quell panics. Their purpose is to prevent the conditions which result in panics.

Senator REED. I understand that.

Mr. MORAWETZ. The main purpose of these banks is to prevent the cause of panics; and the cause of panics in almost every instance is too low discount rates, or interest rates.

Senator REED. Then you think the purpose of these banks, stating it practically, is to raise discount rates in this country?

Mr. MORAWETZ. No; to steady the discount rates.

Senator REED. To keep them up?

Mr. MORAWETZ. To steady the discount rates; to make them sufficiently high at certain times to prevent overexpansion and to make them low, reasonably low, at other times. In France the discount rate does not vary 1 per cent year in and year out; and it is all because of this system.

Senator REED. Do you think it is safe then to vest in the board of directors of the regional banks the power to raise discount rates and to lower discount rates?

Mr. MORAWETZ. I think it is necessary and proper to give them the power to adjust the discount rate according to the banking situation.

Senator REED. Yes.

Mr. MORAWETZ. It must be—we can not have any properly managed bank unless its directors have this power. It is through the discount rate that a bank can keep itself sound and strong; and only by that means.

Senator REED. Yes. Then you think it is safe to put that power in the regional-bank directors?

Mr. MORAWETZ. Surely.

Senator REED. Of course, six of those men are elected by the banks.

Mr. MORAWETZ. Yes.

Senator REED. And will represent the banks?

Mr. MORAWETZ. Yes.

Senator REED. And they will dominate and control?

Mr. MORAWETZ. Yes.

Senator REED. Do you think those six men will be any more patriotic, any more intelligent than the seven—or nine—men that may constitute the central board?

Mr. MORAWETZ. They will be more capable of managing the affairs of their district than the seven members of the central board, assuredly.

Senator REED. Suppose there was a central bank, Mr. Morawetz, with about 12 branches—almost everybody advocates the central bank around here—not everybody; but there is a great trend that way.

Senator SHAFROTH. Mr. Morawetz says not.

Senator REED. I am not saying Mr. Morawetz does. But if there was a central bank with 12 branches, what would the directors of that central bank do? They would raise and lower discount rates, would they not? Do you think they could do that intelligently?

Mr. MORAWETZ. I do not think they could do it intelligently for the whole country. I think it is utterly impracticable that the same discount rate should be established for all the country at the same time.

Senator REED. Well, I do not mean that.

Mr. MORAWETZ. Now, under a central-bank plan, you would either have to do that, have a cast-iron rate applicable to the whole country, or you would have a varying rate. I do not think any central board could establish a varying rate; no.

Senator REED. Well, in the last analysis your position, as I take it, is this: That the regional bank directors having been elected by the banks, the regional bank would be under the control of the bankers and not under the control of the public?

Mr. MORAWETZ. Yes.

Senator REED (continuing). Ought to be allowed to run that bank and have the full right to raise the discount rates as far as they wanted to raise them and to lower them as far as they desired to lower them—subject only to the right of the central board to require the raising of the rates?

Mr. MORAWETZ. To require a minimum rate.

Senator REED. And that is because you think, first, that a central board is not so closely in touch with the situation as the directors of the 12 banks will be; and secondly, is it not because you also think the bankers are better capable of handling this business than the public?

Mr. MORAWETZ. Yes; that is true.

Senator REED. So that what you really want is a bank-controlled system of banks?

Mr. MORAWETZ. With certain limitations.

Senator REED. Yes. And I suppose you think that the Government ought, by statute, then, provide that the Secretary of the Treasury must put all of the money the people now have, and all of the money they may hereafter get, excepting the 5 per cent reserve, in the system of banks that is to be controlled by the banks?

Mr. MORAWETZ. No, sir. As I said a little while ago—

Senator REED (interposing). I did not hear that; I was not here then.

Mr. MORAWETZ (continuing). I should leave that in the discretion of the Secretary of the Treasury.

Senator REED. From the experience of the past, the bankers having run the banking business of this country in their own way, and disaster after disaster having occurred, do you not think it is almost time that the representatives of the public should put, if not a controlling hand, at least a restraining hand, upon the banking system of the country?

Mr. MORAWETZ. No, sir. Every disaster, every financial disaster which has happened to this country, with the exception of the last, I should attribute to Congress, and not to the banks. I should attribute it to the unsound currency system which has prevailed throughout this country.

And the last trouble was due to a variety of causes. It was due to overexpansion; to the fact that the banks gave the public all the credit the public wanted, instead of holding it down; so that there was overexpansion, and a smash came. When the smash came, the leading banks in New York and the leading trust companies got together and they poured out their money and stopped it.

Senator REED. They stopped it principally with money from the Federal Treasury, did they not?

Mr. MORAWETZ. No, sir; they poured out—there was a little trust company in which I happened to be a small stockholder, and I know that word was sent to hand over \$500,000 to help this situation, and they handed it over.

Senator REED. Yes. I know the banks can do that there as they do in other places.

Now, you speak of Congress being to blame for all the panics in this country. We did not have any national-bank system until the

war, did we, and Congress did not do much legislating about the banks before then? And we had wildcat banks all over this country, did we not?

Mr. MORAWETZ. Well, Congress refused to renew the charter of the First Bank of the United States, and Congress refused to renew the charter of the Second Bank of the United States.

Senator REED. Are those two of the crimes that you attribute to Congress?

Mr. MORAWETZ. Well, when you go back so far; I will say that I was not thinking of those olden times; I was passing them over. I was only thinking of events within my own memory.

Senator REED. Let us come then to what act Congress did that brought on the panic of 1876.

Senator SHAFROTH. 1873.

Senator REED. Yes; 1873. What did Congress do along that time to bring that panic on?

Mr. MORAWETZ. Well, it had not enacted a sound currency system.

Senator REED. Well, then, you simply put it to the question of the enactment of a sound currency system—at least by Congress?

Mr. MORAWETZ. We have that now. I consider the present currency system sound. I think the present currency is all right. There would never be any trouble if you leave it alone.

Senator REED. What brought on the panic of 1893? What act of Congress brought on the panic of 1893?

Mr. MORAWETZ. Well, the silver coinage.

Senator REED. The silver coinage?

Mr. MORAWETZ. Yes; the issue of silver dollars.

Senator REED. Do you think that brought on that panic?

Mr. MORAWETZ. I do.

Senator REED. You do not think the banking situation had anything to do with it?

Mr. MORAWETZ. Yes; undoubtedly. I have been preaching always that our banking situation is defective, because we have no concentration—we have no reserve banks in this country; none at all.

Senator REED. Well, the banks have always had a chance to get up a reserve scheme of their own, and they have not done it. I do not think it is just or fair, Mr. Morawetz, for a man of your distinguished reputation as a lawyer in this country to charge if a thing does happen under a law that it is the result of a law that Congress passed; and then, if it happens that there is no law, to say that Congress is chargeable with not having passed a law; and then, in the same breath, that Congress ought not to interfere in these matters, but ought to let them run themselves.

Mr. MORAWETZ. Of course, it was not fair if construed strictly. After all, Congress only does what the people of this country want Congress to do; and the real culprit is the whole people; we did not—

Senator REED (interposing). You do believe that Congress—that the people must pass the laws which provide the currency system? You believe that that is to be done by the laws of Congress, do you not?

Mr. MORAWETZ. Certainly.

Senator REED. That far, then, we are agreed. Then, again, you believe that Congress ought to establish a system of banks, do you not?

Mr. MORAWETZ. Of reserve banks; yes, sir.

Senator REED. And I suppose you are in accord with the establishment of the national-bank system?

Mr. MORAWETZ. Yes.

Senator REED. Well, if we are going to establish this system of banks, and if we have had all of these troubles, do you not think there ought to be checks and safeguards put into the law that will, as far as possible, make that system a safe system?

Mr. MORAWETZ. Yes; making sure that these safeguards will not introduce evils greater than those they are designed to correct.

Senator REED. Yes; of course, we had better abide a present evil rather than to experiment a while?

Mr. MORAWETZ. Or introduce a worse one.

Senator REED. Yes; I agree with you on that. Have you discussed the question of possible inflation under this bill? I came in rather late.

Mr. MORAWETZ. Yes; I have.

Senator REED. Then I will not ask you a question about that.

Mr. MORAWETZ. I will state, in just a word, that I consider that the issue of these notes is all wrong in form, but it is all right in substance. I consider that there is no danger of inflating the volume of the currency, because it can only be issued by the voluntary action of these reserve banks, subject to the veto power vested in the central board.

Senator REED. But you are going to veto their right to stop reducing rates, are you not?

Mr. MORAWETZ. I am speaking now of the issuing of notes, sir. I say the issuing of notes is safer even than the Canadian system, because there the banks issue the notes when they want to.

Senator POMERENE. Did you say it is safer "in Canada" or safer than the Canadian system?

Mr. MORAWETZ. Safer than the Canadian system, because here the banks can only issue the notes subject to a veto power vested in the central board. But I was going on to say that the provision in this bill permitting the notes to be paid and redeemed in lawful money is a fatal defect, not because it leads to an inflation of the volume of the currency but because its inevitable result will be to drive the gold out of the country and substitute these notes for it, notwithstanding the utmost conservatism on the part of the banks and of the central board.

Senator REED. Mr. Morawetz, you said a little while ago that every financial disturbance had back of it the fact that money was too cheap—

Mr. MORAWETZ (interposing). I said had been.

Senator REED (continuing). That money flowed out too easily; the rate was too cheap.

Mr. MORAWETZ. Yes.

Senator REED. Now, who has fixed the rate?

Mr. MORAWETZ. The competition of the banks.

Senator REED. Congress never fixed it, did it?

Mr. MORAWETZ. No; the banks did.

Senator REED. The banks did?

Mr. MORAWETZ. Yes.

Senator REED. Now, you propose to leave in these Federal reserve directors the power, still, to reduce the rates?

Mr. MORAWETZ. No, sir; I say that the central board shall have the power to raise them.

Senator REED. Yes; to raise them. But you leave in the bank the power to reduce. You take away from the board up here the power to fix, and you vest in the banks the power to raise if it wants to and lower if it wants to the rate, and limit the powers of the Federal board to simply raising it?

Mr. MORAWETZ. Yes, sir.

Senator REED. You still leave in the banks that very power which has proposed, according to your theory, all the panics, do you not?

Mr. MORAWETZ. No, sir. Of course, no bank can be managed unless its board of directors can fix its discount rate.

Senator REED. Yes.

Mr. MORAWETZ. Of course, you are quite right, that the fixing of the discount rates must be left with the banks. But I see no objection to giving to the central board the power to raise the rate if it thinks that safety requires it. The trouble under the present system is that we have 25,000 banks, all competing for business.

Senator REED. That will still continue, will it not?

Mr. MORAWETZ. Yes, sir; the 25,000 will compete for business, each lending its resources up to the limit. But these reserve banks will not be managed that way.

Senator REED. Do you not think that a wise central board would never order one of these regional banks to lower its rate of discount unless it became manifest that bank was piling up money, and in some way injuring business pretty plainly?

Now, I am talking about a board that is composed of wise men, students of finance, and appointed, as such a board ought to be, of the very best talent of the country?

Mr. MORAWETZ. I do not think that it is any more practical to get high-class able men to act on this central board than it is to get them to act on the boards of directors of the reserve banks. On the contrary, I think it would be easier, much easier, to find able, conscientious, patriotic men to act as directors of these reserve banks than it will be to find such men to come here to Washington and devote their lives to sitting on that central board. That is my judgment.

Senator REED. But your wise and patriotic man who is selected here is utterly disinterested. Your wise and patriotic man who sits upon the board of directors of the regional bank is not disinterested, for two reasons: First, he is selected by an interested class; and, second, he is very likely to be financially interested in the transactions that he must handle from time to time—and any man would be influenced by that. Do you think an interested party is as likely to be as patriotic as a disinterested one?

Mr. MORAWETZ. Oh, the self-interest is far off. I can only speak of my own experience, my own observation, my own beliefs. We are now speculating on things that may happen in the future. I am satisfied that you will get as able, as patriotic, and as disinterested

action from the directors of these reserve banks appointed by the banks as you will get from that Federal board sitting in Washington.

Senator REED. You say the interest is far off. Let us see if that will necessarily follow. If you were to put upon this board of directors of the regional banks, say, a country banker that had a bank with \$50,000 of capital, his interest might not be very great. But suppose that the banks of New York City were to select as one of the directors of the regional bank there located Mr. Vanderlip, whose bank carries \$250,000,000 of deposits, and suppose they were to select the next two largest bankers of New York, men who were interested not only in one bank, but in a dozen banks; men who had organized trust companies that are to control the stocks of banks, and who control the trust companies through voting trusts, and so on. So that if they could control the rate of discount in that regional bank they might be able to raise it, say, 1 per cent, whereby they would gather into their own particular banks very largely increased profits. Do you not think that would be a pretty substantial interest?

Mr. MORAWETZ. Yes, sir; I do; I do.

Senator REED. I am glad to hear you say that, because I looked for you to be just that frank.

Senator HITCHCOCK. How would you avoid that danger; that evil? That is a new thought which Senator Reed develops. Here are these big banks in the city interested in maintaining a higher rate of interest, possibly. If represented on the board they might use their influence to fix such a rate of interest for the reserve bank as would enable them to continue to get the maximum rates on their customers?

Mr. MORAWETZ. I think all bankers of experience will agree that the interest of the banks is not to have tight money or a very high interest rate; but it is to have a fair, steady interest rate without pressure, and that they will always try to obtain. They do not make money when the interest rate is very low, and they do not prosper when the interest rate is very high and their deposits are drawn out.

Of course, we will never make much progress by assertions of what people will do, because you never can prove it. But I should suggest that a proper course would be to enact this bill with the fewest limitations upon the action of the bankers—of the banks, or interferences by this central board with the action of the banks—as possible. Then, if you find on trial that changes in the bill, restrictions upon the board of directors of the reserve banks, or an extension of the power of the central board is advisable, why, Congress will so enact.

Senator HITCHCOCK. Do you think that the same rate of discount should prevail all over the country?

Mr. MORAWETZ. No, sir; I think it would be utterly impracticable.

Senator HITCHCOCK. Well, is it right for Congress to create a great public facility of this sort, a utility, and then make it possible to charge people in one part of the country a higher rate for its use than the people in another part?

Mr. MORAWETZ. You speak of Congress creating a public utility. Congress is merely enabling the banks of each district to serve their constituents.

Senator HITCHCOCK. Now, let me take that up a little. It is supposed to put \$150,000,000 in the banks to be loaned out.

Mr. MORAWETZ. On the terms proposed I should prefer to have the Government keep this money.

Senator HITCHCOCK. I am talking about the bill as it is. It puts \$150,000,000 in the banks.

Mr. MORAWETZ. Presumably the Secretary of the Treasury will put the money in those banks which he thinks deserve to have it the most.

Senator HITCHCOCK. In addition to that, it is loaning its credit on the notes?

Mr. MORAWETZ. I do not think the banks want it. I do not think so. I do not think it is necessary.

Senator HITCHCOCK. I am talking about the bill as it is. As a matter of fact, the Government's credit is being loaned to the banks, and the money is being used for the supposed purpose of standardizing and reducing the rate of interest to the people and making the banks safe for depositors. Now, then, is it proper to make such a public utility by using what belongs to all the people, namely, the Government's balance and the Government's credit, and then permitting them to charge the people in one part of the country a higher rate of interest than is charged to the people in another part of the country for its use?

Mr. MORAWETZ. I grant you that the money or the credit furnished by all the people should not be furnished to some of the people on better terms than to others. But what is proposed here is to take the money from some of the people and give it to other people.

Senator HITCHCOCK. Now, let us see what is proposed here. There are to be 12 regional banks, we will assume, and each of those represents a certain district. It holds the reserves of that particular district. Each of those reserve banks, in addition, has the right to apply to the Government for currency upon the segregation of a certain class of paper. Now, that currency is Government currency. Is it right to have one rate of interest charged for the use of the Government's credit to one section of the country at a higher rate charged to the people in another part of the country?

Mr. MORAWETZ. The Government should charge the same.

Senator HITCHCOCK. We are agreed upon that point. Now, do you think the reserve banks should be required to charge the same rate to each one of their member banks?

Mr. MORAWETZ. For the same kind of paper, most assuredly.

Senator HITCHCOCK. The same rate should prevail over any given area covered by any given bank. Do you not think, in addition to that, that the Federal board should have the power to equalize the rates charged by the different reserve banks?

Mr. MORAWETZ. I do not.

Senator REED. Then we would have the spectacle of a bank, say, in Minnesota, being compelled to pay and discount, possibly, at the rate of, say, 7 per cent, and a bank down in Virginia having a rate of, say, 5 per cent, and of course that would mean that the borrowing community in Virginia would be getting its money at a lower rate of interest than the borrowing community in Minnesota would be getting its money, although the people in Minnesota have contributed just as large a proportion of their means and resources to the institution as the people in Virginia have.

MR. MORAWETZ. Why is the rate higher in Minnesota than in Virginia?

SENATOR HITCHCOCK. I do not think it should be. I think that we are undertaking to unify this system, or ought to unify it.

MR. MORAWETZ. There is a reason for it. It is a question of supply and demand, is it not?

SENATOR HITCHCOCK. Yes.

MR. MORAWETZ. The rate in Minnesota is high because Minnesota has not the same capital or because there is greater speculation going on in Minnesota.

SENATOR HITCHCOCK. You are taking just as large a proportion of the capital of Minnesota as you are taking of that of Virginia.

MR. MORAWETZ. I know; but the interest rate is due to the supply and demand of all the capital within the district.

SENATOR HITCHCOCK. And yet you are agreed that the currency which you sent to Minnesota should bear the same rate of interest as the currency which is sent to Virginia?

MR. MORAWETZ. I do not see how it can be avoided.

SENATOR HITCHCOCK. But that the regional bank which gets the currency should not be required to put it out on the same basis?

MR. MORAWETZ. The regional bank fixes its rate of discount according to the necessities of its situation. It puts it up if it finds that its reserves are running out. It has to do that as a matter of protection.

SENATOR HITCHCOCK. In Minnesota the regional bank pays nothing for its reserves. In Virginia it pays no interest upon its reserves. It receives its reserves on the same basis. Its operating expenses are no larger in Minnesota than they are in Virginia. Why, then, should the regional reserve bank be permitted to charge its member banks higher rates of interest in one place than another?

MR. MORAWETZ. Because it has only a certain amount of reserve money, and it is bound to hold on to a very large amount of that in order to meet the situation of its constituents.

SENATOR HITCHCOCK. But this currency furnished by the Treasury Department is supposed to supply whatever lack there may be.

MR. MORAWETZ. That is a delusion, I think. I do not think it will. The currency furnished by the Government of the United States is not going to give credit power to the banks. All it possibly can do will be to save the banks from the necessity of paying out reserve money.

SENATOR HITCHCOCK. You are speaking now of the reserve banks?

MR. MORAWETZ. The reserve banks; yes. What can a reserve bank do with this currency? It can not loan on it. It can not rediscount on it, and the bank which wants to replenish its reserves—a local bank which wants to replenish its reserves—will not find any consolation if the reserve bank offers it some of these notes which are no good as reserves.

SENATOR HITCHCOCK. That is very true. But the reserve bank is constantly receiving funds for deposits, every day?

MR. MORAWETZ. Yes.

SENATOR HITCHCOCK. If it can hold the gold which comes in and the legal tender which comes in, and loan out instead, on application, the currency it receives from the Government, it seems to me it is expanding its means and serving its customers.

Mr. MORAWETZ. All that these note issues will amount to and all that they are good for is to take care of the fluctuations in the amount of currency used in circulation by the country, the hand-to-hand circulation. It will not give credit to the banks, and what the people want is credit.

Senator HITCHCOCK. At certain seasons of the year heavy withdrawals are made from the banks by depositors that these notes will take care of.

Mr. MORAWETZ. During the crop-moving season more money is used, more hand-to-hand circulation, and these notes will supply that. But the high interest rate is due to a demand for bank credit, because the banks are loaned up to the limit, and then they charge a very high rate. The issue of notes will not help that.

Senator HITCHCOCK. It seems to me that as long as the reserve banks can keep a $33\frac{1}{3}$ per cent reserve it can continue to procure currency from the Government and advance it to its member banks, and that the member banks can use that currency to meet the demands of the depositors.

Mr. MORAWETZ. To the extent that they want circulating currency, and there is a fluctuation of, perhaps, \$200,000,000 a year. You can not make people take more than that.

Senator HITCHCOCK. You think the elastic character of currency should be only to the extent of \$200,000,000 a year?

Mr. MORAWETZ. That would be about enough.

Senator HITCHCOCK. Do you not think, in view of that fact, that it is foolish to tear up this \$700,000,000 of national-bank notes when this system is thoroughly established and satisfactory?

Mr. MORAWETZ. I think there is no hurry about it. I should like to see this matter postponed until the next session of Congress. I do not think it is necessary to settle this matter at present.

Senator HITCHCOCK. We have interrupted you a great deal and would be glad to have you continue now.

Mr. MORAWETZ. I will enumerate a few more points that I would like to call to your attention. Under this bill the reserve banks are given power to invest in Government, State, and municipal bonds. I think that is all wrong. They should no more have power to invest their reserves in Government, State, or municipal bonds than in railroad bonds. No part of the reserves of these banks should be tied up in anything except business paper. They should, however, be authorized to buy short Treasury warrants or obligations of the Government, obligations having no more than six months to run.

Senator HITCHCOCK. What would you think of having the 2 per cent bonds converted into bonds which should be at pleasure convertible into currency and having the reserve banks buy those bonds?

Mr. MORAWETZ. If I understand you, the reserve banks are to buy the 2 per cents and the Government is to convert them into noninterest-bearing notes?

Senator HITCHCOCK. On demand, and convert them back into bonds on presentation. Have the Treasury stand ready at any time when 2 per cent bonds are presented to issue currency to the same amount, and when the currency is presented issue bonds, so that when the demand for currency ceased it would stop interest on the bonds, and when the demand for currency subsided it would be returned to the Treasury and the investor would get his 2 per cent investment.

Mr. MORAWETZ. The Government notes are promises to pay gold on demand. Suppose they are presented and payment is asked for in gold, how is the Government going to pay them?

Senator HITCHCOCK. They would be made only payable in 10 years, so that they would be 10-year bonds and meanwhile at any time payable in currency certificates or bond certificates which would pass as currency.

Mr. MORAWETZ. Yes; but who is going to redeem those certificates if they are presented? They are payable on demand.

Senator HITCHCOCK. The certificates are payable in bonds.

Mr. MORAWETZ. You mean it is a kind of fiat money?

Senator HITCHCOCK. No; it is a currency payable in bonds, and the bonds payable in currency, interchangeably, and good for reserves in reserve banks.

Mr. MORAWETZ. Then it is an irredeemable Government note.

Senator HITCHCOCK. No; at the end of 10 years it is payable in gold.

Mr. MORAWETZ. It is a Government note redeemable at the end of 10 years.

Senator HITCHCOCK. The bond would be a Government note payable in 10 years in gold; the currency would be payable in the bond.

Mr. MORAWETZ. But it is, as I say, simply a note of the Government in 10 years.

Senator HITCHCOCK. Yes; that is what it is now, but it is payable in 30 years.

Mr. MORAWETZ. No; it is not currency at all now. It is supposed to be an investment. You want to have this pass from hand to hand and make it a legal tender?

Senator HITCHCOCK. No; it has been proposed that these are to be used by the banks for reserves.

Mr. MORAWETZ. But, sir, a reserve—

Senator HITCHCOCK (interposing). Either in the form of a bond—

Mr. MORAWETZ (interposing). A reserve is not a reserve unless it is gold. It would be a sham reserve. It would not be real money. Supposing a man wanted to cash in his bank notes. Suppose he wanted to send gold abroad or pay a debt in gold—for many debts are payable in gold. They would be of no earthly use to him, would they?

Senator HITCHCOCK. Yes; they could be made redeemable in gold at the banks, just as the other currency is made redeemable in gold. They would be just as available to the banks as gold.

Mr. MORAWETZ. If I understand you, then, the banks would be come obligated to pay in gold the \$700,000,000 of 10-year notes?

Senator HITCHCOCK. The plan suggested to the committee through Senator Thomas was that \$75,000,000 of the 2 per cent bonds should be retired every six months, and in lieu of them should be issued 10-year Government bonds, payable in gold, bearing 2 per cent interest. Those bonds should be available by the banks—by the reserve banks—for reserve purposes, and in case they needed currency to meet obligations they could turn the bonds into the Treasury instantly and get currency, and when the bonds were in the Treasury they would cease to bear interest. When the demand for currency sub-

sided the currency would be returned to the Treasury and the bonds would be returned to the banks and resume bearing interest.

Mr. MORAWETZ. If I understand that, sir, it seems to be utterly unsound.

Senator HITCHCOCK. We thought it was rather peculiar. We would like to have you point out the defects in it.

Mr. MORAWETZ. In the first place, the 10-year bonds are no more reserves than are 1,000-year bonds. Reserve money must be gold or legal tender; it must be real money. Now, these bonds, when converted into Government notes, would not be money, if I understand the matter. If I understand you correctly, they would be the promissory notes of the Government to pay money in 10 years.

Senator HITCHCOCK. As I recall the proposition, the reserve banks would be under obligations to redeem them in gold on presentation.

Mr. MORAWETZ. Redeem the Government notes?

Senator HITCHCOCK. Yes; just as they are required to do under this bill.

Mr. MORAWETZ. Oh, well, then, the scheme, if I understand it, amounts to this, that the banks are to buy these Government bonds and are to have the option, instead of holding the 2 per cent bonds as an investment, they are to have the option to issue in exchange therefor their own notes payable in gold. Is that right?

Senator BRISTOW. Yes; whenever it was more profitable to take out currency and currency was needed, they could take it out and retire the bonds; and then when the currency was not more profitable and the bonds were more profitable they would take out the bonds and retire the currency.

Mr. MORAWETZ. I presume that the United States ultimately would expect to pay those 2 per cents; that is, if a bank should take back its currency, it could go to the Treasury and get back its bonds?

Senator HITCHCOCK. Yes.

Mr. MORAWETZ. The scheme would be unsound, for the reason that the banks would be issuing their promises to pay in gold without having any reserve for the payment of those notes in gold.

Senator HITCHCOCK. They could afford to keep a reserve against those notes just as well as the notes provided for in this bill. They would have currency when there was a strong demand for currency, and they would have a 2 per cent investment when the demand was slack.

Mr. MORAWETZ. Well, if the banks are strong enough; that is, if they have the gold reserve, I do not see any objection to it, if I understand it correctly.

Senator WEEKS. How are the banks to be reimbursed for retiring Government indebtedness?

Mr. MORAWETZ. If I understand the statement of Senator Hitchcock, at the end of 10 years the Government is going to pay them in gold.

Senator WEEKS. That is the proposition, yes. But suppose, at the end of one year the notes are presented at the bank and the bank retired them?

Senator HITCHCOCK. These notes then are in the vaults of the bank, and as soon as it has a sufficient number of notes it presents them to the Government and gets back its bonds and the bonds bear 2 per cent interest.

Mr. MORAWETZ. It really, sir, appears to be a substitution of new bond-secured notes for the present national-bank notes.

Senator BRISTOW. And gives it flexibility?

Mr. MORAWETZ. Only there is a flexibility about it, and there will be an adequate reserve for these notes. It seems to me that limited to the present issue of national-bank notes, it is all right.

Senator HITCHCOCK. Do you suppose these 10-year bonds would be salable abroad?

Mr. MORAWETZ. No; I do not think they would be salable now at an acceptable price.

Senator HITCHCOCK. It has been suggested, Mr. Morawetz, that in order to allow you to keep your engagement to-morrow morning, you might return to-morrow afternoon and Mr. Gilbert might go on in the morning.

Mr. MORAWETZ. I would rather come at half past 10 o'clock, morning, if it suits the committee.

Senator HITCHCOCK. Very well. If there are no further questions at this time—

Senator REED (interposing). I wanted to ask Mr. Morawetz one question on the theme that we were talking about a while ago, and which I have not quite finished.

I want to return to the proposition in regard to the control of a regional bank in New York City. I suggested to you, Mr. Morawetz, that if, for instance, Mr. Vanderlip should be a director—I do not know which of the banks in New York City are next largest to the bank of which he is president.

Mr. MORAWETZ. The Bank of Commerce is the largest, and the First National Bank is next after that.

Senator REED. Now, if the presidents of those banks, or men selected by them, were selected, you agreed with me that they might have a substantial interest in the question of the rate of discount, because it would affect their bank. I want to proceed one step farther than that and ask you if it is not a pretty well known fact that a considerable number of banks in New York, generally known by the name of Morgan group, while they have independent directors, at the present time, nevertheless, they have a trustee arrangement by which the directors of those banks are controlled through this voting trust.

Mr. MORAWETZ. A voting trust?

Senator REED. I will put in plain, blunt, speech.

Mr. MORAWETZ. Yes; so I will understand it.

Senator REED. I am not vouching for the accuracy of this, but I am asking you thinking you may know: It has been stated to me that there are a considerable number of banks in New York City, all of them having their separate directors, and yet having an agreement by which three men name the board of directors of all of these banks, and that one of these men is Mr. Daniel Reed. Do you know anything about that?

Mr. MORAWETZ. I never heard anything of that kind before; no, sir. But if you ask me whether I believe it to be a fact, I should say no, I do not. It is something entirely new to me.

Senator REED. You do know, do you not, there is a system of interlocking directorates there, of course? There are a good many banks who have upon their boards of directors a number of men who are

on the boards of other banks, so that there is an interlocking in that way. I do not think, of course, that is the result of accident, do you? That means that there is some plan back of that condition—some reason for it.

Mr. MORAWETZ. Yes; of course there is some reason. But may I explain?

Senator REED. Certainly. I am not insinuating that it may be a malicious and bad reason, but there is some reason. Now, do you know what that reason is? And you can make any explanation, of course, Mr. Morawetz, you desire to. We are asking your advice here.

Mr. MORAWETZ. Let me explain. In the management of a big bank you have a board of directors, generally a large board, of men prominent in affairs who might once a month, rarely oftener, have read to them a report in general terms of how many millions were loaned each week on call and how many on time, etc., and a statement of the condition of the bank. Then they ratify the action of the executive committee of the bank, the executive committee of the bank having met sufficiently often to pass on the discounts. The board of directors at their meetings, no matter how able, how wise, how acute they might be, could not possibly pass on the active business of the bank. That is managed by the executive committee and the president.

Senator REED. Yes.

Mr. MORAWETZ. Now, these large banks like to have prominent names on their boards of directors, and occasionally—very rarely, however—some great question may come up upon which the opinion of the full board is desired.

Senator REED. But this board of directors does something else than that, does it not?

Mr. MORAWETZ. The board of directors choose the president and it chooses the executive committee.

Senator REED. Exactly. The man, then, that controls the board of directors controls that bank, does he not?

Mr. MORAWETZ. Yes; ultimately.

Senator REED. And the man who influences potentially the board of directors potentially influences the bank?

Mr. MORAWETZ. The management of the bank.

Senator REED. Now, don't you think, Mr. Morawetz, that there is a reason for this interlocking directorate system that has been so extensively followed, outside of any mere desire of the bank to have prominent names?

Mr. MORAWETZ. Unquestionably if a man owns a large amount of the stock of a bank he chooses the people whom he trusts, whom he believes in, to act as directors.

Senator REED. Yes.

Mr. MORAWETZ. And the people who are chosen by him would realize or recognize that fact. But in the vast majority of cases I am sure that the directors of these large banks, even when they hold a small amount of stock, would act according to their best judgment without any regard to the control of the stock of the bank.

Senator REED. I am not challenging motives; that is, I am not attributing unnecessarily any sinister or bad motives.

Mr. MORAWETZ. Yes.

Senator REED. But I am trying to get at this thought, whether there is not a reason for that system, and whether, if I may suggest, the banks have not practiced this for the purpose of a unification of interest.

Mr. MORAWETZ. I do not think so; no.

Senator REED. Let me see if I can not cite you something that may have a bearing on it. You know, do you not, that Mr. Vanderlip's bank created a trust company with \$10,000,000 of capital, and that it created every dollar of that capital by declaring a dividend to its stockholders out of the city bank?

Mr. MORAWETZ. Surplus.

Senator REED. And transferred that over to the coffers of the trust company. You also know, do you not, that provision was made and written upon every share of stock of that trust company that it should be voted for a long period of years by three trustees, and that those three trustees were officers of the city bank?

Mr. MORAWETZ. It was really a part of the city bank. It was intended to continue part of the city bank.

Senator REED. Now, you know, do you not, that that trust company immediately embarked in the enterprise of acquiring the stock of other banks, and that the larger portion of its assets were speedily invested in the stock of other banks, so that, among other things, it absolutely owned all of the stock of the Butchers' Bank—the Butchers' and something else. Now, does not that look a little as though there was an attempt at unification of interest and control of the banks as a whole, as a system?

Mr. MORAWETZ. Obviously, to that extent.

Senator REED. Now, adding to that fact, you find the same system of banks that have been largely supposed to be dominated by one great controlling interest, and you find the directors of each of these banks interlocking with the directors of other banks or being a part of the directors of other banks. Taking into consideration the fact that the whole trend of modern business is toward consolidation and against active and keen competition, and adding to all that that they got up a clearing-house association in the city of New York which transacts some very important business and has very large deposits on hand—I am just asking you to take all that into consideration as a sort of a hypothetical statement—and then I want to ask you this question: If you do not think that these same great interests, through a joint-stock ownership in a reserve bank established in New York City, with full power of control in the board of directors, elected by these banks, would be able to pretty thoroughly dominate the New York financial market, and if they will not make that the very medium of control—if there is not a danger there, now. I am asking you as a patriotic citizen if there is not a danger there. I am not using this as an attack on New York; I am just talking about the condition.

Mr. MORAWETZ. Well, I will answer you frankly. If I thought that the results would be as you say, I should think there was a danger. But I am perfectly convinced that there is not any danger whatsoever. In the first place, I do not think that this unification of interest is carried nearly as far as you have, apparently, in mind. In the second place, I do not think that these large institutions in New York,

under this arrangement here, would get the control of the reserve bank.

Senator REED. Of the regional bank in New York.

Mr. MORAWETZ. The regional bank in New York.

Senator REED. Now, why would they not inevitably control it?

Mr. MORAWETZ. I do not think they would have the voting power in the selection of the directors here. Every country bank—this regional bank in New York would include Pennsylvania, and, I suppose, all of the States north of the Pennsylvania line.

Senator REED. What division of it would have to be made? If you go according to capital, I think there would be a regional bank in New York City alone.

Mr. MORAWETZ. I do not think that there ought to be. I should have one for all the Northeastern States, including New York—well, all the States north of Maryland and east of Ohio.

Senator REED. That would, of course, make the bank very large—the largest bank in the country.

Mr. MORAWETZ. It would; yes.

Senator REED. And very much the more powerful.

Mr. MORAWETZ. It would be; yes.

Senator REED. And the talk that has been had here of deconcentrating—if I may use that term—the congestion of money in New York and sending it elsewhere would at once be defeated, because you would create a regional bank there that would have a tendency to secure further increases.

Mr. MORAWETZ. I do not see how it would draw from the other parts of the country.

Senator REED. It will draw from all this territory you propose to add to New York.

Mr. MORAWETZ. It would strengthen the banks there. I do not see how it would diminish their credit power in the slightest.

Senator REED. You then do not think it would be wise to establish a regional bank in New York City? You would want to take in some country territory as a kind of a safeguard?

Mr. MORAWETZ. No, sir; not on that ground. I would take it in because I think the number of these regional reserve banks should be limited to five. I see absolutely nothing to gain by multiplying the number of these banks, and I see a great deal to lose.

Senator REED. Is there anything to be gained in having more than one?

Mr. MORAWETZ. Yes.

Senator REED. What is the gain? If 12 is too many and 1 is too little, you must have in mind, of course, some reason why there should be a definite number. Perhaps you have gone into that, and if you have I will not detain you, because I will read your evidence.

Mr. MORAWETZ. I have gone into it quite fully. But to tell, in a few words, my reason, it is this: One of the important things to avoid is the injecting into the management of the banks sectional controversies and party politics, because if you do that you will not only ruin the business interests of the country but you will bring ruin, frequently, on a political party which does not deserve ruin. If you have the management of these banks an issue of party politics, the party to which the administration for the time being belongs will inevitably

be held responsible by a large number of the voters of this country for the management of the banks, and when times of business depression, of unemployment and distress, come, such as I believe there will be before long, the party which established these banks or has control of them will be held responsible—unjustly so, but it will be held responsible. Therefore I think it is in the interest of sound business, and it is in the interest of good government, at any rate in this country, that sectional controversies and party politics be kept out of the management of the banks. If you have one bank representing the whole country, you are bound to have sectional controversies and party politics. Therefore the only safe course, in my judgment, is to have a separate reserve bank for each of the great sections of the country—one for the East, one for the South, one for the Central West, one for the Pacific coast, and perhaps one also for the Southwest.

Senator REED. Then, that would argue you perhaps ought to have more than 12, because then you could so distribute them that the whole question of sectionalism would be avoided.

Mr. MORAWETZ. Then you won't have any reserve banks, you know. That would defeat the plan. There would not be the concentration of money which was necessary to any safe plan.

Senator REED. If you had \$100,000,000—it is a very pleasant suggestion I am making now—

Mr. MORAWETZ. I am smiling.

Senator REED (continuing). Which I hope will produce a favorable reply—and you had it all in one place, do you think it would be much more powerful than if you had it in 12 places and you could instantly reach the 12 places?

Mr. MORAWETZ. Well, I could only answer that by quoting Lord Bacon. One of his aphorisms was, "Generalities are barren." I think that is one of those general statements.

Senator REED. I am going to apply my general statement. Suppose there was, in the 12 regional banks, a given amount of money?

Mr. MORAWETZ. Yes.

Senator REED. It is one-twelfth of the whole amount in the banks. But there is a central power that can use each of the 12 parts instantly. Do you think that system is much weaker than if you had it all piled up in one treasury dominated by the same controlling power?

Mr. MORAWETZ. It is practically the same thing.

Senator REED. Exactly. That is the way I understand this system.

Mr. MORAWETZ. And if you are going to have the Federal reserve board have this power you will have the principal vice of the Aldrich plan back again.

Senator REED. Only this, that this is controlled by the people of the United States, while he proposed to have it controlled by the banks of the United States.

Mr. MORAWETZ. Well, by the representatives of the people—that is, by the political party in control of the Government for the time being.

Senator REED. I hardly think so under this system, because this board is, in effect, a permanent board.

Mr. MORAWETZ. Well, they would be held responsible, sir.

Senator REED. Oh, yes.

Mr. MORAWETZ. It would have the evil effect of—

Senator REED (interposing). Well, we must choose between bank control and Government control, in the last analysis, must we not, Mr. Morawetz? We can not get away from one or the other; and each of them will have their defects.

Mr. MORAWETZ. I think there is a middle course, and that is bank control, subject to supervision by the Government, and subject to limitations in special matters.

Senator HITCHCOCK. It is now half-past 5 o'clock, and the committee will adjourn until to-morrow morning at half-past 10, to meet in the regular committee room of the Committee on Banking and Currency.

(Thereupon, at 5.30 o'clock p. m., the committee adjourned until to-morrow (Tuesday) October 21, 1913, at 10.30 o'clock a. m.)

TUESDAY, OCTOBER 21, 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, Nelson, Bristow, and Weeks.

Senator HITCHCOCK. Mr. Morawetz, will you resume where you left off yesterday, as nearly as you can? I will say that we have a session of the Senate at 12 o'clock.

STATEMENT OF VICTOR MORAWETZ, ESQ., OF NEW YORK, N. Y.—
Resumed.

Mr. MORAWETZ. The bill before the committee provides that each reserve bank may establish a limited number of branches within its district, and it may be held that it does not permit a reserve bank to establish any other branch offices or agencies.

I think this power should be broadened and each regional reserve bank should have power to establish branches, offices, or agencies for the transaction of any of its authorized business anywhere within its district or outside of its district, in its discretion. I think the broadest power should be given to these banks to carry on their legitimate business wherever it is found advisable; and in particular I think the broadest power should be given to each of these banks to deal with other reserve banks throughout the country.

Senator HITCHCOCK. What phraseology would you suggest as to the establishment of branch banks by reserve banks?

Mr. MORAWETZ. I should provide that each reserve bank may establish branches or agencies wherever its board of directors may deem advisable, within or without its district.

Senator HITCHCOCK. Would there be any occasion to establish them outside of the United States?

Mr. MORAWETZ. No; probably not. It might be limited to the United States.

Senator NELSON. Would you have those branches outside of the district of the bank?

Mr. MORAWETZ. Yes, sir.

Senator NELSON. Would there not be a conflict, then, between those regional banks and other regional banks? Would there not be competition, then, between the different regional banks in their respective territories?

Mr. MORAWETZ. I do not mean to give to the reserve banks power to carry on their operations at will outside of their districts. But whatever proper and legitimate business a bank may have occasion to carry on outside of its district it should be enabled to carry on through an agency established for that purpose.

Senator NELSON. Well, would you allow it to do a deposit and discount business outside of its district?

Mr. MORAWETZ. I should not. But each reserve bank should have authority to employ another reserve bank or any agency to take care of the redemption and collection of its notes and to do whatever the statute permits the reserve bank to do outside of its district.

Senator HITCHCOCK. Well, the power might be, then, to establish branches within its district or to locate agencies outside of its district for the transaction of legitimate business.

Mr. MORAWETZ. I think that should be the provision, exactly.

Senator HITCHCOCK. There is a difference between a branch and an agency of a bank?

Mr. MORAWETZ. Yes, sir. I do not mean to broaden the authorized operations of the reserve banks by this provision which I am suggesting.

Senator HITCHCOCK. Yes; I see. Will you proceed?

Mr. MORAWETZ. As I stated yesterday, I think that the reserve banks should be empowered—I think they might be required to establish a central clearing house to clear the debts, including notes, among the various reserve banks.

Senator NELSON. By the term "notes," do you refer to the ordinary promissory notes?

Mr. MORAWETZ. I refer to the proposed currency notes.

Senator NELSON. The currency notes; yes.

Mr. MORAWETZ. The success of this plan depends upon securing an adequate concentration of reserve money in the regional reserve banks. I think that under this bill the desired result would not be attained, and that for two reasons.

One reason is that the number of reserve banks is too large. It should be limited to five or six at the most.

The other reason arises from the provisions of section 20 of the bill, relating to the disposition of the reserves of the member banks.

Senator WEEKS. Do you think that your testimony given here before the committee yesterday will clearly set forth your reasons why you think a number of reserve banks are preferable to one? I did not hear all of it, so that I am not sure whether it did.

Mr. MORAWETZ. I have endeavored to cover that point. My principal reasons for preferring the regional reserve-bank plan to the central-bank plan are that any plan providing for a centralization of all the reserves of the country in one bank, or any plan subjecting control of the reserves of all the banks to one central body, would inevitably result in sectional controversies, and would inevitably inject party politics into the control of the banking situation of this country. That, to my mind, would be absolutely fatal.

Senator NELSON. But do you not think that this system of regional banks would be entirely ineffective if you did not compel one regional bank, willingly or unwillingly, to discount the paper of another regional bank?

Mr. MORAWETZ. I do not, sir. I dealt with that point yesterday.

Senator NELSON. You think they could do business without that provision in the bill?

Mr. MORAWETZ. I do. I think that provision in the bill would be a source of weakness rather than a source of strength. If this plan is worth anything, each regional reserve bank would be strong enough to stand independently. If this plan is worth anything, each regional reserve bank would be ample to enable the banks within its district to serve the public adequately.

Senator NELSON. Your theory, then, is that these regional banks should be conducted as though they were the only bank for that particular region?

Mr. MORAWETZ. Yes.

Senator NELSON. And as though that region, in respect to the bank, was a country by itself?

Mr. MORAWETZ. I think that each of these regional banks should be conducted as a reserve bank for the banks located within its district. If the number of these banks were limited to five or six, each having a territory larger than Germany or France, and nearly all of them being very powerful institutions, I think that the centralization of reserve money would be adequate.

Senator NELSON. Suppose a regional bank, during the seasonal demand at New Orleans, should be short of funds, and suppose at that same time a regional bank at Chicago should have an abundance of loanable funds, you would not have anything in the law, then, compelling the regional bank at Chicago to help out the regional bank at New Orleans?

Mr. MORAWETZ. I should not. I should trust the business sense of the banks; and I should leave to the Government, through the Secretary of the Treasury, the power to dispose of the Government deposits.

Senator NELSON. Yes.

Mr. MORAWETZ. At his discretion; and, also, I should leave to the central board the power to permit particular banks to issue notes—to permit notes to be issued by anyone of the regional reserve banks which it thinks is in need of currency.

Senator NELSON. Yes; but it could not do that without an application from the regional bank and the tender of securities by it.

Mr. MORAWETZ. Exactly.

Senator NELSON. The tender of commercial paper.

Mr. MORAWETZ. Exactly.

Senator NELSON. The move would have to come from below, not from above.

Mr. MORAWETZ. In the case you mentioned, the regional bank at New Orleans would apply for notes, and probably it would apply also for the deposit of more Government funds, and the Secretary or the central board would then pass upon the propriety of the application.

Senator NELSON. Well, would not that embarrass the administration, if they should use the Government funds in favor of one par-

ticular reserve bank as against another; dump them all into New Orleans, instead of putting them into other places; would not that lead to friction and embarrassment?

Mr. MORAWETZ. I think not. That is being done now; and I think public opinion—

Senator NELSON (interposing). Well, is that not one of the criticisms of the system now in vogue?

Mr. MORAWETZ. It is the subject of some criticism; but I do not think it is a severe criticism. I think if you had the five regional banks established, and had also this power in the Secretary of the Treasury, each would operate as a check upon the other.

Senator NELSON. Yes.

Mr. MORAWETZ. And I think there will be less criticism than there is at the present day.

Senator NELSON. Then, the long and short of it is that you believe that this provision in the bill compelling one regional bank to discount and help out another regional bank, whether it was willing to do so or not, on the mandate of the Federal reserve board, is unnecessary and ought to be eliminated?

Mr. MORAWETZ. I think it is unnecessary, and I think it is bad in its results, for several reasons, one being that it will inevitably result in sectional demands and sectional controversies and in party politics entering into the question of controlling the action of the central board.

In the second place, it may lead to unsound banking, because in some instances it may cause the weaker regional banks to discount notes when they ought to hoard their resources.

And, thirdly, it will prevent any of the regional banks from being managed safely, because no bank can be managed with safety if the disposition of its reserves is in the hands of an outside body. The only way in which a bank can be kept sound is by the control of its reserves, and no board of directors can manage the bank properly unless it has that control.

Senator NELSON. But are you not doing violence in your theory to the fundamental principles? The fundamental principles, as I understand them, are, first, to provide an elastic currency based upon commercial paper. The other is to mobilize the reserves and make them available in case of an emergency.

Now, in the case I put to you of the New Orleans bank, you said relief would come from two sources. One was from the Government deposits and the other was from the issue of these new bank notes upon application of the bank.

So, in that matter, instead of relying upon two of the main features of the bill, you took one principle of the bill and then that collateral matter; the one principle of the bill you took was the right to issue asset currency, and the other—a sort of collateral issue—was the right to handle Government deposits. And you overlooked the other fundamental principle of the bill and would not apply that, or did not apply it, in respect to the mobilization of the reserves. In other words, when it came to that feature of the bill, you would confine that to the operation of the bank at New Orleans. Do you not see that that is where your doctrine leads you to?

Mr. MORAWETZ. I stated that if this plan is worth anything, if these regional banks are strong enough to serve their purpose, it will

not be necessary to take away the reserve from other sections and transfer them in the way proposed. This bill, if it gives this power to the central board, practically is the central-bank plan shorn of a good many of its advantages. Instead of having—

Senator NELSON (interposing). No doubt it is the central-bank plan, as it is in the bill.

Mr. MORAWETZ. It has the vice of the central-bank plan without its advantages. It practically—instead of having a properly organized banking institution having control of all of the reserves of the country—splits them up under the management of separate boards of directors and then puts the control in the hands of an outside board sitting in Washington. It is the Aldrich plan, or the central-bank plan, in a disguised form, shorn of many of its business advantages.

Senator NELSON. Well, is not the radical difference between that and what you call the Aldrich plan the fact that, under his plan, the banks were to control, while under this plan the control is absolutely in the hands of the Government, through a board appointed by the President?

Mr. MORAWETZ. Yes, sir; it is an artificial, badly constructed central bank, with a board of directors appointed by the Government and sitting in Washington.

Senator NELSON. Yes. It is, then, in essence a central bank as the bill is framed.

Mr. MORAWETZ. I think so.

Senator NELSON. Yes.

Senator WEEKS. Well, does it not provide for as great concentration of power in its final analysis as most central banks?

Mr. MORAWETZ. Very nearly it does. It introduces the principal vice of the central-bank system, namely, that it will inject sectional controversies and party politics into the management of the banks throughout the country.

Senator WEEKS. It does not seem to me that I am able to follow you, Mr. Morawetz, as to the question of sectional influence or sectional policies, if we have more than one bank. It seems to me that if, as you suggest, we have five banks representing five different sections of the country, that in itself is going to create a sectional policy.

Mr. MORAWETZ. The reason it seemed to be advisable to have in this country what practically amounts to five central banks or reserve banks, which is the same thing, is that in this way you are able to avoid the conflict which arises from the great difference in the requirements of the different sections of the country for credits and for currency. It enables you to establish a bank for each of the principal sections of the country; and if you keep down the number sufficiently, these banks will work in harmony with each other voluntarily, not under compulsion.

You have in Europe, and Europe is not larger than the United States, territorially, you have 15, I think, central banks. They do not fight each other, but they work harmoniously with each other, each country having its own bank and looking out specially for its own interests; but in large matters the banks act in harmony.

Senator HITCHCOCK. Mr. Morawetz, that is a question that I am greatly interested in. Can you detail briefly how these central banks of Europe operate together? Do they buy and sell paper of each other?

Mr. MORAWETZ. Not under ordinary circumstances.

Senator O'GORMAN. Do they under any circumstances buy and sell paper of one another?

Mr. MORAWETZ. Well, whether they buy paper or not, I do not know. They lend gold to each other.

Senator O'GORMAN. They lend paper to each other?

Mr. MORAWETZ. They lend gold to each other.

Senator O'GORMAN. They lend gold?

Mr. MORAWETZ. Yes; they lend gold to each other.

Senator HITCHCOCK. Now, in the case of a loan of gold, is that a loan or is that a transfer by the purchase of commercial paper or national obligations?

Mr. MORAWETZ. My understanding is that it is by way of loan.

Senator HITCHCOCK. A direct loan or a deposit at interest?

Mr. MORAWETZ. I regret that I can not give you definite and reliable information on that point.

Senator NELSON. Is it not a fact—

Mr. MORAWETZ (interposing). My understanding is that on occasions—for instance, the Bank of France has loaned large sums of gold to the Bank of England, which, after some months, was returned.

Senator HITCHCOCK. Well, is that not due to the fact that all of these central banks are interested in stable conditions in Europe?

Mr. MORAWETZ. Yes, sir; it is.

Senator HITCHCOCK. So that if conditions result in a stringency in one country it is to the interest of the other, if it has a surplus, to relieve it?

Mr. MORAWETZ. Yes. But I think the cooperation of the central banks in Europe is more in the form of adjustment of the bank rates than by the actual transfer of gold. Each one of these institutions keeps itself informed as to conditions in the other countries, and of the central banks of these other countries. And then there is a mutual adjustment of the bank rate, so as to allow the gold to flow where it is needed the most.

Senator HITCHCOCK. Well, in this country, for instance, if one of these reserve banks had a slack demand for advances, or for loans, and another bank had a strong demand in its district, the one having the surplus of cash could readily buy paper of the other one; that would relieve the necessity of having that other one apply for currency.

Mr. MORAWETZ. Exactly. And I will strongly urge, as I have said before, that power be given to these reserve banks to deal freely with each other. In the present bill it is only after obtaining permission from the central board that a reserve bank can rediscount paper or otherwise deal with another reserve bank.

Senator HITCHCOCK. Now, there is no reason why these reserve banks should not buy and sell exchange of each other, very much as a bank in New York buys and sells European exchange.

Mr. MORAWETZ. Most assuredly.

Senator HITCHCOCK. In fact, it is necessary for the equalizing of conditions in the country that they should do that very thing, is it not?

Mr. MORAWETZ. Assuredly. I think the correct policy in the drafting of this bill is to give the broadest power to these banks to deal with each other and see how they exercise those powers. Congress

will be sitting here every year, and if the practices developed by these banks should not be satisfactory, Congress can easily remedy the situation by additional legislation. It is true that a power for good may be abused and become a power for evil. But you can not have a good bank and make these institutions beneficial to the country unless you give broad, discretionary powers of management to their boards of directors.

Senator WEEKS. It does not seem to me, Mr. Morawetz, that your territorial theory has any bearing on this case at all; but it is simply a question of a political unit. If it had any bearing in Europe they would have half a dozen regional banks in Russia, for instance, because the territory of Russia is 20 times as large as the territory of the Netherlands—or perhaps 30 times; I do not know how many times. If territory has any bearing, I should think that that condition would prevail in Europe. But the central banks of Europe are established in each country, because it is a political unit, and the citizens of that country want to have their own bank, and not be obliged to go to the bank of some other country for their rediscounts and their accommodations.

Mr. MORAWETZ. I grant that it is not merely a matter of territorial expanse. It is a matter of sectional interest and of traditions of the country. In no country of Europe are banking and currency questions considered fit questions for party politics; and in no country of Europe do the people of the various sections of the country attempt to regulate the banking policy of the country.

In the United States, on the other hand, banking and currency have, from the very beginning of the Government to the present day, been considered particularly attractive subjects for party politics.

Senator WEEKS. You know that is all over now, do you not? [Laughter.]

Mr. MORAWETZ. I do not, sir. I see it going on at the present day, in connection with this very bill which you have before this committee.

Senator O'GORMAN. Where do you observe evidences of that?

Mr. MORAWETZ. In the newspapers—not among members of the committee. [Laughter.]

Senator O'GORMAN. Well, I think it is fair to say that in my own opinion—and I would almost venture to speak for all my colleagues on this committee here—there is less reason to suspect that partisan considerations have anything to do with the national banking and currency system at this time than at any previous time of the history of the Government.

Mr. MORAWETZ. I hope that that is true, sir.

Senator NELSON. You need not hope about it; it is really true. [Laughter.]

Mr. MORAWETZ. I am sure it is true in this committee. But whether it is true throughout the country is another matter.

Senator NELSON. Oh, well, the country has a great faith in this committee. [Laughter.]

Senator O'GORMAN. And I think that opinion very generally prevails among public men in Washington that the time has passed, not to return, when political or partisan considerations will have anything to do with banking and currency legislation in this country.

Mr. MORAWETZ. I sincerely hope so.

Senator POMERENE. There is not any doubt about it.

Mr. MORAWETZ. I was going on to say—

Senator HITCHCOCK (interposing). Well, I would like to ask the Senator from New York a question: Whether he thinks it would be possible to incorporate in this bill a system of note issue not in accord with the Democratic platform?

Senator O'GORMAN. The Democratic platform of 1912, which is the only party declaration now recognized by members of the Democratic Party, has nothing to say on the subject alluded to by the chairman. It makes no reference whatever to note issues.

Senator HITCHCOCK. Well, I had in mind the Democratic platform of 1908, which did cover that point.

Senator O'GORMAN. Well, I think it would be assumed that the party creed now influential with followers of the Democratic Party is to be found in the national platform of 1912, and in no other platform.

Senator WEEKS. I suppose, Senator O'Gorman, that your conclusion would be that the Democratic Party had been progressive in that respect?

Senator O'GORMAN. Yes; it has been progressive. This is a progressive age. The Republican Party has progressed so far that it has lost a very respectable part of its former following. [Laughter.] Now, I think we may return to the bill. [Laughter.]

Mr. MORAWETZ. I was going on to say that the provisions of this bill would prevent adequate concentration of the reserve money in these reserve banks for two reasons: One being the large number of banks required to be formed; and the other, the provisions of section 20 of the bill, relating to the reserves of the individual member banks.

These provisions, in my judgment, should be altered; instead of compelling each individual bank to keep locked up in its own vaults a certain specified percentage of its required reserve, it should merely permit them to keep a specified percentage locked up and compel them to deposit all the rest in the reserve banks.

It may be that it is expedient to have 6 per cent of the reserves—6 per cent of the 15 per cent of the reserves of the country banks locked up in their vaults, because some of the country banks may be at some distance from a reserve center where they can obtain currency when needed.

But there is certainly no reason why city banks should be required to retain, locked up in their vaults, more than the country banks, because they will have within reach at any time the reserves of the Federal reserve bank of their district or some branch of this reserve bank.

Senator O'GORMAN. In other words, the city banks will have greater facilities for procuring aid when needed?

Mr. MORAWETZ. Yes; when needed.

Senator REED. Greater than the country banks?

Mr. MORAWETZ. Yes, sir; they need less cash in their vaults than the country banks.

Senator REED. Do you think there ought to be any system established that would discriminate in favor of city banks as against the country banks?

Mr. MORAWETZ. No, sir.

Senator O'GORMAN. That is the discrimination that he wants to avoid. If the country bank may contend that 6 per cent of its reserves locked up in its vaults is enough, there is no reason why the city bank should be required to keep a larger amount.

Mr. MORAWETZ. The city banks will be in a better position to obtain currency from the reserve banks.

Senator REED. That is just what I asked: Do you think there ought to be a system established that would give the city banks a facility that was not extended to the country banks?

Mr. MORAWETZ. No, sir.

Senator NELSON. Now, can you see any occasion, Mr. Morawetz, in view of the tenor of this bill and of the plan proposed—can you see any occasion for keeping up the distinction between country banks, banks of reserve cities, and banks of central reserve cities; could we not now, under this system, adopt one uniform plan as to reserves for all three classes of banks?

Mr. MORAWETZ. I think so. I think you are probably right in that regard.

The only reason why the reserve city bank, or central reserve city bank, should be required to hold larger cash reserves than the country banks, is that those reserve city banks and central reserve city banks hold the reserves of other banks. But if the—

Senator NELSON (interposing). But they will cease to do it now under this bill.

Mr. MORAWETZ. They will cease to do it under this bill.

Senator HITCHCOCK. Well, now, will they?

Mr. MORAWETZ. They ought to.

Senator HITCHCOCK. Well, as a matter of fact, will they, under this bill? Suppose half the banks of the country do not come in under this system; they must still have their city reserve agents.

And suppose also the banks that come into the system desire to keep a part of their balances with city banks—as they undoubtedly will, according to all the testimony here—those balances will be subject to seasonal withdrawal, often quite sudden.

Should the city bank be permitted to run so low on the reserves that whenever the country banks begin to draw out their balances the city bank must rush to the reserve banks for assistance? Would not that be apt to put a sudden strain upon the reserve banks?

Mr. MORAWETZ. I think you are right. But I hope that ultimately it will be provided that no bank shall keep any part of its reserve as a deposit in any bank except a reserve bank.

Senator HITCHCOCK. Well, of course, we can not legislate for State banks, which constitute two-thirds of the banks of the United States; and if, after this bill is passed, a large number of country national banks denationalize themselves, they are not permitted to keep their reserves in the reserve banks; and they must necessarily keep them in the city banks.

Mr. MORAWETZ. Then the subject might be covered by providing that any bank which holds reserves of other banks shall itself keep up a larger reserve, and that the banks which do not hold reserves of other banks shall be required only to keep up the smaller reserve required for the country banks.

Senator HITCHCOCK. I think some distinction of that sort is imperative, because the situation will not be the same in this country

as it is in Europe. The European private bank or the incorporated bank is able to do with a very small reserve for the very reason that it has no country-bank balances.

Mr. MORAWETZ. I fully agree with that policy.

Senator NELSON. Have you looked into this question: Does this section 20, providing for this new system of reserves of national banks, operate to repeal the existing system of reserves, or is that wiped out by this—

Mr. MORAWETZ (interposing). It is, as I understand it, wiped out by this as to member banks.

Senator NELSON. Repealed by implication? There is no express repeal of that part of the law; there is not in this section at all events.

Mr. MORAWETZ. This section relates only to member banks.

Senator NELSON. Yes; but I mean while this provides the reserves of member banks shall be kept in their own vaults and in the regional banks, does it do away with the other system?

Mr. MORAWETZ. Of those banks which are not member banks?

Senator NELSON. No. Does it do away with the system as it now exists—depositing in reserve cities and central reserve cities? Does this become a complete substitute for the present system?

Mr. MORAWETZ. As I understand it; yes, sir.

Senator NELSON. Well, it is only by implication; it does not directly repeal the other system.

Mr. MORAWETZ. It begins by stating:

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 within said district which shall have subscribed for stock in such Federal reserve bank shall be required to establish and maintain reserves as follows:

I think that, in connection with the remaining language of this section—

Senator NELSON (interposing). It repeals it because it is inconsistent with the other provisions.

Mr. MORAWETZ. Yes, sir.

Senator NELSON. It is repealed by implication.

Mr. MORAWETZ. By implication—

Senator NELSON (interposing). Arising from inconsistency.

Mr. MORAWETZ. Yes, sir; if you like.

Senator WEEKS. As a practical proposition is there any reason why a bank in a city where a reserve bank is located, or a branch of a reserve bank, should keep any of its reserve in its own vaults? Why should it not keep all its reserves with the reserve bank?

Mr. MORAWETZ. I think it should keep all of its reserve with the reserve bank, except a small amount convenient for the use of the day.

Senator WEEKS. That is exactly what it would do unless the law prevents it.

Mr. MORAWETZ. Exactly; but the proposed bill prevents it, and it ought to be changed in that regard. I suggest that this provision be amended by requiring each bank to deposit in a reserve bank or banks the whole of its lawful money reserves except such portion, not exceeding in any event 5 per cent, as it may carry in its own

vaults. I should be willing to give all the banks coming in under this plan, city banks and country banks, the privilege of keeping in their vaults 5 per cent out of the prescribed percentage required, but compel them to deposit in the reserve banks the balance.

Senator WEEKS. I think you would make a mistake to do that, because the reserve which the country bank must maintain depends very largely on the location of the bank. It may be removed from any other bank such a distance that its requirements would compel it to carry a larger amount of cash than a bank located in the same town with other banks or in a community near other banks. I think the bank itself has got to determine the amount of cash it shall carry, and that must be determined by the experience it has had with its customers.

Senator POMERENE. You would leave that optional with each bank?

Senator WEEKS. To some degree, I think, it has to be.

Mr. MORAWETZ. I fully agree with you, Senator, in that regard, but certainly no bank should be required to lock up in its vaults more reserve than the bank itself thinks necessary.

Senator WEEKS. No; I do not think so either.

Senator REED. Now let me ask just one question about this matter. I am going to ask it in the form of a statement. It seems to me that the reserves of banks were ultimately intended as a security to depositors. Therefore, if the bank has that reserve where it is absolutely certain to be ultimately and within a reasonably short time at the disposal of the depositors, it seems to me the purpose of the measure is met. It seems to me utterly immaterial therefore whether a country bank has 1 per cent reserve or no reserve or 20 per cent reserve in its own vaults, provided it has the full reserve in the vaults of the regional bank, because it is there and can be obtained.

Senator NELSON. How can it be obtained from the regional bank? Suppose a local bank is in an emergency, a run is made on it. How can it get those reserves?

Senator REED. For the mere matter of meeting a run the reserve does not do any good. You are not allowed to impair it except under these penalties. Then it is rarely the case that a country bank is so far from another country bank that it can not get help from there on the instant, and any country bank would advance the ten, twenty, or thirty, or even one hundred thousand dollars if it absolutely knew that the bank asking the accommodation had that amount of money with the regional bank subject to its call. So that if a few hours' time were necessary they could get help in that way. Now, does not that affect this question of reserves all the way through?

Mr. MORAWETZ. It is a practical question. Each case depends upon the circumstances. The principle, however, is that no bank should lock up in its vaults more money than is reasonably necessary to meet its immediate requirements.

Senator REED. I agree with that.

Mr. MORAWETZ. Under this bill a bank can only deposit its reserve in its own regional reserve bank. I think that is a mistake. In effect it will force the country banks throughout the United States, and the reserve city banks, to keep separate bank deposits in other cities for the purpose of transacting their necessary banking business in those cities.

Senator HITCHCOCK. That has been my judgment, but that objection has been answered by stating that drafts of a member bank on a reserve bank will pass at par under the terms of this bill anywhere in the United States, and, therefore, a member bank will have no need for a New York correspondent, even though its reserve bank is located in New Orleans, because the draft on New Orleans will be accepted by the regional bank in New York at par.

Mr. MORAWETZ. I don't think that is a sound way of meeting the difficulty. I think a better plan is to permit a member bank to keep part of its reserve in any other of the reserve banks in the country.

Senator NELSON. Do you see where that leads to, Mr. Morawetz? Your doctrine that you stated a moment ago was that each regional bank should be, as it were, a law unto itself; that it should conduct its business independently of other regional reserve banks, especially as to reserves. Now, if you make these territorial reserve banks and allow the member banks in that territory to put their reserves in other districts you can cripple a local regional bank. Suppose the member banks in the regional bank at New Orleans, instead of depositing their reserves with that bank, could deposit them all in New York and Chicago. Would you not cripple the New Orleans regional bank? Would you not deprive it of a part of its reserve that is supposed to be a help for it in time of need?

Senator POMERENE. Except that under this plan the Federal reserve board could require a transfer.

Senator NELSON. Yes; but he is opposed to that; he says that ought not to be. He says that the provision of the bill never ought to be in here; that they do not need that. That is why I am asking this question. Would not that cripple the regional reserve bank at New Orleans, if the member banks in that territory could keep their reserves in the regional bank at Chicago or New York?

Mr. MORAWETZ. If the member banks in New Orleans should make a practice of keeping their reserves, or most of their reserves, outside of their district, it would undoubtedly weaken the local bank. But the member banks are not there for the benefit of the reserve bank. The reserve bank is established to benefit the member banks. The member banks would keep in the New Orleans bank so much of their reserves as business conditions indicate ought to be kept in New Orleans, and they would keep—

Senator NELSON (interposing). Mr. Morawetz, can you not see that the application of your doctrine would pile up the reserves in great centers like New York and Chicago; that if it were optional with the member banks where to put their reserves they could all be piled up in New York and Chicago?

Mr. MORAWETZ. They would not be any more than they are to-day. The piling up of money in New York to-day is due partly to the fact that all these banks throughout the country have to keep some money available in New York for their legitimate business, and that should be continued, and it must be continued under any plan which you adopt. Largely, however, this concentration of money in New York is due to the fact that the money can be loaned out on call in New York on stock-exchange collateral, and the banks holding this money pay interest on the deposit. Now, under this plan the money is not available for those purposes. If you do not allow the banks through-

out the country to keep a sufficient amount of their money deposited in the reserve banks of Chicago and of New York to transact their legitimate business in those cities you simply force them to keep that amount of money deposited in ordinary commercial banks in those centers, and that is a thing to be avoided, because no commercial bank should act as a depository of the reserves of other banks. You do not avoid the thing which you wish to prevent by providing that the banks of each district must keep all their reserves in their own reserve bank. You simply force them, in addition, to keep adequate deposits in those money centers where they have to transact business for their customers.

Senator REED. Now, Mr. Morawetz, what business is there that can not be transacted through the regional bank under this plan? Suppose that a bank in Omaha, Nebr., has a large amount of business to transact in New York regularly—large numbers of drafts that it must draw from day to day. Why can not those drafts be put through the regional bank of New York?

Mr. MORAWETZ. In the case you mention I understand that the Omaha bank would have payments to make and payments to receive in New York.

Senator REED. Yes.

Mr. MORAWETZ. If that be so, the business ought to be transacted in New York—must be transacted in New York—and can best be transacted by a bank in New York.

Senator REED. Well, we are assuming we will have a regional bank in New York. Now, the merchant in Omaha wants to pay a bill to an importer in New York.

Mr. MORAWETZ. He draws on his deposit in New York.

Senator REED. He makes his draft—

Senator NELSON (interposing). No; he draws on his deposit at St. Louis. Call that the regional bank. That is the way you want to put it.

Senator REED. Well, I do not know that that would follow. He wants to pay this man in New York, and he goes down to his bank, and he gets a draft on that bank. He sends that draft to the merchant in New York, and the merchant in New York puts it through his bank, gets credit for it, and that bank puts all the drafts through the regional bank, and the balance is effected there. Why is not that entirely practicable?

Mr. MORAWETZ. It means that the Omaha merchant is going to pay the importer by giving him in effect the money in Omaha.

Senator REED. No; it gives him the money in New York, and the balances are arranged between the regional bank that is located in Omaha and the bank there.

Mr. MORAWETZ. It could be done in that roundabout way, undoubtedly.

Senator REED. How is it done now? They send it on to their correspondent in New York, where they have some money, and it is paid.

Mr. MORAWETZ. Paid there?

Senator REED. Paid there. And this provides that all this paper shall be par, and therefore when the merchant in New York goes with a draft drawn by a member bank in Omaha he gets his money.

Mr. MORAWETZ. It ought not to be par. It is all wrong, according to my view, that the exchange and loss of interest through exchange should be suffered by—

Senator REED (interposing). I think what you say there is worthy of favorable consideration, but let us say that it is not par, and that their rate of exchange is fixed and is a reasonable rate of exchange. That would have to be paid, of course, to any bank in New York where you kept the money, or else you would have to keep enough money there to offset the accommodation. First or last, these things have to be paid off.

Mr. MORAWETZ. The suggestion I made is not vital, I agree. It could be worked out without this privilege given to member banks to keep part of their reserves outside of their district. I think it would be an advantage.

Senator REED. Now, I want to spend a moment with you on that reserve question. You are anxious to get away?

Mr. MORAWETZ. I understand the committee will rise at 12.

Senator REED. I shall be through in a moment with this one question. I understand one of the great evils of our present system is this: We have what we call a reserve. We keep part of it in the vaults of the member banks, and that is a reserve. We deposit the balance in other banks, and they redeposit it and loan it out, so that the reserve practically ceases to exist as a real reserve in case of emergency. Now, that is the evil we are trying to get rid of. What is the use of perpetuating that evil by providing that a part of the reserves shall be kept in other banks? That is only clinging on to the evils of the present system. Why not put the reserves down to the lowest point they can safely be maintained at, and require an actual bona fide reserve at that point—a real reserve that can not be impaired except under penalties? Then, having reduced that reserve as low as it can safely be reduced, let the banks deposit their other moneys wherever they please, not calling them reserves when they are not reserves, but calling them what they are, deposits of money with other banks. Why not do this thing directly, and not have a reserve that is not a reserve?

Mr. MORAWETZ. I think the bill does do so, only it does not go far enough in requiring the reserves to be concentrated in these reserve banks. The deposit by one bank in another commercial bank, which is not conducted in the way in which a reserve bank must be conducted to be safe, is a possible danger which I think ought to be avoided.

Senator REED. Let me ask you one further question. Do you not think that the great element of danger, or one great element of danger, is in the fact that money is deposited from one bank to another, and then perhaps to still a third or fourth, so that when the money is tied up by any one of this chain of banks it ties up that amount of money in all of them? Is not that one of our dangers to-day?

Mr. MORAWETZ. I think it is.

Senator REED. Now, why would it not be proper to require a bank receiving the deposits of another bank to keep a larger reserve as against the deposits of that other bank than it is required to keep where it simply receives a deposit from an ordinary customer?

Mr. MORAWETZ. That suggestion, I think, is entirely sound. I published it myself some years ago.

Senator REED. I have not seen it. I am glad you did.

Senator POMERENE. Was not that thought borne in mind when you said a moment ago a large reserve was required in reserve and central reserve cities—

Senator NELSON (interposing). Will you excuse me a minute, Senator?

Senator POMERENE. Surely.

Senator NELSON. Now, the reserves outside of the vaults of the bank are to be put in the regional reserve bank; is not that so?

Mr. MORAWETZ. Yes, sir.

Senator NELSON. And does not the bill contemplate that the regional bank shall have a reserve of 33 per cent?

Mr. MORAWETZ. As a minimum.

Senator NELSON. As a minimum against deposits as well as currency?

Mr. MORAWETZ. Yes, sir.

Senator NELSON. So that under the law, as I understand it—and I wanted to get his views on it—these regional banks are required to keep a reserve of 33½ per cent on their deposits?

Senator REED. I understand that, Senator.

Mr. MORAWETZ. It ought to be larger.

Senator REED. And I recognize the value of that, but I am dealing with a little different question.

Senator NELSON. I see.

Senator REED. Assume, now, that a bank has its reserves in the regional banks, but now it is required for purposes of business to deposit a large sum of money in another bank outside of the reserve, and that bank then takes it and redeposits part of it, so that you have a lot of money now that is not called a reserve but which, nevertheless, is money which must be used by the bank in case of emergency, and which is liable to be tied up by the same processes through which the reserves have heretofore been tied up.

I am directing my inquiry to this proposition, whether it would not be wise to provide that ordinary commercial banks, where they receive the deposits of other banks, shall hold a larger reserve in their vaults against those deposits than they are required to hold as against the deposits of the ordinary customer, so that not so much of this money will be loaned two or three times?

Mr. MORAWETZ. I cordially agree with the Senator's suggestion. It is economically sound.

I shall say little on the subject of loans on farm lands. I think everybody agrees that making nine months' loans on farm land is not sound banking.

Senator NELSON. Oh, no; we do not agree about that at all. What we disagree about is that nine months is of no account. It ought to be five years.

Mr. MORAWETZ. Then, I should say, it is not banking at all.

Senator NELSON. What about your railroad bonds that are due in 20 to 30 years? Loans are made with those bonds as security, and the railroad bond is secured by a mortgage.

Mr. MORAWETZ. The loans are not made for five years, sir. The only kind of loans which a properly managed bank ought to make are a short-time loan on business paper.

Senator NELSON. Not on stock collateral?

Mr. MORAWETZ. Any collateral. The collateral is not the point. The objection is not to the security. I am not objecting to the security in this case. Farm lands may be perfectly good security, but it is the character of the loan—nine months and probably not payable then.

Senator REED. Do I understand you to mean this, that I am a member bank and Senator Pomerene comes in to me with a farm mortgage payable in five years and borrows from me \$100,000 and puts up a farm mortgage as collateral. He puts up his note with that collateral attached to it. His note is carried by me to you as a regional bank. Do you mean that is a perfectly good transaction because I put the money out on 30 days or 60 days?

Mr. MORAWETZ. There is no insuperable objection to that, but it is another proposition.

Senator REED. That would put us on the same basis as though we had attached a railroad bond secured by a mortgage due in 50 years as collateral.

Mr. MORAWETZ. There is no material difference between those two cases; but that is not the point I am discussing. I am discussing—

Senator REED (interposing). That is the one I am discussing now, because I am glad to find some man that agrees with me that a farm mortgage as collateral is just as good as a railroad bond as collateral.

Mr. MORAWETZ. I think it is, or it may be.

Senator REED. It is the character of the maturity of the paper and not the maturity—

Mr. MORAWETZ (interposing). Of the collateral.

Senator REED. Yes; of the collateral.

Mr. MORAWETZ. I think everybody agrees to that; it is the character of the loan itself. But the point I am referring to is that contained in section 26 of this bill, which provides that a national banking association not situated in a reserve city or central reserve city may loan not only its part of its surplus but part of its capital on nine months' paper secured by a farm mortgage. I say that is not sound banking. The only thing that can be said in mitigation of this section of the bill is that the baby is not going to be a very large one by reason of the limitations placed by this section upon the exercise of the power.

Senator NELSON. Instead of a percentage of the capital and surplus, suppose you took a certain percentage of the time deposits of the bank, as distinguished from the check deposits?

Mr. MORAWETZ. Well, I do not think that would make any difference, because time deposits are not for nine months or anything like nine months.

Senator NELSON. Oh, yes; any amount of deposits are for six months, nine months, and a year.

Mr. MORAWETZ. It is very rare, however.

Senator NELSON. No. You are not acquainted out West, evidently.

Mr. MORAWETZ. I stand corrected, then.

Senator POMERENE. In the Western States, even in Ohio, there is a very large amount of bank deposits there made for a year, and certificates of deposit are taken.

Mr. MORAWETZ. I supposed they were all payable upon 30 days' notice.

Senator POMERENE. Oh, no. They issue certificates of deposit.

Mr. MORAWETZ. Then I stand corrected.

Senator NELSON. Drawing interest.

Mr. MORAWETZ. I acknowledge that the nine-month loans on farm mortgages are not really more objectionable than the loans which I believe are made in certain sections of the country for a shorter period with a perfect understanding they are not going to be paid at maturity. I should like to see this subject also dealt with in the bill so as to prevent that practice, which I believe is quite common in certain sections of the United States.

The bill provides for savings departments in the national banks, and it contains a very strict provision that if a bank establishes a savings department the securities or the assets in such department shall be physically separated from the assets of the commercial department. Now, we all recognize that it is of the utmost importance that savings banks should be kept absolutely safe and sound. A default of a savings bank is, to my mind, a very much more serious thing than the default of an ordinary commercial bank. For that reason I trust that this committee will not listen to any suggestions that would tend to a weakening of the security of the depositors in the savings departments of the banks which may be established under this clause. But in particular I hope the committee will not listen to the suggestion which I believe has been made that the banks be permitted to establish these savings departments and to commingle the assets of the two departments and to carry them on as one bank.

Senator POMERENE. You think they ought to be entirely separated?

Mr. MORAWETZ. I think the bill is right—they ought to be separated.

Senator POMERENE. With separate books, etc.?

Mr. MORAWETZ. Yes, sir.

Senator POMERENE. Well, you would be practically doubling the expense in these smaller banks; for instance in the West where they have \$15,000, \$25,000, or \$50,000 capital stock.

Mr. MORAWETZ. I do not think that would be the result. Whatever system may be adopted it certainly will be necessary to keep the books, whether in separate volumes or different portions of the same books, in such a manner as to indicate the liabilities and the assets of the savings departments.

Senator REED. How will you get the banks in then, Mr. Morawetz? At the present time it appears that nearly every national bank in the country is engaged in doing what is here termed a savings-bank business. It receives time deposits and it receives time deposits to an enormous amount.

Senator NELSON. And pays interest on them.

Senator REED. And pays interest upon those deposits. Now, when this bill is prepared I can not see where a national bank has a substantial right that every State bank does not possess. And if we make the restrictions in this bill hard there will be nothing to keep the national banks from denationalizing and going into the State systems where they are permitted to mix their funds and permitted, in addition to that, to do many things a national bank can not do. Now, how are you going to keep them in? That is one of the hardest problems this committee has to solve.

Mr. MORAWETZ. It should not keep them in by enabling them to do their business in an unsound and unsafe way. Time deposits I do not consider savings deposits. They are two distinct things.

Senator REED. Well, if you draw that line and say that a bank may, notwithstanding any inhibition of this bill, receive money on time deposits, that would, of course, meet many difficulties that have been raised. But throughout these hearings all bankers have insisted that a time deposit is merely a savings-bank arrangement.

Mr. MORAWETZ. I do not think that is correct. Savings deposits are deposits which are to be invested in securities and which are to be repaid only on a substantial notice.

Senator HITCHCOCK. Twelve o'clock has now arrived, and the Senate meets at 12. If there is no objection the committee will take a recess until 2 o'clock.

Senator REED. Does Mr. Morawetz have to leave now?

Mr. MORAWETZ. I have an appointment at 3 o'clock in one of the Government offices which I must keep.

Senator REED. Will it take you the rest of the afternoon?

Mr. MORAWETZ. That I do not know.

Senator HITCHCOCK. Then Mr. Gilbert has been here for two days. This is the second day. Mr. Gilbert is president of the Market & Fulton National Bank of New York City.

Senator REED. Mr. Chairman, I make this suggestion, that any of the members of the committee who feel it is necessary to go over to the Senate will go and the rest will remain. We get this notice to go there, for every Democrat to be in his seat, and so forth, and then we get notice we must get this bill out very quickly, and it is difficult to do both. I would be content to sit here until 1 o'clock unless we get notice. We might send a guard over there to see they do not make any mistakes in our absence.

Senator HITCHCOCK. I will ask Senator Reed to take the chair as I am going over. There are several papers here which probably ought to be printed in the record.

Senator REED. You can all read Mr. Morawetz's testimony.

Senator HITCHCOCK. Without objection the communication from Mr. Scudder of the Richmond Trust & Savings Co., will be printed in the record as an addition to his testimony heretofore given. Also the communication from Mr. Sereno S. Pratt, secretary of the Chamber of Commerce of the State of New York, transmitting a report of that body on the Federal reserve act. Both of these, I think, should be printed in the record and also a supplemental communication from Mr. Flannagan, who testified before us, and who asked for the privilege, as I recall, of submitting a supplemental communication.

(The papers referred to will be found at the conclusion of Mr. Morawetz's testimony.)

Senator REED. The matter is before you. Are there any further questions you desire to ask?

Senator NELSON. I want to call your attention, Mr. Morawetz, to this fact. A practice has grown up among the national banks of the West and I do not know how far east it extends (I mean the great agricultural States of the Mississippi Valley, the upper valley), of national banks doing practically a savings-bank business. That is, they receive time deposits agreeing to pay interest on them, usually

in the form of deposit, which generally run from four months to a year. They hardly ever pay interest unless they are kept at least four months. And their rates vary. If they are certificates of deposit for one year they pay a greater rate of interest than they do for four months or six months. Now, that business has grown up there, and the banks, especially in the agricultural communities, that is the small banks with \$25,000 capital, have over half of their deposits of that kind. In many instances two-thirds of their deposits are time deposits. Now, that practice has grown up and it has worked satisfactorily in those communities, but they require the same reserves for that kind of deposit as for the other. The proceeds of that money are used like the other proceeds in a bank for commercial purposes. It has worked well. Now, Whithers, in his book on money, describes something analogous in the English system. He says the banks there have two forms of deposits, one he calls "current deposits," subject to check, and the other is a deposit account which requires notice before they can withdraw it and on which they pay interest. That is, the joint stock banks in England have two accounts with their customers, one they call a current account subject to check, on which no interest is paid, and the other is a deposit account requiring 20 days' notice, or 30 days', I do not know which, on which they pay interest.

Mr. MORAWETZ. That is correct.

Senator NELSON. Now, that is analogous to the system our banks out West have been operating; and the banks doing that kind of business see no occasion for establishing a separate savings bank department as contemplated in this bill. That would be deterring in the case of the country banks and would be tying up over half of the deposits of those banks for purely permanent investments such as contemplated by a pure savings bank, instead of making them available for commercial purposes. Now, can you see any harm in that system which has prevailed in these country banks?

Mr. MORAWETZ. I see no harm in that system.

Senator NELSON. And is not that better than requiring these small banks to have an independent savings department and keep their funds, as you said a moment ago, physically separate?

Mr. MORAWETZ. I agree with all the Senator has said. And if I supposed this provision of the bill relating to savings departments applied to time deposits such as the Senator has subscribed, I should unhesitatingly agree that it ought to be amended. I think there is no need, either, of keeping as large a reserve for such time deposits as for demand deposits. But the time deposits should fall into the category of demand deposits within a certain number of days before they mature.

Senator NELSON. You must never lose sight of the fact, Mr. Morawetz, that while in a big city you can have three branches—you can have a commercial department; you can have a savings department; and you can have a loan and trust company—in the small country town of 2,000 or 3,000 people it is utterly impossible to have those three institutions. They can not live. A bank there must do all of those kinds of business, and must do it in order to make it pay for the bank, and must do it to accommodate the public.

Mr. MORAWETZ. I agree to that. In a pamphlet which I published several years ago I urged that power to establish savings departments should be given to the national banks. I agree, further, as I have stated, that the reserves for these savings deposits should be materially less than for the demand deposits.

Senator NELSON. Well, that should not be the case where the moneys derived from the deposits are mingled together and kept as one fund for commercial purposes, should it?

Mr. MORAWETZ. I think so.

Senator NELSON. Our banks, while they carry on this savings business that I have described, when it comes to loaning their money they mix all these deposits, both savings and the other deposits—they mix them all. It is a common fund, and out of that common fund they supply the wants of the community.

Mr. MORAWETZ. I appreciate that, but reserves are kept to secure the immediate payment of the deposits. They are not to make good the loans. Therefore, if a bank has large demand liabilities in the form of deposits, it should keep large reserves. If it has large obligations that mature at some future time, there is no need why it should keep equivalent reserves on hand until about the time when these time deposits are going to mature.

Senator NELSON. Now, what other parts of the bill here—I was not here yesterday, and I regret very much I could not be here—what other parts of the bill which you have not referred to would you like to refer to and take up and discuss with us now?

Mr. MORAWETZ. Well, I have gone over—I think there are more than 20 different provisions in the bill which I discussed.

Senator NELSON. I shall read what you said yesterday.

Mr. MORAWETZ. If I may be permitted, in closing my testimony, I will state a few of the provisions of this bill which I think it is vital to amend.

Senator NELSON. Yes; I will be very glad to have you recapitulate in brief.

Mr. MORAWETZ. First, the proposed notes to be issued under this bill should be payable in gold.

Senator NELSON. Nothing else?

Mr. MORAWETZ. Nothing else. Second, great care should be taken to eliminate from this bill all provisions which are likely to result in sectional differences and controversies, because sectional differences and controversies will bring politics ultimately to bear upon the control and management of the banking system. The Federal board of control should be a body entirely separate from the administration for the time being. No Cabinet officer or officers, subject to appointment and removal by the President, should be a member of the Federal board of control. In my judgment, also, no banker or appointee of bankers should be on that board. It should be made up of seven high-class men appointed by the President, by and with the advice and consent of the Senate.

All those provisions giving to this central board discretionary power to interfere with the management of the regional reserve banks where sectional interest or sectional demands are likely to arise should be eliminated. The Federal board of control should not have power to hand over the funds of one reserve bank to another. It should not have power to fix the discount rate of any one

reserve bank, but it may have power to fix a minimum discount rate for any separate district.

Third, the provision of the bill dissolving all such national banks as fail to come into the plan within a year should be stricken out—not out of consideration for the banks. The banks have no constitutional or moral right to continue in existence and to do business under the existing laws if the welfare of the country requires that the law be changed. It is the right of Congress, in fact it is the duty of Congress, to change the laws governing national banks whenever and to the extent that Congress deems changes necessary for the welfare of this country.

Senator NELSON. Even to legislate them directly out of existence.

Mr. MORAWETZ. Yes; even to legislate them directly out of existence.

Senator NELSON. Suppose we have no new currency law, but simply pass a bill, make a bill providing for the immediate dissolution of all national banks.

Mr. MORAWETZ. If it were for the welfare of the country, you would have a right to do it, and I think it would be your duty to do it. But, sir, the objection to this provision is that under existing conditions it would be fatal to this country to destroy the national banks. It would be fatal in its result. If this bill were passed in its present form and any considerable number of the banks went out of existence, it would be fatal for the reason that the result would be such a contraction of the currency of this country as would almost certainly precipitate a panic.

Senator REED. Suppose they do not come into the system?

Mr. MORAWETZ. If they do not come into the system, after you have gotten these reserve banks established and after you have made provision for the issue of a safe currency to take the place of the outstanding national-bank notes, then pass an act compelling them to come in or go out of existence.

Senator REED. But if they do not come into the system, perhaps we will not have any power to establish these banks. The establishment of this system presupposes that the national banks or some banks will come in enough to create regional banks with sufficient power so that they amount to something.

Mr. MORAWETZ. Mr. Chairman (Senator Reed), it seems to me that it is necessary to face the fact you can not carry out this plan or any other plan without the cooperation of a large part of the banks.

Senator REED. I agree to that, but the point that is troubling me now is this: You say we shall not compel the banks to come in, because if we should pass the law in that way and a large part of them should disorganize there would be universal ruin following. That is not your expression, but that covers it. Now, let us grant that is true.

Senator O'GORMAN. It is not universal, it would be national ruin.

Senator NELSON. Yes; that expresses it.

Senator REED. National ruin. I mean universal as applied to our conditions in this country.

Senator NELSON. It might reach into the Philippines.

Senator O'GORMAN. Or Porto Rico.

Senator NELSON. Yes; or Porto Rico.

Senator REED. Accepting the correction: Now, if the banks were so averse to this bill that they would lay down their charters and cease to do business rather than come in, does it not almost necessarily follow that they would not voluntarily come in, and if they do not voluntarily come in, we would have nothing with which to establish these banks. Therefore, the suggestion you make that after the system is established we might apply coercive measures if we desire, seems to me to have the fallacy in it that we can not establish the system unless the banks do come in.

Mr. MORAWETZ. I see no fallacy. I have stated that you must face the fact that you can not carry out this plan unless a large proportion of the banks come in. Not all need come in, but a considerable proportion of the banks. After you have established the reserve banks with such of the banks as come in, then you will be in a position to put pressure to bear upon those who remain out.

Senator NELSON. But what Senator Reed means, and you overlook, is: Suppose you leave it entirely optional with all national banks whether they will come in or not, under this bill, and do not provide in the first instance that if they fail to come in they shall be subject to forfeiture or loss of their charters as national banks. Would there then be a sufficient number of national banks coming into this voluntarily to establish these regional reserve banks? Have you any idea they will be sufficient, if you leave the matter wholly voluntary?

Mr. MORAWETZ. I am confident that if this bill should be amended in the few particulars, all of which, according to my view, are necessary to make the scheme economically sound and safe, a considerable majority of the banks in the East will come in.

Senator WEEKS. What makes you confident of that?

Mr. MORAWETZ. My conversations with financial men in New York.

Senator REED. Mr. Morawetz, what would you say of applying the power of Congress under its interstate-commerce rights to this situation so that the banks would find it very unprofitable to stay out?

Mr. MORAWETZ. You mean all of the banks?

Senator REED. Yes; the banks doing an interstate business; that is, sending checks and drafts from one city to another.

Mr. MORAWETZ. I am very strongly opposed, on principle, and also as a matter of policy, to legislation by indirection. I think a much better and a wiser course would be to make this bill acceptable not to all banks but to fair-minded bankers, such as I believe a majority of the bankers to be.

Senator WEEKS. Is not this true, as a practical proposition: It is necessary to start the system and it must be started fairly promptly, or else we are likely to have chaos in our banking and industrial affairs.

Mr. MORAWETZ. Yes.

Senator WEEKS. Now, unless we compel banks to come in, are we not likely to see all banks hesitate and want to see what develops, what the experience of the others who have gone in is or has been, a generally conservative desire to take advantage of the experience of those who have tried the experiment? That is exactly what happened when we passed the Aldrich-Vreeland bill, which you and I agree was not a great measure, but might be a very useful one. We provided that associations should be formed, and the associations were not

formed until pressure was brought by the Treasury Department on groups of banks to form the associations as provided by the bill. Now, will not exactly that thing happen in this case, unless we compel national banks to join, and join without any considerable delay?

Mr. MORAWETZ. Well, my objections to the clause of the bill which we are discussing are not founded on consideration for the banks. I should be willing to put pressure upon them, but I urge that you can not put the pressure upon them in that way. You must find some other way of bringing pressure to bear upon the banks to come into this plan. You can not, with safety to the country, adopt the method which is provided in this bill.

Senator REED. How would this do, Mr. Morawetz: If I understand, the kernel of the objection to compulsory measures, in your mind, lies in the fact that if we provide in the bill a hard and fast rule by which, at the end of a given time, banks not coming in will cease to exist, and therefore, as they are the sources of the bank currency, whenever they would go out of business that currency would be contracted and a sudden contraction would bring panicky conditions. I understand that to be the kernel of your thought. That is your thought?

Mr. MORAWETZ. Yes, sir.

Senator REED. Now, how would it be, instead of providing a hard and fast rule that at the end of 12 months those not coming in should be forced out of existence, to provide that this board, this central board, should have the right, or the Secretary of the Treasury should have the right, to arrest the charter of such bank or banks as he saw fit, so that he might apply this pressure or might not; he might apply it to all banks at once, or he might apply it to part of them.

Mr. MORAWETZ. I do not think that would be any better than the provision now in the bill. I should urge that the proper course would be to make the provisions of this bill in such form as to be acceptable to a majority of the banks for, after all, their cooperation is essential. It would be a sound policy to work in consultation with the banks in preparing a bill which a majority of them will be willing to accept and work under. And then, after you have succeeded in organizing some of these Federal reserve banks, pass a law compelling the remaining banks to come in. But I should like to see the compulsion extend a great deal further than this bill provides. I should like to compel the State banks as well as the national banks all to come in.

Senator REED. How could we do that, because the interstate commerce powers of the Government have already been stretched to a point that sometimes I think is alarming.

Mr. MORAWETZ. I am inclined to think it could be done.

Senator REED. I wish you would suggest how. I have very great regard for your opinion as a lawyer.

Senator NELSON. I would suggest to him that we ought to have done it in the income-tax law requiring State banks to take out a license before doing business as State banks, and then put in the conditions. Perhaps we could have reached it in that way.

Senator REED. That would be exercising the taxing power.

Senator NELSON. How is that?

Senator REED. That would be applying the taxing power.

Senator NELSON. Yes.

Mr. MORAWETZ. I am utterly opposed to the exercise of the taxing power to nullify the Constitution by indirection. I do believe, however, that sound banks, organized and conducted according to a uniform system, are as necessary to the transaction of interstate commerce as are railways and highways, and therefore I do believe that Congress has a broad power of regulating the banking business throughout the country.

Senator REED. Under the interstate-commerce provision?

Mr. MORAWETZ. Yes.

Senator REED. That is what I suggested. Now, can you give us a method of practically applying that? By what means? Just by a general law that all banks engaged in interstate commerce must become members of this system? That is compulsion with a vengeance.

Mr. MORAWETZ. I should like to consider that question further before answering.

Senator REED. I wish you would.

Mr. MORAWETZ. I wish to state, however, Senator, that I have given very careful consideration to the constitutional powers of Congress to regulate corporations engaged in banking or interstate business of any kind, and I published an article in which I discussed that matter in the June, 1913, number of the Harvard Law Review.

Senator REED. I am sure I speak for the other members of the committee, both present and absent, when I say that we would like very much if you would file with us your views as to the method of applying this principle, and we will have the clerk of the committee get your article, unless you desire to rewrite it, applying it to this proposition. That is a matter which has not been much discussed, and I am glad to find a lawyer of your eminence agreeing that we have that power.

Now, I want to ask you this, as a practical proposition, aside, and in asking this question, I do not mean that I am committing myself to it. It is a mere suggestion: How would it do as a matter of inducement to banks to come into this system if we were to provide a very low rate of exchange, or an absolute parity, as is in this bill, for member banks, with a higher rate of exchange for business done by other banks passing through, and permit all business of other banks to pass through, under some regulation, making a discrimination in favor of the member banks? That is, by way of inducement, rather than compulsion.

Mr. MORAWETZ. I should be disposed to doubt the efficacy of the plan just suggested. I think that the way of accomplishing the desired result would be to make a few changes in the bill to meet the ideas of the leading bankers as to what sound banking demands.

Senator REED. But, Mr. Morawetz, we can not, in order to get the banks in, permit the bankers to write this bill for the country.

Mr. MORAWETZ. I do not mean that, sir.

Senator REED. I know you do not mean that.

Mr. MORAWETZ. I did not mean that. You need not see them again. You probably know, from the testimony before this com-

mittee, what will be needed to satisfy the leading bankers; and as the leading bankers go the great majority of the bankers will go.

Senator REED. I mean more than that. We can not afford to write a bill for the whole country which gives to the banks any advantage they ought not to possess. Neither do I think, under the same construction, that we can afford to deny to the bankers those rights which are necessary to the maintenance of a banking system; but we might make this bill so attractive to the bankers that it would be so unattractive to everybody else that it would not live long.

Mr. MORAWETZ. Sir, I believe that a great many of the leading bankers of this country are patriotic men, who will come into this plan even at a great loss to their own banks.

Senator REED. I am glad to hear you say that. Let me ask you one question which is aside from that. This bill, in the contribution to the capital of the regional banks, proposes to require a contribution of a certain amount of capital. Now, many banks in the country have a very small capital in proportion to their real assets; I mean their real net assets. They have a very large surplus, and they have other funds. Do you not think that the contribution ought to be, not upon the basis of capital but upon the basis of capital and surplus, whatever the percentage might be?

Mr. MORAWETZ. I do not think so.

Senator REED. Let me see. I think there is a bank in New York—I have forgotten which one—

Mr. MORAWETZ (interposing). You are probably thinking of the Chemical National Bank, which had a surplus perhaps 40 times the amount of its capital.

Senator REED. Yes.

Mr. MORAWETZ. But that has all been changed. The Chemical National Bank increased its capital stock enormously and changed surplus into capital.

Senator REED. But now, as banks are ordinarily organized to-day, right in the inception of the organization most of them provide capital stock and at the same time provide surplus, and start with a surplus. Now, the surplus in some banks is very large; and then they have undivided profits, which is also a very large sum sometimes. Is the amount of the capital stock the real starting point?

Mr. MORAWETZ. It is. The capital is fixed and can not be impaired. The surplus is a fluctuating thing, which can be paid out as dividends, and which changes from year to year and from month to month.

If thought advisable, there would be no objection, to my mind, in requiring a corporation to take stock in its reserve bank equal to 10 per cent of its capital and surplus at the time of its formation.

Senator REED. That is what I meant.

Mr. MORAWETZ. But I do not think it would serve any useful purpose, and it would introduce uncertainty in the plan, because the surplus is not a matter of record. It is subject to constant change. The bank could increase the surplus the day after its subscription to 100 per cent. And it could pay out its surplus to its stockholders.

Senator REED. I do not refer to what would happen hereafter, but I meant in the primary subscription of the bank.

Mr. MORAWETZ. Suppose a bank, then, reduces its surplus. What then?

Senator REED. If it does that—

Mr. MORAWETZ (interposing). It gets part of its subscription back.

Senator REED. It has increased its assets, and it would have a larger contribution to the central bank than it would then need to maintain—

Mr. MORAWETZ (interposing). Than it would be allowed to have under the bill?

Senator REED. Yes; than it would be allowed to have under the bill.

Mr. MORAWETZ. I really think the advantage is so very trifling that it is entirely outweighed by the manifest inconveniences which would arise if the right or the obligation to subscribe were fixed by the surplus, which is not a matter of record, and which is subject to daily fluctuation, and which is wholly within the control of the bank. I do think, however, and I urge the committee to consider my suggestion carefully, that it would be advisable to require member banks to invest 10 per cent of their capital in the stock of their reserve bank, to be paid up within six months and subject to no further liability to contribute an additional per cent, as provided in this bill, but to authorize the reserve banks, under the supervision and control of the Federal board, to offer for public subscription a preferred stock without voting power, entitling the holders to cumulative dividends when earned at a rate not exceeding 5 per cent. It is very desirable to strengthen the capital of these reserve banks as much as possible, so that they will not be so largely dependent on the deposits of other banks for their power to help the banking situation in time of need.

Senator REED. You would have that preferred stock paid this 5 per cent dividend before the banks received any profits?

Mr. MORAWETZ. Surely.

Senator NELSON. Mr. Morawetz, do you not think that if we here in the Senate should have gone to work and passed this bill just as it came to us from the House that it would have wrought a great deal of financial and commercial disturbance in this country and proved a detriment to the country?

Mr. MORAWETZ. I think it would have resulted in a catastrophe.

Senator NELSON. You think this committee, then, is fully justified in deliberating and carefully considering this bill, in order to improve it?

Mr. MORAWETZ. I think it is more than justified, sir, in doing that.

Senator NELSON. And to get all the light we can from experienced men like yourself and others?

Mr. MORAWETZ. I do not like to include myself.

Senator NELSON. Well, I think you have given us a good deal of valuable information.

Mr. MORAWETZ. But I cordially agree with the view that this bill needs a careful overhauling.

Senator NELSON. And ought we not, in a matter of such supreme importance to the welfare of the country, proceed with caution and deliberation?

Mr. MORAWETZ. Surely.

Senator NELSON. And is it not a further fact, Mr. Morawetz, that this fall we are in a fairly good condition; crops are moving; there seems to be plenty of money in the country to handle the crops;

there seems to be no immediate urgency for making a running pace. Is that not so?

Mr. MORAWETZ. That is true.

Senator NELSON. I want to call your attention to the fact that a short time ago the Secretary of the Treasury proposed to distribute \$50,000,000 to move the crops throughout the country. He could only succeed in disposing of half of that. He offered \$3,000,000 to our banks in Minnesota to move the crops. You know we are a great wheat State. Of the \$3,000,000 he offered a million and a half, I think, to Minneapolis, which is a great grain center, and half a million to St. Paul and half a million to Duluth, and Duluth took a half a million, but Minneapolis and St. Paul did not need it.

Mr. MORAWETZ. They are very prosperous cities.

Senator NELSON. Do you not think under those circumstances we should take time to act with deliberation and caution and judgment?

Mr. MORAWETZ. I feel that of all legislation none requires more care and deliberation than banking and currency legislation, and it would be a fatal thing to this country if this banking and currency bill were passed in as incomplete and unfinished and imperfect a condition as was the income-tax bill.

But, on the other hand, I think it is very desirable that banking and currency legislation subjects be disposed of with all practicable speed. It has been hanging over the country now for years, and it is in itself a disturbing element. While all time should be taken to make the bill as perfect as it can be made, no time should be wasted.

Senator NELSON. You must remember one thing, that while we may be able to pass fairly good laws, we can not manufacture good bankers.

Mr. MORAWETZ. That is true.

Senator NELSON. And do you not recognize the fact that the bankers' panic in New York in 1907 came rather from bad banking than from bad laws?

Mr. MORAWETZ. I think it came, sir, from a bad system, a system under which there existed 25,000 individual banks scattered over this country with no means of obtaining cooperation or unity of action with regard to the use of the reserve, the aggregate amount of which was quite adequate.

Senator NELSON. The trouble was, Mr. Morawetz, the little country banks in the interior, like rivulets, had all been pouring their streams into the big central reserve cities, especially New York and Chicago. They had been pouring it in freely, gathering it up from their country merchants and farmers and sending in their money to those cities, and when the emergency arose they found a good deal of it tied up in call loans on stock collaterals, and they could not get it. Is not that a fact?

Mr. MORAWETZ. It is a fact, as I stated a little while ago, that the underlying trouble was that there was no way of using the reserve money in the aggregate when and where it was needed, and that situation was due to the fact that the deposits of the country banks of their reserves with reserve city banks and the central reserve city banks were of no use as reserves.

Senator NELSON. Do you not consider the fact—now to begin with, a national bank, in the ordinary sense, is supposed to be a commercial bank, is it not?

Mr. MORAWETZ. Yes, sir.

Senator NELSON. Now, do you not think it is diverting the business of that bank from its legitimate commercial purposes to invest the moneys of such a bank in call loans on stock collaterals, for the purpose of carrying what they call margins.

Mr. MORAWETZ. I do.

Senator NELSON. Is it not a diversion of the business of such a bank from its commercial purposes, for which it was designed, into channels it ought not to go into?

Mr. MORAWETZ. To that I agree.

Senator NELSON. That is a thing that has grown up, not because the law directed it, but because the banks have been guilty of that. That is what the banks have been guilty of, is it not?

Mr. MORAWETZ. That practice has grown up because of the absence of any reserve banks which would furnish a market for the rediscounting of paper held by the banks.

Senator NELSON. The law did not plan that system. That is a system—this system of loaning on call loans is a system which has been created and built up by the banks, is it not?

Mr. MORAWETZ. It is because of the defective nature of the system. Inasmuch as under this system there is no rediscount market for commercial paper, it is not a liquid asset. Each bank feels that it must keep part of its assets so that it can get reserve money when it needs it. That is the reason why the banks make these call loans.

Senator NELSON. Do you not know that in the case of a bank these stock collateral loans are anything but liquid loans?

Mr. MORAWETZ. Yes.

Senator NELSON. They are not liquid.

Mr. MORAWETZ. Each bank looks no farther than its own situation. Each bank says, "We will keep part of our assets in the form of these call loans on stock exchange collateral, so that when we want the money we can demand it," but it does not consider the fact that every other bank is in the same position, and that when one bank calls a loan to replenish its reserves the money must come out of some other bank, so that the gain of the one bank is the loss of the other.

Senator NELSON. Yes. Is it not a fact, Mr. Morawetz, that in the midst of a panic or stringency such as we had in 1907, that really the only liquid loans are bills of exchange, accompanied by bills of lading for the necessaries of life, like cotton, wheat, flour, and such products? Those are really the only liquid loans. Was it not by means of such bills that we secured upward of \$100,000,000 of gold in the panic of 1907? Some people called them documentary bills; some people called them commercial bills. Was that not what brought nearly \$100,000,000 of gold into the country? It was not brought here on finance bills.

Mr. MORAWETZ. That, and to sales of commodities and bonds and stocks.

Senator NELSON. My information was, and I got it from no less an authority than Mr. Vanderlip—I have his letter written some time ago—and he said that the 95 million odd of gold were obtained upon

commercial bills of exchange drawn against wheat, flour, and cotton, and not through what they call finance bills. You know the distinction between a commercial and a finance bill?

Mr. MORAWETZ. Perfectly. I think, Senator, this gold was obtained in part also by sales of securities and out-and-out sales of commodities, and probably—

Senator NELSON (interposing). Mr. Vanderlip, and I have his letter for it, says not.

Senator REED. It would be strange if there was not something of that kind done.

Mr. MORAWETZ. I think a great deal of it came in that way. The foreigners undoubtedly bought more wheat than usual, and more cotton than usual, but not such a vast amount more than usual. A great deal of it was—

Senator NELSON (interposing). You recall that during that fall the crop of wheat in the world was not very large, and there was a great demand for it; there happened to be, fortunately, a great demand abroad for wheat that fall. There was not such a surplus at this time, so that, Mr. Morawetz, when you study it you will find that the banks, by the stock loans, loans on stock collateral for the purpose of carrying margins, have built up a system that has proved in times of stress their own ruin. Is that not a fact, to some extent?

Mr. MORAWETZ. To some extent, it is quite true; yes, sir.

I want to add that I have no sympathy with the argument which has often been advanced by the bankers and officers of trust companies that the investment of these institutions of large sums in bonds and stocks, principally bonds, makes a kind of secondary reserve in times of stress.

Senator NELSON. But not in times of panic?

Mr. MORAWETZ. I say I do not sympathize with that view. Such investments are less excusable than the collateral loans. It is undoubtedly true that the call loans are a very convenient way of using part of the credit power of the banks.

Senator NELSON. In normal times that may be so. What we should legislate against is a hurricane and a storm.

Mr. MORAWETZ. What you want to legislate for is not to create a cyclone-proof cellar to protect people in case of a hurricane, but what you want to obtain is a system which will prevent a hurricane from ever striking this country again. You want to prevent the recurrence of panics and not merely mitigate these dangers after they have occurred.

Senator NELSON. You see, in piping times of peace, we get along fairly well with our present national banking system. We have at all events had a sound currency if it has not been elastic.

I am old enough to have had a little experience with our old State banks' paper currency. I knew what that meant. We have had a good currency, and a safe currency. It may not have been as elastic as it might have been. But outside of that currency this system has brought on the catastrophes in New York time and again, and did not grow from that currency system. It grew out of a vicious system of banking.

Mr. MORAWETZ. The panics in Cleveland's time were due to the currency.

Senator NELSON. No.

Mr. MORAWETZ. The currency to-day I regard as sound. There is not the slightest danger.

Senator NELSON. You are mistaken. In Cleveland's time the country was in a state of stagnation, and then we had injected a good deal of silver into our currency, but in 1907 the country was in a prosperous condition, and economically sound. There was no occasion for that panic, and to show you that I will state that out in the West there were a good many places, small country towns, where they kept open shop and paid out money and took in money, just as though there had been no panic in New York at all.

Mr. MORAWETZ. The currency in this country—

Senator REED (interposing). Had you anything else to say, Mr. Morawetz?

Mr. MORAWETZ. I was going to reply to Senator Nelson's question.

Senator REED. I beg your pardon. Go right ahead.

Mr. MORAWETZ. The currency of this country, in my opinion, is perfectly safe and sound at this day. The issue of silver dollars worth 50 cents, intrinsically, to the dollar has been stopped. The issue of greenbacks has been stopped and the Government has pledged itself to pay those outstanding on demand in gold, and to maintain an adequate reserve in gold; and the issue of bank notes has been stopped by the exhaustion of the Government bonds.

Senator REED. Mr. Morawetz, I think I am warranted in thanking you, sir, on behalf of the committee, and I only wish you might continue your talk indefinitely.

At 2 o'clock Mr. Gilbert will begin at once. Unless we are forced to remain in the Senate, we will reconvene at 2 o'clock this afternoon.

(The papers referred to by Senator Hitchcock are as follows:)

RICHMOND TRUST & SAVINGS Co.,
Richmond, Va., October 20, 1913.

HON. ROBERT L. OWEN,

Chairman Senate Committee on Banking and Currency,

Washington, D. C.

DEAR SIR: Pursuant to the committee's request of last week I now beg to submit my suggestions in writing for the consideration of your committee, viz:

(1) *Federal reserve districts* (sec. 2).—Reduce the number of Federal reserve banks to seven and name the points to wit: New York, Boston, Washington, New Orleans, Chicago, Denver, San Francisco. The headquarters of this Federal reserve board to be established at Washington, but with a clause authorizing removal to any other "Federal reserve bank point" (for instance, in time of national danger); i. e., by and with the consent of Congress.

The capital to be supplied on a basis of 6 per cent of the member banks' capital, surplus, and undivided profits as of July 1, 1913; one-half payable at once, one-fourth in 60 days, and the remainder in 120 days. (It must be obvious that the only fair computation is on surplus as well as capital.)

(2) *Division of earnings* (sec. 7).—Six per cent instead of 5 per cent.

(3) *Federal reserve board* (secs. 11 and 13).—Abolish the "Federal advisory council" by entirely eliminating section 13. Increase the Federal reserve board to 11, so that one appointment can be made by the President from each of the seven sections or districts having in it a Federal reserve bank, the eighth member to be chosen by vote of a majority of the banks belonging to the entire system. Make the term for life, subject to good behavior, just like the Supreme Court judges, and, in order to get good men, place the salary at \$12,000 per annum.

(4) *Rediscounts* (sec. 14).—Amend line 1, page 26, to read: "Any member bank" instead of "Any national bank."

I think it important to prohibit Federal reserve banks lending either on their own stock or on the stock of any other Federal reserve bank, directly or indirectly.

(5) *Open-market operations* (sec. 15).—Place a conservative "limit" on these transactions.

(6) *Note issues* (sec. 17).—On page 33 amend by erasing in lines 14 and 15 the words "at par and without charge for exchange or collection," and insert instead, after line 19, these words, "in accordance with the rules and regulations to be prescribed from time to time by the Federal reserve board." Erase lines 20, 21, 22, and the word "patrons" in line 23, and insert the following words instead: "Member banks shall make such charges to their patrons for collecting checks and drafts as shall be prescribed by the rules and regulations issued from time to time by the Federal board."

(7) *Savings department* (sec. 27).—The conditions regarding "savings" being entirely different in some sections of the country from the conditions prevailing in other parts of the United States, I suggest that this entire clause be simplified as follows:¹

"That the Federal reserve board shall be, and is hereby, authorized to exempt the savings departments of national banking associations from any and every restriction upon classes or kind of business laid down in the national banking act. And it shall be the duty of said board within one year after its organization to prepare and publish rules and regulations for the conduct of business by the savings departments of every member bank under this act."

But if the committee insists on inserting in this section all that the Federal reserve board shall do, then I call attention to the fact that they should amend the eighth line, page 48, by inserting, after the words "savings department," these words: "As well as the method and form of withdrawal."

(This is important because in many localities pass-book withdrawals have degenerated into wholesale checking accounts; to the great danger of the community, by thus destroying the only known safeguard on "savings deposits.")

(8) *Foreign branches* (sec. 28).—Amend line 16, page 49, to read that any "member bank" instead of any "national banking association"; and wherever this same error in phraseology occurs, in the entire bill, amend accordingly.

(9) *Change of numbers*.—Amend sections 29 and 30, numbering them instead respectively 30 and 31.

(10) *Agricultural credit banks*.—Add section No. 29, as follows:

"The Federal reserve board shall have the power to consider applications for the establishment of, and to establish throughout the country agricultural credit banks under such rules and regulations as it shall formulate and promulgate from time to time; but in no event shall any Federal reserve bank subscribe exceeding 5 per cent of its capital stock toward the capital stock of an agricultural credit bank, and then only when such agricultural credit bank is located in the district covered by the said Federal reserve bank. No "branch" of a Federal reserve bank and no member bank under this act shall subscribe to the capital stock of such an agricultural credit bank, nor lend directly or indirectly upon the stock of such agricultural credit bank."

Yours, very truly,

S. D. SCUDDER,
Vice President and Treasurer.

CHAMBER OF COMMERCE OF THE STATE OF NEW YORK.

NEW YORK, N. Y., October 20, 1913.

HON. ROBERT L. OWEN,

Chairman Committee on Banking and Currency,
United States Senate, Washington, D. C.

DEAR SIR: I am directed to send to you the inclosed printed copy of a report adopted to-day by the New York Chamber of Commerce on the Federal reserve act and to call your earnest attention to it.

This report was adopted on recommendation of a committee, 11 of whom are prominent merchants and 6 are leading bankers of this city. A copy of the report and also a copy of the Federal reserve act, as it passed the House of Representatives, were sent to each of the 1,600 members of the chamber in advance of the special meeting of October 20, to consider the same.

¹ Note carefully.

Every effort was made to obtain a full and free expression of opinion by the membership of the chamber; and its adoption at the special meeting is therefore proof that it represents the sentiment of New York on this great measure. As will be seen from the language of the report the desire is to cooperate with Congress in perfecting this most important legislation.

Yours, very respectfully,

SERENO S. PRATT, *Secretary.*

[Inclosure.]

Chamber of Commerce of the State of New York.

At a special meeting of the Chamber of Commerce of the State of New York, held October 20, 1913, the following report, presented by the committee on finance and currency, was unanimously adopted. The committee was enlarged by the addition of 11 merchants, and the report and a copy of the proposed act were sent to every member of the chamber in advance of the meeting.

JOHN CLAFLIN, *President.*

Attest:

SERENO S. PRATT, *Secretary.*

REPORT ON THE FEDERAL RESERVE ACT.

NEW YORK, N. Y., *October 16, 1913.*

To the Chamber of Commerce:

Your standing committee on finance and currency, composed of 7 bankers, having been enlarged by the addition of 11 merchants for the purpose of the consideration and report upon the Federal reserve act (H. R. 7837), now pending in the United States Senate, has made a careful study of this important bill and now respectfully submits its report. This report was first adopted by a subcommittee of 5 merchants and later by the full committee of 18. Its conclusions are based upon an independent study of the provisions of the bill, which study was illumined by the instructive discussion of the measure at the recent conference conducted by the Academy of Political Science. The two sessions of the conference, held in the hall of the chamber, were attended by hundreds of the members of the chamber, who listened with the deepest interest to the statements of Chairman Owen, of the Senate Committee on Banking and Currency, and Representative Bulkley, of the House Committee on Banking and Currency, and the debate which followed. In order that our membership might be further prepared to act intelligently upon this measure, a copy of the Federal reserve act was mailed to each member, and, moreover, a copy of this report has been sent to the members in advance of the special meeting called to pass upon it.

Your committee believes that experience is the greatest asset as it is also the surest guide to wisdom and the best preventive of errors in judgment in professional, political, commercial, and industrial life.

If there is one phase of the complex conditions of modern business in which more than another the wisdom gained by experience should obtain and be expressed it is in the currency and banking system of any great nation and in its administration.

For reasons which it is not necessary to discuss or review here the United States has long rested under a system unscientific, if not, indeed, unsound, which has proven inadequate to stand the strain of stressful times; and with many serious restraints and setbacks has achieved its material progress in spite of rather than because of the structure of its financial system.

Yet all the while we have had the example of other great nations pursuing their way through wars and pestilence, through fire and floods, through collapse of unwise speculation and shrinkage of security values with no disastrous disturbance or serious interruption to the progress of their productive energies and the interchange of commodities.

Experience, therefore, lies ready at our hand. Shall we avail ourselves of it; and, grasping the fundamental principles which underlie all successful systems, differing only in details, apply them to our own needs and conditions with equally beneficent results,

It is the conviction of your committee that such has been the intention of the Federal Congress and administration; and if we differ with them in our views as to the methods to be employed, it is because we believe that some of the provisions of the present bill will not permit of the free play and influence of some of those principles which it has attempted to recognize and which experience has proved are fundamentally necessary to security, flexibility, and fluidity of credit and exchange.

We should be untrue to ourselves and to the record of this chamber on the banking and currency question if we failed to point out what we believe to be the ideal solution, and frankly recognizing that, because of the complex conditions in our country, the ideal may be unattainable at this time, to suggest such changes in the present bill as we believe of vital importance to accomplish the ends which the needs of our commerce demand and which the security and advancement of our industrial and financial existence require.

The ideal solution, in our judgment, would be one central reserve association, dealing only with member banks and the Government; issuing currency against commercial notes having a definite and limited maturity, redeemable in gold and protected by an adequate gold reserve, this currency to be the obligation of the central reserve association issuing it and not involving the credit of the Government for its guarantee or redemption; other outstanding forms of currency to be gradually retired; the Government to use the reserve association as its depository and fiscal agent and to be adequately represented on its board of management; its operation generally to be under Government supervision, but not under absolute political control.

If this solution is not attainable at this time, recognizing that the present bill contains some features greatly superior to the existing system, your committee urges amendments to the proposed act in the following particulars:

1. The reduction in the number of Federal reserve banks to not exceeding four, with powers to operate branches within their own Federal reserve district.

NOTE.—If the desired strength resulting from the concentration of reserves is really to be obtained, and if in times of emergency there is to be a greater strength by unity of action of the reserve banks, with a small number of Federal reserve banks, cooperation tending to approximate the advantages of a single reserve reservoir might be possible. With 12 or more we believe that would be difficult and improbable and that there would in emergencies be likely to develop the same individual struggle for reserves that we have seen cause disaster before. The fewer their number the greater their strength would be in proportion, and the greater therefore the sense of security in the minds of all the people in their respective districts, a factor which must not be overlooked, for timidity and fear breed panics.

With too many districts it is entirely possible that in some of the large centers there would be a number of joint-stock banks and possibly even of private banks of greater financial power than the Federal reserve bank of that district, which in itself would deprive the latter of much of its expected influence, and of the confidence of the people. Four reserve banks as the maximum, suggested by your committee, would amply permit, North, South, East, and West to be fully embraced.

2. That membership in the Federal reserve banks be made of such importance to the national banks that it need not be made compulsory.

3. The retirement as promptly as possible of existing national-bank notes by the purchase by the Government at par of the outstanding 2 per cent bonds, or by some equitable arrangement by which the Federal reserve banks would take over these bonds from the national banks.

NOTE.—This country has long since passed the point where it needs to sustain a market for its bonds by an arbitrary and artificial means, which operates to the disadvantage of its commerce and of its citizens by maintaining an inflexible currency.

On the other hand it is unjust that banks which have invested their funds in Government bonds which did not return in interest and profits on circulation a sufficient sum out of which to create a sinking fund, should have to suffer loss by the withdrawal of the privilege or the substitution of a bond unmarketable at par.

4. That of the seven members of the Federal reserve board, not more than five should be appointed by the President, none of whom should hold other executive office, and not fewer than two should be elected by the member banks of the regional reserve banks, and that the compensation of the members of the Federal reserve board should be not less than \$25,000 per annum each.

NOTE.—The present provision in the bill designates three of the seven constituting the Federal reserve board from executive members of the Government charged with a multiplicity of duties in administration which must inevitably absorb so much of their time and thought that it is not apparent to your committee how they could possibly also exercise the important and responsible functions entailed upon members of the Federal reserve board.

In urging as strongly as we know how that at least two members of this board should be elected by the member banks of the Federal reserve banks, your committee again refers to the opening paragraphs in this report, pointing out that experience in administration is, in its opinion, of vast importance, and while this proposal would preserve a majority and control for the Government representatives this plan would assure beyond peradventure a minority of men trained and experienced in such special functions.

Private capital, and particularly banking capital, has been charged with being grasping and with the desire to take to itself great earnings, but even if this is true private capital has shown great care in the selection and liberality in the compensation of men to place at the head of its banking institutions, and stockholders in banks of even moderate size have always been ready to pay to a talented man several times the salary provided for the members of the Federal reserve board in the present bill. If private capital has indeed been grasping, it has been willing to pay large remuneration, because it believed that thereby it could secure high talent, and your committee believes that it will not be possible to secure the talent, experience, and judgment requisite to administer the broad powers and responsibilities of the Federal reserve board at the compensation proposed in the present bill.

5. That the rate of dividend to be allowed to member banks on their proportionate shares of the capital of their regional reserve bank should be 6 per cent instead of 5, and that all further profits of the regional reserve banks should be paid over to the Government of the United States.

NOTE.—If the Federal reserve banks are to be in fact public-utility institutions, chiefly if not solely for the safeguarding of the commerce, industry, and financial operations of the country, they should be operated primarily for that purpose and not for profit beyond a reasonable return upon the necessary capital contributed, and member banks should be free from the influences or temptations to govern their relations with regional banks by expected further profits, which the present provisions in the bill might tend to create.

6. That the Federal reserve notes be issued by the Federal reserve banks without guaranty by the Government.

NOTE.—It is questionable whether in the proposal to make these notes the obligations of the United States the question has been considered from an international viewpoint as thoroughly as from a purely national one. Whether it desires to be so or not the United States is about as much affected by international monetary conditions as any of the foreign nations. Already the great nations of western Europe as well as India in the East are engaged in an extraordinary struggle for the accumulation of increased gold reserves. Conceive of the conditions which might be caused by a great European conflagration of war intensifying this struggle for gold to titanic proportions. Possibly the citizens of the United States, no matter what domestic financial conditions

arrive, may not create embarrassment by wholesale demands for redemption in gold; but rich as the United States is it is still an immensely debtor nation and must continue to be so for many years, while there remain many natural resources to be developed and new industrial activities to be provided with capital, and moreover there remain enormous quantities of our securities held for investment abroad.

A European conflagration, and it has been perilously near at least twice within the past three years on the admission of the leading statesmen of Europe, would certainly result in an enormous foreign demand for gold, and the liquidation of our securities would dominate our international exchange market.

Conceivably, conditions might thus arise which would create such an ebb tide of gold that even the Federal reserve banks, if they were the issuers of the currency, could not stem or stop it, and in such an event the Government might have to come forward with its power and credit for the preservation of our domestic interests, but in that case the Government would be entering the lists with undiminished power on behalf of others and for the sustaining of other's credit and not entering the contest as a suppliant on its own behalf and for the preservation of its own credit, an immensely different position in strength and effectiveness than would exist if the Government itself had issued the notes.

Having these various considerations in view, your committee proposes the adoption by the chamber of the following preamble and resolution:

Whereas we are keenly alive to the defects of our present banking system and to the great advantages to commerce and industry that will certainly follow the enactment of a law recognizing the correct principles governing a centralization of banking reserves and the creation of an elastic bank-note currency; and

Whereas we believe that the measure which has passed the House of Representatives and is now pending in the Senate of the United States embraces in a considerable degree the recognition of those principles, and with necessary amendments may, if enacted into law, be of untold value to the commerce and industry of America; and we are in strong sympathy with the desire of the administration for the enactment of an adequate law: Therefore be it

Resolved, That the Chamber of Commerce of the State of New York recommends the enactment of the present measure after such changes have been made as banking and commercial experience may indicate to be necessary for the practical working of the law, and that this body specifically recommends:

(1) The reduction of the number of Federal reserve banks to not more than four;

(2) That a strong effort be made to save the national banking system from a loss in numbers through national banks taking out State charters, by making the provisions of the measure sufficiently satisfactory to banks to obtain their cooperation, and, if possible, to secure the accession of State banks and trust companies to the Federal reserve organization, so that the measure will tend to unify our banking system;

(3) That provision be made for a speedier retirement of the present bond-secured national bank note circulation by the redemption of Government bonds now securing circulation, in order as promptly as possible to make room for a sufficient amount of the new notes to give true elasticity to the currency;

(4) That at least two members of the Federal reserve board shall be elected by the member banks of the Federal reserve banks, and that the members to be appointed by the President shall not hold other executive offices;

(5) That after paying 6 per cent dividend on the capital of the Federal reserve banks that any further profits shall be paid into the Treasury of the United States Government;

(6) That the proposed note issue be the obligations of the Federal reserve banks issuing the notes and not of the United States: And be it further

Resolved, That if the pending measure be amended so as to conform in fundamental principles and administration to the approved practices of world banking in security and flexibility, we urge upon the management of national banks a broad and unselfish view and a hearty cooperation, believing that any temporary inconvenience arising from changed methods will be far more than compensated

by advantages which will flow from a sound banking and currency system that will benefit the commerce of the whole country.

Respectfully submitted.

Cornelius N. Bliss, jr.; John Clafin, president; Ralph L. Cutter; Otto L. Dommerich; Samuel W. Fairchild; Alexander J. Hemphill; Francis L. Hine; Augustus D. Juilliard; Joseph B. Martindale; Eugenius H. Outerbridge; William Jay Schieffelin; Mortimer L. Schiff; William Sloane; James Talcott; Frank A. Vanderlip, chairman; Clarence Whitman; Albert H. Wiggin; of the committee on finance and currency and members of the chamber associated therewith for the consideration of this subject.

NEW YORK, *October 16, 1913.*

ADDITIONAL STATEMENT BY WILLIAM W. FLANNAGAN, OF MONTCLAIR, N. J.

On reading pages 1650 to 1656 of the record of the committee, it seems that the questions and answers lead to the conclusion, that in order to prevent an over-issue of circulating notes by the Federal reserve banks, it will be necessary or desirable to regulate the interest rate by the time for which the discount is made; the examination concludes by the witness saying: "There should be some slight excess of the rate from month to month," the questioning Senator conceding "that is of course reasonable."

Now, we know that this is entirely impracticable, and that if such a provision was put into the bill it would raise "a howl" from one end of the country to the other as being an effort to uproot the business usage of the country. How could you defend the assertion that this was putting a penalty upon the extension of reasonable credit in accordance with usual trade requirements and was encouraging, in addition to interest charges, the demand for the payment of a useless premium for the nearest approach to cash transactions?

I believe this wrong conclusion is based upon the false premises assumed, as shown in the examination of the witness, to wit:

(1) "That a discount by the reserve bank is a loan of money."

(2) "That the issuance of circulating notes is measured by the volume of discounts made."

Banks don't lend money. They lend a substitute for money. I know this assertion will be called by some, uselessly drawing a technical difference "splitting hairs," "a distinction without a difference," all of which I deny. On the contrary, the fact is fundamental; it is the statement of a distinction which must be drawn in order to understand the mechanism of banking, especially by our legislators, if they would save themselves from wrong conclusions and the people from the result of grave errors occasioned thereby.

The common belief, exemplified in the expression that banks receive money from one class and lend it to another class is entirely erroneous. They do nothing of the kind. If it were true, then the total amount of the loans by the banks would be the volume of money in circulation or less, which we know is not so. The loans and discounts by the national banks alone are more than double the total "money" of the country, including as "money" all the coin and all the paper substitutes in circulation, whether issued by the Government or by the banks, and all held in their vaults.

I said the banks lend a "substitute for money"—it is usually called "credit"—and this term is apt to produce confusion of thought from the various meanings in which the word "credit" is used.

It is "credit" that is loaned or given, but only in the sense of a book credit made by the bank, as an acknowledgment of a debt; it is not "credit" in the usual sense of confidence nor of belief in future compliance with a promise. This latter "credit" is what the bank's customer extends to the bank when he accepts the book credit. This book credit made by the bank is the debt of the bank; it is called in banking parlance a deposit; it is the "substitute for money" which the bank lends, and it is used as such substitute by the borrower by means of a check.

At a risk of being prolix I would say that the mechanism of banking consists of the exchange of bank debts for other debts or for money. In the case of exercising the function of discount or loan, the bank exchanges its promise to pay on demand for the customer's promise to pay in the future. Because the fulfillment of the bank's promise is occasionally immediately required it does not change the nature of the transaction. This requirement, as a matter

of practice is usually, if not invariably, a separate transaction by means of a check—either the customer's or the bank cashier's check.

In the case of exercising the function of deposit the bank exchanges with the customer its promise to pay on demand for some other promise to pay when the deposit is in the form of a check or currency (paper money), or gives such promise to pay in exchange for coin when the deposit is made in coin; the latter does not constitute 1 per cent of the deposits made.

The remaining function of banking is called circulation or note issue; it is properly only a change in the form of the bank's debt and should be exercised only for the convenience of the depositor and not for the profit of the bank. We have been erroneously taught through the national-bank act to look upon the bank function of note issue as a source of profit. This profit was the great inducement held out by the framers of that act, for it allowed the drawing of interest from the Government on the bonds deposited and at the same time the earning of interest from the public on the circulating notes issued—i. e., double interest on the same capital invested. But this act was adopted primarily to provide a market for the Government bonds, not for the purpose of providing a uniform currency. The former destroyed the true bank function of note issue, from the evils of which destruction we now seek relief, while the latter is the unexpected benefit which we must retain.

The only difference between the debt of the bank represented by the circulating note and the debt represented by the deposit is that the first named is a debt to the public—i. e., an unknown creditor—and the last named is a debt to the depositor, a known creditor. A circulating note can not properly come into existence except in discharge of a preexisting debt by the bank, either in the form of a deposit created by the exchange for other debts or coin, or as the proceeds of a loan or discount; and hence it follows this form of bank debt should be created only at the creditor's option.

To illustrate the mechanism of banking with a concrete case, and in order to emphasize what I have said, let us take the example of a bank with a paid-up capital of \$100,000, and say that on the first day it opened it received current deposits of \$100,000 from many customers, of which \$50,000 was in checks on other banks, \$40,000 in currency, and \$10,000 in coin. At the close of business that day the statement of condition would show as follows:

Assets:

| | | |
|--------------------------|-------|----------------|
| Cash for capital paid in | ----- | \$100,000 |
| Due from other banks | ----- | 50,000 |
| Cash— | | |
| Currency | ----- | \$40,000 |
| Specie | ----- | 10,000 |
| | | <u>50,000</u> |
| Total | ----- | <u>200,000</u> |

Liabilities:

| | | |
|---------------|-------|----------------|
| Capital stock | ----- | \$100,000 |
| Deposits | ----- | 100,000 |
| | | <u>200,000</u> |
| Total | ----- | <u>200,000</u> |

We will suppose that within a week the bank has made discounts at 6 per cent to the full amount of its capital and to the extent of one-half the first day's deposits at an average time of, say, 60 days; supposing, also, that the checks paid and the deposits received during the week have left the net deposits from customers (other than discounts) the same as on the opening day. Then the statement of condition will show as follows:

Assets:

| | | |
|----------------------------|-------|----------------|
| Bills and notes discounted | ----- | \$150,000 |
| Due from other banks | ----- | 50,000 |
| Cash— | | |
| Capital paid in | ----- | \$100,000 |
| Currency | ----- | 40,000 |
| Specie | ----- | 10,000 |
| | | <u>150,000</u> |
| Total | ----- | <u>350,000</u> |

| | |
|-----------------------|-----------|
| Liabilities: | |
| Capital stock | \$100,000 |
| Discount and interest | 1,500 |
| Deposits | 248,500 |
| Total | 350,000 |

The statement shows a much stronger position than prudence requires or banking practice ever demands, the bank having a reserve in quick assets of 80 per cent of its liabilities. But the statement shows also that the bank has loaned \$150,000 and has added \$148,500 to the circulating medium of the country, at a profit of \$1,500, and still has \$200,000 in available cash assets, being double the amount of the capital with which it started.

This looks on its face as a case of "having your pie and eating it, too," but the truth is that this and many other transactions in banking are exemplifications of this supposed impossibility.

The reason of this and the solution of the paradox is that the banks create a debt which the public—i. e., the banks' customers—accept as a substitute for coin. The promise of payment or debt, as evidenced by the credit on the bank's books, is accepted by the customer in lieu of payment, and this credit—or deposit—is transferred by the customer by means of an order—or check—which is used by the customer to discharge other debts created in the daily interchange of commodities and service by the people, called the requirements of trade.

Now, these deposits or debts of the bankers are as much a part of the circulating medium of the country as if they were coin or bank notes; indeed, they constitute more than 95 per cent of this circulating medium, and are used to perform all the functions of money except the final cancellation and extinction of debt, which can be done only with coin.

To the extent that this substitution of bank debts for coin can be safely made both the people and the banks benefit. It has become a necessity for all civilized peoples and is the essence of banking everywhere.

All banking and currency legislation in every country are but variations or restrictions under which this substitution may be made, in order to accord with the habits, customs, and development of the people, all such laws being only different methods of securing safety in this substitution from the people's standpoint.

The banker's problem is to have the people substitute his demand debt for coin, to the fullest extent consistent with safety, which safety, from his standpoint, consists in being in the position at all times to discharge this debt whenever demanded. Experience has demonstrated that the law of average applies to these demand debts in a similar manner as it does to the business of life insurance. Men don't die all at one time, nor do they demand payment of their deposits at any one time.

Epidemics do sometimes come, and we provide against them as best we may by sanitary laws and quarantine. Financial panics also sometimes sweep over the land, and against these you are now seeking to provide as a part of the beneficial legislation you are considering.

The Federal reserve banks are intended to do for the member banks what the member and other banks do for the people. They are to furnish a debt, which can and will at all times be accepted as a substitute for coin, irrespective of commercial crises and financial panics. This debt, unless our whole business methods are revolutionized and entirely changed (which does not appear likely and certainly is not desirable), will be in the form of deposits to be transferred and used as a circulating medium, as now, by means of checks.

The member bank, when it asks for a rediscount from the Federal reserve bank, will have the proceeds placed to its credit and will use these proceeds in its regular operations by means of checks, or drafts as they are usually called, when made by a bank. It should not be presumed that these proceeds will be asked to be remitted in circulating notes any more than is done now. There appears to be no reason why such would be the case.

At some seasons of the year these notes will be required, but only because the member bank needs them for its customers, it being wisely provided that these notes can not be counted as reserve money by the member banks.

The measure and limit of discounts by the reserve banks will be the demand by the member banks, restricted to commercial paper as defined by the act, and further restricted by the required gold reserve to be held by the reserve bank against deposits as well as note issues. The volume of notes which may

be issued has no relation whatever to the amount of discounts which may be asked by the member banks.

The reserve banks will grant discounts as the business requirements of the member banks demand, limited by the reserve requirements of the law. The issuance of notes is entirely a different function and will be exercised in response to an entirely different requirement.

ADDRESS BY RAYMOND B. COX, ASSISTANT CASHIER FOURTH NATIONAL BANK OF THE CITY OF NEW YORK, BEFORE THE CLEARING HOUSE SECTION OF THE AMERICAN BANKERS' ASSOCIATION, THIRTY-NINTH ANNUAL CONVENTION, AT BOSTON, OCTOBER, 1913.

"NEEDED REFORMS IN CHECK-COLLECTION LAWS AND METHODS."

The history of banking is the history of note issue. Note issue, in a broad sense, may be defined as the process through which the individual exchanges his credit, which has only a local value, with the credit of the bank, which has a general value. While the granting of credit may be said to be the foundation on which commercial banking rests, the effective use of credit through credit instruments is the test by which a banking system is measured to determine its success or failure. Note issue has been declared to be a lost art in American banking, a statement that is not without some basis of fact when we consider that the system provided by the national-bank act fails almost entirely to properly perform those functions for which a bank-note issue is especially intended.

It is an economic truth that commerce and trade depending for its existence upon exchange will find a medium of exchange whether or not one is provided by the Government under which the exchange of commodities is effected. Thus we find shells and beads performing the functions of a medium among primitive peoples. In colonial days, when there had been little specie imported to the newly discovered country, skins of animals, tobacco, and other forms of wealth supplied the deficiency, not through any legislative statute, but in obedience to natural law which knows no rule save the law of necessity.

The operation of this law of economic necessity is well illustrated in the evolution of our chief circulating medium during the period between 1865 and 1875. When the national-bank act put an end to the issue of notes by individual banks we were left without a medium that would respond readily to the demands of trade. Obedient to the economic law of necessity something else was substituted that performed the functions of the more elastic State bank notes which had been discontinued. The instrument employed was the bank check, not new in itself, but new in the sense that it took on an increased importance from that day, an importance that has steadily increased to the present time, until now more than 90 per cent of payments are made by check.

This development has been due not only to the need of some such medium as has been suggested, but also to the fact that the check is superior in many ways to the true bank note which it so closely resembles in use. It is better adapted to the service of the people and to our independent system of more than 25,000 banks. People are encouraged to open bank accounts and make use of checks who would never carry such accounts otherwise. Thrift is thus encouraged and millions of dollars are turned into productive channels instead of being allowed to lie idle. We have educated the people to carry check books rather than wallets. While the amount of profit resulting to the banks is not entirely tangible, it can be appreciated even by the most shallow observer of financial conditions. It is hard to see how the business public could very well get along without the check, and bankers of to-day would not think of doing otherwise than encouraging the use of checks to the fullest possible extent.

But while the check is like the bank note, both in function and principle, in form it is like the bill of exchange, and hence we find that it is governed by the law applying to bills of exchange. It is drawn upon a bank as drawee, to the order of a payee, and is signed by the drawer. It is for a definite amount payable at a certain place on demand. Hence it seems only natural that the laws of the bill of exchange should govern the use of the check. Yet this is only relatively true. The bill of exchange is a commercial commodity to be bought and sold, but the check must be considered from the side of the function it is intended to perform. A check is primarily for the payment of debt, and is

seldom intended to be used for any other purpose. In this it enjoys an advantage over the bank note in that it can be made to fit the debt, whereas the note is ready made. It is for the exact amount of the debt and can be negotiated only by the payee. Title does not always pass by delivery, as is the case of the bank note, but usually by indorsement. Hence the check for many purposes is as superior to the bank note as the clearing-house currency certificate is superior to actual gold for the payment of clearing-house balances.

Unfortunately, however, in the rapid development of the check system, banks have utilized the check to a gradually increasing extent for their own advantage, so that now its original function has disappeared from the minds of bankers and they consider only its collection, and this as a means of enlarging their business or of enhancing their profits. This perversion of the true purpose of the check has been further augmented and complicated by the lack of definite and uniform State or National laws governing its increasing use in this country. In other words, both practice and law operate to hamper its rapid passage from payee to paying bank. As result of this hopelessly confused condition bankers are confronted with the problem of first reorganizing their own practice and of then securing from the courts a code of statute laws which will be specifically drawn for the check and which will similarly apply thereto throughout the Nation, as checks are sent from every State into every other State.

It is not the purpose at this time to state definitely the changes which should be made in our customs and laws, but to analyze the present status of the bank check and to suggest the nature of changes which are necessary before our banking system can ever be considered economic and scientific, for checks are just as important a part of the system as are note system and reserves.

As previously stated, checks are created generally for the sole purpose of satisfying an existing debt. The drawer of a legitimate trade check never contemplates that his instrument is to be used for any other purpose, and it is a function of the bank to use its facilities for the consummation of this purpose and for no other. The extent to which they do otherwise is a clog in the wheels of commerce and a tax on other business industries. However, banks, in the mad rush for deposit balances and profits, seem to have disregarded this fundamental business principle. It must be admitted in the first consideration of this subject, however, that all of these errors are the outcome, directly or indirectly, of what is known in this country as the collection-exchange charge. Original offenders are the banks which charge more than expenses for payment of their own checks presented through the mails. Rarely does a bank ever charge even expenses for payment of checks presented in person at its own window. On the other hand, rarely do they neglect to charge a distant holder, who has not the opportunity of objecting. This is the practice followed or encouraged by nearly all banks, which has created a system in this country which must be called at least inconsistent and unscientific. It is to avoid this charge upon these checks which can not be collected by the receiving bank's own messengers that they are sent here, there, and everywhere, apparently irrespective of their place of payment, and in being so sent are used for additional incidental purposes both by the sender and by the receiver. The sender not only adopts the group system to reduce expenses, but also to use these checks for creating balances in desired cities, a purpose most certainly not contemplated by the makers.

If this sender is also one of those banks which charges more than expenses in remitting for its own checks, it is therefore guilty of excessive tax, delayed presentation, and perverted use of checks. Further, if this same bank solicits from other banks, as do most city institutions, large volumes of checks payable outside of its own city, it does so mainly to secure the balance which it may require for such collection service. Having secured these balances and the volume of business, the bank sees another opportunity to secure an additional balance from these same checks, and for this purpose it proposes to pay a sub-agent for collecting a portion of the business in return for a commensurate balance. Such are the ramifications through which probably 50 per cent of the checks pass before they are finally presented for payment. Necessarily, such a system extremely hampers and retards the free circulation and rapid redemption of checks, which is demanded by the best interest of commerce and industry. Not only would a remedy of this situation be a benefit to business generally, but also it would be a boon to the banks themselves, if they would realize it, and as a unit cooperate to that end. There is no aggregate profit in such business, for what one makes another loses, and as has been aptly said, no industry as such can tax itself rich. To eliminate this confusion would be

to dispense with many of the present-day unprofitable bickerings and to place the banking business on a more scientific basis.

The problem has been partly solved in some sections of the country through the operations of what is known as the country clearing house. The entire solution of the problem and its complete elimination from American banking is now offered to the public in paragraph 6, section 17, of the proposed Federal reserve act. The very fact that such a paragraph has been introduced into the bill indicates that the situation has become so serious that Federal legislation seems necessary. While comparatively insignificant, this is undoubtedly one of the most important and most carefully constructed sections of the bill. Its author was evidently thoroughly familiar with existing conditions, and he has in a few brilliantly conceived sentences proposed to reform through the new system the great practical weakness and difficulty in our present banking methods. Its influence will be far-reaching and be equally beneficial to the banks and to the business public, for whom alone the banks are organized. If enacted and operated as at present outlined, checks will assume their proper place in the transactions of the Nation's business. They will serve the purpose for which they are created by business men, and when this is done they will be immediately redeemed and disappear instead of being used in many subsidiary ways incidental to the business public, yet expensive to them and confusing to the banking system. Banks will then be as they should—purely institutions of discount, deposit, and issue, and will conduct their business accordingly without having to assume the rôle which they do. Pyramided bank balances will disappear and deposit balances will represent the true funds or credits which their figures indicate.

That such a condition should have become part of our system is no discredit to the American banker. Our present system, the amalgamation or adoptions from many heterogeneous systems, has been in a continual process of development and has been forced to serve many varying conditions of war and peace, of trade activity and inactivity. Throughout our history the entire banking effort has been to provide funds and credit to build up our industries, with little time to consider perfection of the machinery used for the purpose. The condition is peculiar to this country, for the European systems of banking were thoroughly established before the advantages of checks were realized, and it was an easy matter for them to adjust their check system to the banking system, which they did. The crossed-check system and the London Country Clearing House, organized in 1858, or 175 years after the establishment of the Bank of England, regulates such matters in that country. Likewise does the Giro Conto serve the business public of Germany.

This, however, is but one phase of the question, the practical phase. The legal status of the check is equally confused and undetermined, not only here, but also in England and wherever used. While this subject has not received much consideration in America, it has been conspicuously before foreign bankers, and for many years they have been endeavoring through local and international conferences to adopt a code which, while establishing the necessary laws to regulate checks, would permit them to facilitate commercial transactions, for which they exist, in a manner free and unhampered by legal uncertainties or differences.

Now that there is proposed a remedy for the existing wrong check-collection methods, it would be most opportune to join with other countries and consider at this time the revision and unification of check-collecting laws. While the uniform negotiable-instrument law is generally in force in this country, yet this statute is designed primarily for bills of exchange, and, as has been said, the check is but one form of a bill of exchange and is so different from all others and plays such an important part in the commerce of the country—90 per cent of the transactions being effected by it—that a uniform check law would not only be justified, but has become almost a necessity. Such a reform would be entirely within the province of the American Bankers' Association, and for this purpose no other organization or body of men are so well equipped.

Reviewing the present legal status of the check of the United States we find that its free circulation and redemption are hampered by certain legal encumbrances—variances between statute laws of States and differences of prominent judicial decisions in similar cases. Conspicuous among these handicaps and differences may be noted the following:

The permission under the negotiable-instrument law to indorse checks as bills of exchange, qualified and conditionally, thus subjecting them to the complications of law possible in such cases and imposing a burdensome duty on the

paying bank. Legal indorsements on checks should be simplified to include only those which are necessary to complete the transactions for which the check was issued.

Indefiniteness and length of time which may elapse after delivery before a check is presented for payment.

Lack of definiteness in the prescribed form of drawing a check.

The wide differences among statutes and decisions regarding the relations between banks and depositors and banks and correspondents.

It is a universal practice among banks to receive checks from depositors and give them immediate credit for the same. Despite this common custom, the courts differ as to who is the real owner of the checks in question and what liability the banks assume in their actions. This should undoubtedly be definitely established by uniform statute, as should the relation between banks which send miscellaneous checks to each other. All goes well until the check is lost or some bank interested in its collection fails, when there is a needless confusion. The courts seem to disregard the present-day customs and intent of parties and base their decisions on rulings passed many years ago under very different conditions. A code of laws definitely regulating these matters would eliminate many disputes and difficulties occurring daily in banks all over the country. Likewise there should be a uniform statute relieving banks of responsibility for sending checks direct to the paying bank for redemption.

These are but a few of the local problems in the check-collecting laws which should be regulated, yet even these few are of sufficient importance to justify this body in giving serious consideration to the subject.

In Europe international conferences have been held at The Hague to draw up a uniform bill of exchange act. The International Law Association has held in all about 30 conferences, with the result that not only are the laws of shipping and carriage by sea fast approaching unification, but the laws governing the bill of exchange have narrowed down from a dozen or more conflicting codes to practically two, the law of Continental Europe and that of England and America, which are nearly identical. It is a significant fact that these many conferences have developed the thought that there should also be a uniform international check law. The efforts in this direction have disclosed that nearly all the important nations abroad recognize that checks should be subject to laws of their own, paralleling yet distinct from the bills of exchange laws.

We need not concern ourselves in this paper with international check law, except to make the broad statement that in any legal remedies proposed we should consider the future possibilities of the use of the bank check as a medium for making international payments. It is universally admitted that there are many matters concerning checks which must be adjusted to conform to local customs and practices. It is with this phase of check legislation that we are interested, especially since American laws in this respect seem to be far behind those in force in other nations. It is not within the possibilities of a paper of this length to note all the very interesting laws that are in force abroad pertaining to the collection of checks. It is enough to draw the contrast that there are such laws where we have none. For example, in nearly every country except England and America there is a law requiring checks to be presented for payment within a definite time. In Belgium the period between date and presentment is 3 to 6 days; France and Switzerland, 5 to 8 days; Germany, 10 days; and so on. Even Japan has a limit of 7 days. The need of such a law has not been so apparent in England, probably because since 1858 country checks have been collected through the London Clearing House. That there should be a law of this nature in our country, based, of course, on distances, is not an extravagant proposition in any sense.

Another custom prevailing abroad that is worthy of note is the practice of "crossing" checks. By drawing parallel lines across the face of a check the maker gives notice that the check may be negotiated only between banks, and it is therefore useless between individuals or subsequent indorsers. Protection is thus afforded the banks against items that may be lost or get into the hands of improper parties who could get value by forging an indorsement. The custom of "crossing" checks is spreading from England to France and Germany. Is it too bold a statement to suggest that a better plan in this country to protect both banks and the public would be to limit the number of indorsements? Such a precedent is already established by the Government in connection with post-office money orders, which might otherwise be used as a circulating medium instead of being sent for prompt redemption.

Generally speaking, the foreign banker enjoys a much more certain ground than his American confrère in making payment of checks sent for collection. As a German writer has well put it:

"In the mighty rush of daily business the clerk to whom the settling of these instruments is trusted ought only to look at the balance of the customer and his signature, and not ponder over any judicial questions and possible discrepancies of check laws."

Summing up the various conditions that operate against the proper use of the bank check as a convenient and satisfactory debt-paying credit instrument, it has been shown that they classify themselves into two groups: Those which may be termed unscientific, if not actually improper banking practices on the one hand, and legal obstacles and differences on the other. There is every evidence that the first difficulty is already in process of correction, and whether it shall be left to organization of banks, such as this body or clearing houses or individual banks, or whether, as seems probable, the solution will come through new currency legislation, the effect will be the same.

On the other hand, the legal phase of the check-collecting subject seems to hinge upon the following points, which can only be cleared up by legislation similar to the uniform negotiable instrument act:

- (1) A separate code should be enacted covering bank checks.
- (2) The relationship between the depositor and the bank must be definitely fixed as regards the deposit of checks for collection when credit is given at the time the deposit of checks is made.
- (3) The relations between banks handling such items for collection must be established.

In adjusting these problems several important details are involved, such as the intent of indorsement stamps, fixing of the time between the date of delivery of a check and the date of presentation, the liability of banks in choosing proper agents, and the rights of both the banks and depositors when checks are unpaid.

These reforms can not be accomplished without considerable study and much discussion. It is apparent, however, that they must be provided for if we really wish to adjust our banking system to the best interest of the Nation's commerce and industry. Now that banking reform is at such a critical stage, it would be well for the American bankers to begin at once a serious and active consideration of our check-collecting laws and methods.

(Thereupon, at 1 o'clock p. m., the committee took a recess until 2 o'clock p. m.)

AFTER RECESS.

Senator REED. Mr. Gilbert, will you please state for the benefit of the record your name, place of residence, and your business?

STATEMENT OF ALEXANDER GILBERT, PRESIDENT OF THE MARKET & FULTON NATIONAL BANK, OF NEW YORK.

Mr. GILBERT. My name is Alexander Gilbert; I reside in Plainfield, N. J. I am president of the Market & Fulton National Bank, of New York.

Senator NELSON. Of what bank?

Mr. GILBERT. Of the Market & Fulton National Bank, of New York.

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

Mr. GILBERT. I am almost ashamed to answer that question. I have been in the banking business over 50 years.

Senator REED. And what is the capital of your bank and its surplus?

Mr. GILBERT. The capital is \$1,000,000 and the surplus is \$1,900,000.

Senator REED. How long have you been president of that bank?

Mr. GILBERT. I have been president for 17 years.

Senator POMERENE. What deposits have you in that bank?

Mr. GILBERT. Our deposits are about \$10,000,000.

Senator REED. Can you tell us, in the rough, what proportion of your deposits are the deposits of other banks?

Mr. GILBERT. About \$2,500,000.

Senator REED. Have you been, at any time, the representative of other banks, or of other banking associations, such as clearing houses, etc.?

Mr. GILBERT. I was president of the New York Clearing House during the panic years of 1907 and 1908.

Senator REED. Had you, prior to 1907, been the president of the clearing house?

Mr. GILBERT. No; I had been a member of the clearing-house committee, but prior to 1907 I was not president of the association.

Senator REED. Were you president at the time the panic came on, or did you come into office after that?

Mr. GILBERT. No. I was president before the panic.

Senator REED. How long before the panic?

Mr. GILBERT. I think I was elected in October, 1907. The panic broke out very shortly after that.

Senator NELSON. On the 21st.

Senator REED. And, prior to that, you had been a member of what board of the clearing house?

Mr. GILBERT. The clearing-house committee.

Senator REED. Well, the clearing house of New York is composed of what?

Mr. GILBERT. It is composed of 31 national banks, 17 State banks, and 15 trust companies.

Senator REED. Do you know what the aggregate capital of the members of the clearing house is?

Mr. GILBERT. The banks have a capitalization of about \$119,000,000, I think.

Senator REED. You say "the banks." Does that include the trust companies?

Mr. GILBERT. That does not include the trust companies. I could not say definitely just what the capital of the trust companies is.

Senator REED. This clearing-house association, does it have any fund that it carries for any purpose?

Mr. GILBERT. No. It has no funds outside of its yearly income, which is all used up for administrative purposes every year.

Senator REED. I had in mind—

Mr. GILBERT (interposing). Except that it owns its own real estate.

Senator REED. What I had in mind was a fund for the purpose of clearing, that was kept in some form.

Senator POMERENE. That is, do the banks keep a fund in the clearing house?

Senator REED. Yes; do they keep a fund in the clearing house?

Mr. GILBERT. Practically, yes; and practically, no. The banks deposit gold in the clearing house and take out clearing-house certificates, which they use in settlement of their daily balances. That is simply in order to protect the banks against loss—from carrying their cash settlements through the streets.

Senator REED. It is a sort of guaranty fund?

Mr. GILBERT. Well, the certificate is substituted for the gold.
Senator REED. And the clearing house is the custodian of that gold?

Mr. GILBERT. Yes.

Senator REED. Do you know about how much of that there was in 1907; about what that fund was?

Mr. GILBERT. No; I do not. I think it very seldom amounts to more than \$50,000,000 or \$60,000,000. It varies with the amount of cash. When I say "cash," I mean the clearings of cash, lawful money, gold, and legal-tender notes, which, from time to time, accumulate in the banks. Of course, when the banks get a larger amount than they want to carry in their own vaults they send it down to the clearing house and take out clearing-house certificates, because those clearing-house certificates are always available for settlement of our daily balances.

Senator REED. And when the bank comes and gets clearing-house certificates they are charged against this gold; is that it?

Mr. GILBERT. Yes; on the books of the clearing house.

Senator REED. Well, why do they keep gold instead of lawful money?

Mr. GILBERT. Well, they keep a certain amount of both. The New York bankers, the clearing-house bankers, are, and always have been, a very conservative body of men. I do not think it would be possible to find a more conservative body of men in the world than the bankers of the New York Clearing House; and they always aim to develop and maintain the highest degree of conservatism among their member banks and are very strict and rigid in their examinations from time to time.

Senator NELSON. This money, or this gold, is deposited there by the brokers—

Mr. GILBERT (interposing). Brokers have nothing to do with it.

Senator NELSON. I mean the banks deposit it.

Mr. GILBERT. The banks deposit the gold in the clearing house.

Senator NELSON. The banks deposit the gold in the clearing house; and is the gold actually kept in the vaults of the clearing house?

Mr. GILBERT. Oh, yes.

Senator NELSON. You have a sort of bank, then, for that business?

Mr. GILBERT. The clearing house has its own vaults.

Senator NELSON. Yes; and the gold is deposited there, and you issue these clearing-house certificates?

Mr. GILBERT. Yes.

Senator NELSON. And that is used in liquidating the balances?

Mr. GILBERT. Yes.

Senator POMERENE. And for no other purpose?

Mr. GILBERT. And for no other purpose.

Senator NELSON. And it is to save the lugging around of the gold or the money, is it not?

Mr. GILBERT. Yes. And in answer to Senator Reed's question as to why they keep gold instead of lawful money, they realize it is a good policy to establish and to carry from time to time a good gold reserve.

Senator REED. That is a good way to keep it in one place.

Mr. GILBERT. Yes. I want to emphasize just one thing, and that is these clearing-house certificates differ from the clearing-house certificates which we issued during the panic in this respect only, that in the panic in order to protect our lawful money reserves, we issued these clearing-house certificates against the assets of the member banks—that is, commercial paper and such other bond securities or stock securities as they might have—and those certificates were not used outside of the clearing house; they never circulated as money.

Senator REED. What certificates do you mean?

Mr. GILBERT. The ones that were issued during the panic.

Senator SHAFROTH. The clearing-house certificates?

Mr. GILBERT. The clearing-house certificates.

Senator NELSON. But let me ask you this question: Those certificates were certificates held by the individual banks, were they not?

Mr. GILBERT. By the individual members.

Senator NELSON. They did not do as was done in the panic of 1873, make them a joint liability of the clearing house?

Mr. GILBERT. Oh, yes; the joint liability of all the banks who were members of the clearing house.

Senator NELSON. Yes.

Mr. GILBERT. But they were not used outside of the clearing house association; they were only used for the purpose of settlement of balances from day to day.

Senator NELSON. They took the place of those other gold certificates that you had?

Senator REED. You did not pay them out over your counter?

Mr. GILBERT. No; we did not pay them out over our counters; and they did not go out of our possession; and there was a penalty against using them outside the clearing house. I want to again emphasize that, because there is a wrong impression which has gotten abroad about these certificates.

Senator REED. They used them generally in my district as currency.

Mr. GILBERT. During the earlier panic, in 1873 and 1893, before their use extended itself to other clearing houses of the country, they were not used outside of the clearing houses; and New York has never departed from that custom. It was simply an agreement among the member banks with each other, in which they practically said, "You have not the money to pay us in gold; we will lend you this money; you owe it to us." And we owed one another; that is all; and these certificates were simply due bills which represented the debts one bank owed another in the clearing house; they never went outside the clearing house.

Senator NELSON. But these due bills were the joint due bills, then, of the entire association, were they not?

Mr. GILBERT. Yes.

Senator NELSON. But they were delivered to the banks which had an account to settle; and if that bank used when to settle its balances, they were a debt from it to the clearing house, were they not?

Mr. GILBERT. When a bank found its lawful reserves were getting low it would take security to the clearing house committee and say, "I would like to take out a certain amount of clearing-house certificates to settle balances," and the clearing-house certificates were

issued on the deposit of securities with a margin of 25 per cent over and above the amount of certificates issued.

Senator NELSON. Yes.

Senator POMERENE. The collateral consisted of approved bonds, did it?

Mr. GILBERT. Approved bonds and commercial paper.

Senator POMERENE. And stocks?

Mr. GILBERT. Yes; stocks that were approved by the committee.

Senator REED. Can you tell us, in the aggregate, how much of that was done; what was the aggregate of the certificates?

Mr. GILBERT. That were issued during the panic?

Senator REED. Yes.

Mr. GILBERT. I think the maximum issue was something over \$90,000,000.

Senator REED. At one time?

Mr. GILBERT. At one time; and those certificates bore 6 per cent interest.

Senator POMERENE. That is \$90,000,000 in addition to the gold certificates which were out?

Mr. GILBERT. Yes; \$90,000,000 of clearing-house certificates.

Senator NELSON. I suppose, for the time being, they took the place of the other certificates?

Mr. GILBERT. Yes; for the time being they were used for that.

Senator NELSON. In lieu of those you issued on the gold?

Senator REED. You held your gold intact, did you not?

Mr. GILBERT. Now, gentlemen, in connection with that, let us discuss this feature—section 17 of this bill.

Senator REED. May I interrupt you, Mr. Gilbert, to ask one question?

Mr. GILBERT. Yes; certainly.

Senator REED. You were charged 6 per cent on those certificates during the panic?

Mr. GILBERT. Yes.

Senator REED. Why?

Mr. GILBERT. So that a member of the clearing house would not keep them out one day longer than was absolutely necessary.

Senator REED. You bankers, dealing among yourselves, thought it was a proper and necessary thing to put that sort of a check on the issue of those certificates, did you?

Mr. GILBERT. Exactly; that was it, I think. And it served its purpose, because just the moment a bank found that it was in a position to pay off those clearing-house certificates, or a portion of them, they were paid off or reduced.

Senator WEEKS. How long did they remain outstanding?

Mr. GILBERT. Why, I think that they were all retired within four months; that is my impression; four or five months.

Senator WEEKS. And most of them within 60 days?

Mr. GILBERT. Most of them within 90 days; I would not say 60 days.

Senator WEEKS. Your rate of interest was lower than the rate on clearing-house certificates that was charged in some cities.

Mr. GILBERT. Our rate was never higher than 6 per cent.

Senator WEEKS. In Boston the rate was 7.2 per cent.

Mr. GILBERT. Our rate was never higher than 6 per cent.

Senator NELSON. Those other certificates that you spoke of first—they do not draw interest, do they?

Mr. GILBERT. No; those certificates are simply substituted for gold.

Senator NELSON. Yes; they are like our gold certificates here?

Mr. GILBERT. Now, section 17 of the new bill. I would like to call your attention to this while we are on that subject.

Senator REED. What page is that on?

Senator POMERENE. It begins on page 29, I think.

Mr. GILBERT. I was looking for the section. I thought it was section 17 which provides that.

Senator SHAFROTH. Section 17 is the section about the note issue.

Senator NELSON. It is the discount provision that I think you are after.

Mr. GILBERT. It refers to the prohibition against the issue of clearing-house certificates hereafter.

Senator POMERENE. Oh, I did not know that was what you were after.

Mr. GILBERT. I thought it was section 17. Well, I can not find it just for the moment; but the bill provides, in substance, that hereafter no—

Senator REED (interposing). Here it is.

Mr. GILBERT. Will you read it, please?

Senator NELSON. What page?

Senator REED. I found it on page 36—beginning at the bottom of page 35. [Reading:]

Meanwhile every national bank may continue to apply for and receive circulating notes from the Comptroller of the Currency based upon the deposit of 2 per cent bonds or of any other bonds bearing the circulation privilege—

Mr. GILBERT. That is it.

Senator REED. [Reading:]

But no national bank shall be permitted to issue other circulating notes, except such as are secured as in this section provided, or to issue or to make use of any substitute for such circulating notes in the form of clearing-house loan certificates, cashier's checks, or other obligation.

Mr. GILBERT. That is it, exactly. Now, you will notice the language there:

But no national bank shall be permitted to issue other circulating notes, except such as are secured as in this section provided, or to issue or to make use of any substitute for such circulating notes in the form of clearing-house loan certificates, cashier's checks, or other obligation.

What I want to call your attention to is, that the clearing-house certificates as issued by the New York Clearing House under panic conditions never were issued as a substitute for circulating notes. So that this prohibition does not apply to those clearing-house certificates that were issued, for they never were used as circulating notes. Do you get my idea?

Senator REED. Yes; I get your idea.

Senator POMERENE. Well, were they so used among the members of the clearing house; if so, they served the same function, did they not?

Mr. GILBERT. They never were circulated outside the clearing house, or served any other purpose than to settle the balances between the members.

Senator REED. Well, what would you say as to this provision, is it not broad enough to cover it.

But no national bank shall be permitted to issue other circulating notes, except such as are secured as in this section provided, or to issue or to make use of any substitute—

Mr. GILBERT. Where is that, Senator Reed?

Senator REED. That follows right on.

Mr. GILBERT. In section 20?

Senator REED. No; in section 19.

Or to issue or to make use of any substitute for such circulating notes in the form of clearing-house loan certificates, cashier's checks, or other obligation.

Mr. GILBERT. Well, the point I make is that they never were used as a substitute for circulating notes, any more than cashier's checks as generally issued are so used.

Senator SHAFROTH. Well, in case they were used as currency it would apply.

Mr. GILBERT. Yes; it would apply to them then.

Senator REED. Well, do you think this language ought to be broadened so as to stop the thing that occurred in New York during the panic?

Mr. GILBERT. I do not think it should. I think the time may come when the use of clearing-house certificates for the purpose for which the New York Clearing House uses them might be very advantageous.

Senator REED. Between the banks?

Mr. GILBERT. Yes; between the banks.

Senator REED. For use between the banks?

Mr. GILBERT. Yes, sir.

Senator REED. You would not want a section put in the bill that would bar the banks of New York from the privilege of taking, say, \$50,000,000 of gold to a common center and putting it into the custody of some man or institution and then issuing a certificate to each bank for its proportion of that gold, so that it might exchange those certificates for liquidated balances? You would not think that ought to be done?

Mr. GILBERT. Oh, no.

Senator NELSON. Well, what about the other certificates, such as you issued during the panic?

Mr. GILBERT. Well, I was going to say that you can not appreciate without having had practical experience the great advantage to the business interests of the country that arises from the fact that the New York banks can maintain the settlement of exchanges through the New York Clearing House, through which checks, drafts, and other items to the extent of \$200,000,000 or \$300,000,000 are passing for redemption every day, and are redeemed by the use of those clearing-house certificates between its members.

Senator REED. That is, the gold certificates?

Mr. GILBERT. No. That is the clearing-house certificates which we issue in times of panic against securities held by the banks.

Senator REED. Well, I wanted to be sure.

Mr. GILBERT. Of course there could be no objection against the gold certificates, because they are simply certificates issued against the deposit of gold.

Senator NELSON. I suppose you think this language, "loan certificates," leaves the certificates that you issued during the panic outside—not covered by the bill?

Mr. GILBERT. Well, I think it could be so interpreted. I hope it could be so interpreted, because I think it very essential that they should not be prohibited.

Senator REED. Well, would that be so necessary if you could take collateral directly over to the regional reserve bank and get the money?

Mr. GILBERT. No; if the regional reserve bank maintains its character at all times as a reserve association and does not dwindle into an ordinary, commonplace bank, through its desire to do a large business. I can foresee the possibility of one of the regional reserve banks loaning its assets to such an extent that it would not be able to afford any relief in time of panic.

Senator SHAFROTH. The power to issue money, however, would be there.

Mr. GILBERT. The power to issue circulating notes.

Senator SHAFROTH. Upon collateral.

Mr. GILBERT. Upon $33\frac{1}{3}$ per cent gold reserve.

Senator SHAFROTH. Yes.

Mr. GILBERT. Which ought to be 50 per cent. But even that power may be exhausted if we should pass through a period of inflation to which the regional reserve banks would give way.

Senator NELSON. It would be contingent on whether the banks had the commercial paper to deposit with their reserve bank, would it not?

Mr. GILBERT. It would be contingent upon their ability to loan any further.

Senator NELSON. Yes.

Mr. GILBERT. They may have exhausted their loaning power.

Senator REED. You think, Mr. Gilbert, that we might confront a condition sometime when, if you needed \$100,000,000 in a great emergency, the \$50,000,000 in gold could not be produced—if we had a 50 per cent reserve—or the \$33,000,000 under the present provision—could not be produced?

Mr. GILBERT. I think it is possible.

Senator REED. And right at the very crucial hour we would have to stop.

Mr. GILBERT. Yes; why not?

Senator REED. And you think there ought to be a saving clause of some kind in the bill to cover that situation?

Mr. GILBERT. Why, in our own clearing-house banks we are obliged to carry a 25 per cent reserve, and when the indication of an approaching panic is most seriously felt it is indicated by our reserve, which has got down to a limit which makes it necessary for us to stop the loaning, because we have exhausted our loaning limit.

Then the demand is for banking credit. It is not for currency; currency would do us no good, because currency does not count in our "lawful-money" reserve. And very few people are able to differentiate, really, in discussing this question, lawful-money reserve, banking credit, and currency. And almost every man who—I will not say almost every man, but a very large number of magazine writers who write on banking reforms—seem to think that the bank

note is the most important factor in the problem, the great cure-all for panics and money crises.

Senator REED. What do you think about it?

Mr. GILBERT. The fact is that banking credit is the thing; 95 per cent of the business of the country is done on credit, and when a merchant goes into a bank, in times of great stringency, and says, "I want you to loan me \$10,000, or \$15,000, or \$20,000 to meet notes I have coming due," he does not want bank notes, he wants the bank to put \$10,000, or \$15,000, or \$20,000 to his credit.

Senator NELSON. So that he can check against it.

Mr. GILBERT. So that he can check against it. And the bank says: "Why, I can not do that; if I do that, I have got to increase my lawful money reserve. I am below my reserve now; I can not loan any more." Bank notes would not do the bank any good.

Senator NELSON. And that very loan would make you put up a bigger reserve?

Mr. GILBERT. Exactly.

Senator REED. Well, if these notes are received as a reserve only requiring 33 $\frac{1}{3}$ per cent to be kept against them in the regional reserve bank, then he could get \$3 for \$1. That is, he could take \$100,000 of gold to the regional bank—I mean a bank can do this—and they can get \$300,000 of paper. Now, they could use that paper in their own reserves.

Mr. GILBERT. No; he could not do that.

Senator REED. Under this bill?

Mr. GILBERT. No; he could not do that.

Senator NELSON. No; they can not issue currency on the deposit of gold, can they?

Mr. GILBERT. No.

Senator SHAFROTH. It must be additional—

Senator REED (interposing). Of course, I implied that they carry over paper that this man who desires to borrow \$300,000 would give to the bank—his paper for \$300,000. They would have that. They would have to carry that over to the regional bank, and they would have to carry over \$100,000 of gold, and then they could get \$300,000 of paper.

Mr. GILBERT. Do you not see that if they had \$100,000 of gold they could increase their own loans on the basis of that \$100,000 of gold?

Senator REED. They could increase their own loans on that basis, but they could increase them more with the currency, could they not?

Mr. GILBERT. No; they could not, because \$100,000 of gold in a national bank will carry an expansion of \$400,000 of loans.

Senator REED. Of loans? But \$300,000 of this paper money would carry \$1,200,000—

Mr. GILBERT (interposing). Will you please let me explain?

Senator REED. Yes; that is what I want.

Mr. GILBERT. A merchant comes in and says to the bank: "I want to make a loan of \$400,000 and I want you to put it to my credit." Now, if they had that \$100,000 free—

Senator NELSON. In gold.

Mr. GILBERT. In gold. That \$100,000 would be sufficient reserve to carry against that \$400,000 loan.

Senator NELSON. Under existing law?

Mr. GILBERT. Yes; under existing law.

Senator REED. Yes; I understand. But suppose that you had your \$100,000 of gold, and you get your \$400,000 of paper from your merchant, and you take the \$100,000 in gold and your merchant's paper and go to the Federal reserve bank, and they issue \$300,000 of this money, which you carry over and put in your vaults—and which is a full legal tender—a reserve now is held against that money, and there is held in the regional bank the gold reserves.

Mr. GILBERT. You are reasoning on the theory that the notes of the Federal reserve bank will be not only a legal tender but “lawful-money” reserve in a member bank, and that will not be the case.

Senator REED. Well, let us leave the question out, for the moment, of the lawful-money reserve.

Mr. GILBERT. But it could not be left out.

Senator REED. You think that you could not use them for reserves—you would have to go and get 25 per cent of gold to put up in your own vaults—do you?

Mr. GILBERT. I mean to say that they could not make the loan unless they had the reserve there.

Senator REED. Of gold?

Mr. GILBERT. Yes; the reserve of gold.

Senator REED. Then it is necessary to make these notes available as reserves or you destroy their utility?

Mr. GILBERT. You destroy the elasticity of the bank notes by making them available for reserve purposes.

Senator NELSON. It would make them inelastic if they are used as reserves?

Mr. GILBERT. Yes, sir.

Senator REED. Yes. But if Mr. Gilbert is correct, and I understand him, the sum of his reasoning is that there could be no possible benefit coming from this bill.

Mr. GILBERT. I do not say that. I have not said that.

Senator REED. But if you said that a bank having enough money to put up with the reserve bank in gold, and putting it up and getting this money, and carrying it back in the proportion of 3 to 1 and putting it into its vaults, is no better off—

Mr. GILBERT (interposing). No; you misunderstand me.

Senator REED (continuing). And can not loan any more money than it could before—

Mr. GILBERT (interposing). You misunderstand what I say.

Senator REED. I evidently do.

Mr. GILBERT. If I wanted to use the Federal reserve bank to increase my reserve I would simply send over the bills receivable to the Federal reserve bank and tell them to put those to my credit. And that balance in the Federal reserve bank would be additional reserve for me, because my balance in the Federal reserve bank counts as part of my reserves.

Senator REED. Yes.

Mr. GILBERT. It would not be necessary for me to take the gold out of the Federal reserve bank.

Senator REED. I understand that.

Mr. GILBERT. And then there might possibly be this condition, which frequently happens in the ordinary everyday banks—in the

large banks—there might be this condition in the Federal reserve bank, that they had all loaned up to the full capacity of their reserves.

Senator REED. Their gold?

Mr. GILBERT. Their gold; and they would not be able lawfully to increase their loans. I only instance the fact of the New York banks to show that it is possible for the reserve banks in the course of time to be placed exactly in the same condition that the present commercial banks of New York are frequently placed in.

Senator REED. Well, do you think that the remedy for that is to continue—or provide that banks still can get together and, among themselves, circulate their own obligations?

Mr. GILBERT. No; I do not. But I mean to say that, when conditions arise in New York and a panic is about to ensue, the use of the clearing-house certificate as it has been used by the New York banks in the time of panics simply between the members, not as circulating notes but simply between the members for the settlement of balances, confers very, very great advantages on the business interests of the country, for the reason that if the daily settlements at the New York Clearing House should become paralyzed so that they could not settle their daily exchanges, you can not foretell what might happen.

Senator REED. Then you would want to add to this bill a clause something like this:

Provided, however, That nothing herein contained shall prohibit banks which are members of clearing houses from arranging between themselves a method for clearing their balances through clearing-house certificates.

Mr. GILBERT. In times of extreme emergency.

Senator REED. Yes; in times of extreme emergency.

Senator NELSON. How would it be, Mr. Gilbert, to put in a proviso that you should have authority with the consent of the Federal reserve board?

Mr. GILBERT. Well, I think in a case of that kind I would be perfectly willing to leave that in the hands of the board, because I think any board composed of intelligent men would see how necessary it would be.

Senator WEEKS. The present law provides sufficient means to prevent issuing clearing-house certificates and putting them into circulation, does it not?

Mr. GILBERT. I think that they have been issued by various clearing houses in the country and circulated.

Senator WEEKS. A great many clearing houses issued them and put them in circulation.

Mr. GILBERT. I think that ought to be stopped.

Senator WEEKS. Well, if you apply the 10 per cent tax on State circulation, that would stop their circulating, would it not?

Mr. GILBERT. Yes; that tax would stop it.

Senator REED. Mr. Gilbert, a suggestion comes from Senator Bristow, which is that when you have concluded your statement, in order that the statement may be in concrete form—either to-day or within two or three days—you take one of these bills and prepare your suggestions as amendments and attach them right to the bill.

Mr. GILBERT. Yes.

Senator REED. And then we will have them in a form in which we can use them.

Mr. GILBERT. Yes.

Senator REED. That has been done by one or two others. Now, Mr. Gilbert, is there anything else along this line of which you wish to speak?

Senator POMERENE. Before Mr. Gilbert leaves this question in reference to certificates, I want to call your attention to this language. This inhibition here applies to national banks alone: "But no national bank shall be permitted to issue," and so forth.

Mr. GILBERT. Yes.

Senator POMERENE. It seems to me, from my reading of this, that in view of the fact that State institutions and trust companies are permitted to come in under the bill, whatever this inhibition is, it ought to apply to all of them, as well as to national banks. What is your thought about that?

Mr. GILBERT. Well, of course it would not apply to any other than national banks.

Senator POMERENE. Not as it stands?

Mr. GILBERT. No.

Senator NELSON. The clearing house is not a national bank; it is an association of national and State banks?

Mr. GILBERT. Yes.

Senator NELSON. And these certificates are the notes of that concern?

Mr. GILBERT. This inhibition applies to the clearing houses.

Senator POMERENE. But this says: "No national bank shall be permitted to issue," etc.

Mr. GILBERT. Yes.

Senator REED. And it is not broad enough to cover the clearing houses now. It should be "no national bank, member bank, clearing house, or other association." And that language will have to be broadened not only to cover the member banks but the association formed by banks.

Senator POMERENE. Clearing-house associations.

Senator REED. And then, should this bill not contain an absolute prohibition against any bank that is not a member bank, or a tax for engaging in this business?

Senator POMERENE. That may be so, too.

Senator NELSON. You could add a proviso there, after the word "obligation."

Provided, however, That such loan certificates may be issued in times of financial stringency with the consent of the national board.

Senator POMERENE. The Federal reserve board?

Senator NELSON. Yes; with the approval of the Federal reserve board; that is, if you get their approval, then you can issue such certificates as you did in the panic.

Mr. GILBERT. Yes.

Senator NELSON. As I understand it, you simply believe that the privilege should exist in case of an emergency or financial stringency; you do not want it for any other purpose, and you want it on that account, that you fear that these regional banks may not always be in

a position to bridge you over in such emergency, and you want this place of safety left open for you?

Mr. GILBERT. The question would then arise as to whether the relation of the Federal reserve board to the clearing houses of the country would be such that they could exercise any power in that direction. Their control is simply over the regional reserve banks.

Senator NELSON. Yes. But suppose we put in a condition that you could not use those clearing-house certificates without their consent and gave the board jurisdiction to that extent?

Mr. GILBERT. Yes. That is something that would have to be thought over very carefully.

Senator REED. I want to make this suggestion in that connection: That that power can be exercised through a taxing power to provide that such certificates when issued should bear some tax burden which would stop it.

Mr. GILBERT. Yes.

Senator REED. And I want to suggest and impress on the committee the propriety of considering whether the system ought not to be so drawn that the nonmember institution could not avail itself of these benefits, offering an additional inducement for the banks to come in.

Are there any other questions on this branch? Mr. Gilbert, you may proceed with your suggestions.

Mr. GILBERT. You have no other questions?

Senator REED. No.

Mr. GILBERT. I have given a good deal of thought to the question of how many regional reserve banks ought to be organized under this bill, and I was asked to write a paper upon that subject, and if you have patience enough to listen to it I will read it to you.

Senator NELSON. I would be very glad to hear it.

Senator SHAFROTH. All right; we would like to hear it.

Mr. GILBERT. In studying carefully the provisions of the "Act to provide for the establishment of Federal reserve banks" I am persuaded that inasmuch as the Federal reserve banks are authorized to establish branches it would be unwise to provide for more than six reserve banks at the outset, for the reason that the proposed system is theoretical and experimental and should be started from a lower level and developed with the business requirements of the country.

The establishment of 12 reserve banks with an aggregate capitalization of \$100,000,000 is illogical, and I fear would prove disappointing for the reason that the capital of a majority of them would be too small to give them much importance or usefulness as reserve associations. And again, it is doubtful if divided into small units they could be made to pay dividends promised the member banks on the capital invested. The dealings of the Federal banks are restricted to the member banks and the Government. Their principal source of income will be derived from rediscounting commercial paper for member banks. Outside of this they are restricted to investments in United States, State, and municipal bonds, gold and foreign exchange. They can also in the open market buy and sell prime bankers' bills—domestic and foreign. If their transactions are largely confined to rediscounting for member banks they would fulfill their most important function and prove their right to exist; but it does not ap-

appear that they could earn dividends. The last report of the Comptroller of the Currency shows that borrowing and rediscounts by all the national banks of the country at the present time amount to about \$108,000,000, which divided between 12 regional banks would hardly pay running expenses, and this in a year of exceptional strenuous money conditions.

Senator REED. Will you kindly read that last paragraph again?

Mr. GILBERT. The last report of the Comptroller of the Currency shows that borrowing and rediscounts by all the national banks of the country at the present time amount to about \$108,000,000, which divided between 12 regional banks would hardly pay running expenses, and this in a year of exceptional strenuous money conditions. I do not mean the principal, of \$108,000,000, divided up, but the interest.

When conditions are normal the demand for rediscounts is not nearly as large. Possibly the facility for obtaining rediscounts offered by the Federal reserve banks might awaken the spirit of speculation and tempt the member banks into new fields of investment, and thus increase the demand for rediscounts. Or they could go into the bond market and purchase such bonds as the law permits, and thus increase their earning capacity, but they could not do this to any great extent without impairing their usefulness as reserve associations. Their power to buy prime bankers' bills of the kinds made eligible for rediscount in the open market would avail them little until an open money market is fully developed, which is not probable in the near future. Banks are not selling paper in the open market, neither are they accepting paper for their customers—I mean by that, accepting drafts—although it is within the range of possibility that the open market may be more quickly developed under the operations of the act than is now anticipated. Investing in prime sterling bills would be a safe and conservative investment, and probably a wise one, for the reason that it would give them command of gold to the extent of the investment when wanted; but the rate of interest on this investment would not be very high. It would be much easier for 6 reserve banks to earn dividends than for 12. The running expenses would be largely reduced and their usefulness would be increased in proportion to their increased strength. The Comptroller of the Currency in his reports divides the national banks of the country into six groups, viz: New England, Eastern, Southern, Middle West, Western, and Pacific States. If one Federal reserve bank could be allotted to each group, it would, in my judgment, better conform to the present geographical and business requirements of the country than to have 12; and each reserve bank would by reason of its greater strength in capital and deposits exert greater influence in time of need. Under such a distribution the following statements will show, in round numbers, the aggregate capital, deposits, and borrowings of the respective groups as shown in the comptroller's report of August 9, 1913. Now, here I have divided the banks of the country into these groups, as shown—

Senator NELSON (interposing). Have you followed the grouping of the comptroller?

Mr. GILBERT. Yes; I have followed the grouping of the comptroller. I will show how much capital each group would have under

present conditions, and then I have made another statement showing what the strength of the reserve banks in these groups would be.

Senator POMERENE. Are you limiting your figures to national banks?

Mr. GILBERT. Yes; limited to national banks.

Senator POMERENE. Alone?

Mr. GILBERT. Yes, sir; the national banks.

Senator REED. Assuming they all come in?

Mr. GILBERT. Assuming they all come in.

Senator REED. And assuming they all borrow from these regional banks, whereas they might borrow from other banks.

Mr. GILBERT. Exactly.

Senator NELSON. What is the capitalization of the several groups?

Mr. GILBERT. The present capital of the several groups is:

New England States: Capital, \$101,000,000; deposits, \$598,000,000; rediscounts and bills payable, \$4,300,000.

The Eastern States—

Senator POMERENE. No; \$4,000,000,000, you mean, do you not?

Mr. GILBERT. \$4,000,000.

Senator NELSON. Discounts?

Mr. GILBERT. That is the discounts—their borrowings.

Senator POMERENE. Oh, I misunderstood you.

Senator BRISTOW. Do I understand the total amount of the borrowings is only \$4,000,000?

Mr. GILBERT. The total of the New England group, as shown by the comptroller's report, was only \$4,300,000, which shows how little they borrow.

Senator NELSON. You mean the rediscounts of the banks?

Mr. GILBERT. Yes; the rediscounts of the banks.

Senator NELSON. The amounts borrowed by the banks?

Mr. GILBERT. The amounts borrowed by the different banks of the whole group. And you want to bear in mind a very small portion of that is rediscounts. By far the larger proportion is on what they call bills payable, that would not be eligible for rediscount.

The Eastern States—that means New York, New Jersey, Pennsylvania, Delaware, Maryland, and the District of Columbia. The present capital of the national banks in the group amounts to \$336,000,000; the deposits, \$3,145,000,000; rediscounts and bills payable, \$18,600,000.

Senator BRISTOW. \$18,000,000?

Mr. GILBERT. \$18,600,000.

Senator REED. I am going to suggest that when you prepare this for print you name the States—the New England States, such and such, etc.

Senator SHAFROTH. You can do it by initials—"N. Y.," etc.

Mr. GILBERT. Yes; I can prepare that very easily.

Senator NELSON. He has followed the grouping of the Comptroller of the Currency.

Senator REED. Yes; but there is nothing in this paper that would indicate to a Member of Congress just what the groups were, and he would have to go and look it up.

Senator BRISTOW. Mr. Gilbert, let me get that clear in my mind. the deposits were \$3,145,000,000?

Mr. GILBERT. Yes.

Senator BRISTOW. And the rediscounts only \$18,000,000?

Mr. GILBERT. Rediscounts and borrowings.

Senator NELSON. What the banks borrowed; not what they loaned out?

Mr. GILBERT. Yes; \$18,600,000.

Southern States: Capital, \$173,000,000; deposits, \$796,000,000; rediscounts and bills payable, \$63,000,000.

Senator NELSON. Larger in proportion than anywhere else.

Mr. GILBERT. The South is a larger borrower than any other group. They borrow three-fifths of all that is borrowed.

Senator WEEKS. That is due, first, to insufficient capital; second, to the cotton crop maturing at practically the same time, and, third, to the fact that the South is developing very rapidly now.

Mr. GILBERT. Middle West: Capital, \$283,000,000; deposits, \$2,293,000,000; rediscounts and bills payable, \$11,000,000.

Senator BRISTOW. What States does that take in?

Mr. GILBERT. Well, the Middle West takes in—

Senator BRISTOW (interposing). Illinois, Michigan, Wisconsin, Indiana—

Mr. GILBERT. I have it here.

Senator NELSON. It is in the comptroller's report.

Mr. GILBERT. It takes in Illinois, Ohio—

Senator REED. He can get those States, and he will give them in his table.

Mr. GILBERT. Western States: Capital, \$72,000,000; deposits, \$539,000,000; rediscounts and bills payable, \$4,400,000.

Senator SHAFROTH. If you could follow up your statement with just naming those States and leaving out these interruptions in relation to the States, I think it would make it more intelligible.

Senator NELSON. I think this statement I have here will show it.

Mr. GILBERT. That will show it—the grouping.

Senator NELSON. The New England States are Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, and Connecticut; the Eastern States, New York, New Jersey, Pennsylvania, Delaware, Maryland, and the District of Columbia; the Southern States, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, Louisiana, Texas, Arkansas, Kentucky, and Tennessee; Middle Western States are Ohio, Indiana, Illinois, Michigan, Wisconsin, Minnesota, Iowa, and Missouri; the Western States are North Dakota, South Dakota, Nebraska, Kansas, Montana, Wyoming, Colorado, New Mexico, and Oklahoma; and the Pacific States are Washington, Oregon, California, Idaho, Utah, Nevada, Arizona, and Alaska.

(The figures given above by Mr. Gilbert are as follows:)

New England States (Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, and Connecticut):

| | |
|------------------------------------|-----------------|
| Capital..... | \$101, 000, 000 |
| Deposits..... | 598, 000, 000 |
| Rediscounts and bills payable..... | 4, 300, 000 |

Eastern States (New York, New Jersey, Pennsylvania, Delaware, Maryland, and the District of Columbia):

| | |
|------------------------------------|------------------|
| Capital..... | 336, 000, 000 |
| Deposits..... | 3, 145, 000, 000 |
| Rediscounts and bills payable..... | 18, 600, 000 |

| | |
|--|---------------|
| Southern States (Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, Louisiana, Texas, Arkansas, Kentucky, and Tennessee) : | |
| Capital..... | \$173,000,000 |
| Deposits..... | 796,000,000 |
| Rediscounts and bills payable..... | 63,000,000 |
| Middle West (Ohio, Indiana, Illinois, Michigan, Wisconsin, Minnesota, Iowa, and Missouri) : | |
| Capital..... | 283,000,000 |
| Deposits..... | 2,293,000,000 |
| Rediscounts and bills payable..... | 11,000,000 |
| Western States (North Dakota, South Dakota, Nebraska, Kansas, Montana, Wyoming, Colorado, New Mexico, and Oklahoma) : | |
| Capital..... | 72,000,000 |
| Deposits..... | 539,000,000 |
| Rediscounts and bills payable..... | 4,400,000 |
| Pacific States (Washington, Oregon, California, Idaho, Utah, Nevada, Arizona, and Alaska) : | |
| Capital..... | 89,000,000 |
| Deposits..... | 566,000,000 |
| Rediscounts and bills payable..... | 7,500,000 |

Mr. GILBERT. Then I have made another table which shows the statement of Federal reserve banks of above groups, showing capital, deposits, cash, and amount of rediscounts for member banks at beginning of business if all of the national banks of the country immediately subscribe and pay for stock and transfer that portion of its reserve which the law requires after 14 months.

Senator NELSON. The 5 per cent?

Mr. GILBERT. Yes. In the New England group the capital of the regional reserve bank would be \$10,000,000, deposits \$30,000,000.

Senator NELSON. That would give it \$40,000,000?

Mr. GILBERT. That would give them cash \$35,700,000; bills discounted, \$4,300,000.

Senator BRISTOW. Now, there are a number of banks, are there not, that are that strong in New England?

Mr. GILBERT. That would be the Federal reserve bank—\$10,000,000.

Senator BRISTOW. I mean there are a number of banks there now that would have larger deposits than it would?

Mr. GILBERT. Not many. I doubt if there are more than one or two banks. Senator Weeks probably would know. What is the largest bank in Boston, Senator Weeks?

Senator WEEKS. The National Shawmut.

Mr. GILBERT. What is its capital?

Senator WEEKS. \$10,000,000.

Mr. GILBERT. And deposits?

Senator WEEKS. Deposits of about \$85,000,000.

Senator REED. Now, there is one misleading statement in your phraseology, and that was the amount of rediscounts. The amount of rediscounts which you have figured there is the amount of rediscounts that they now use in New England?

Mr. GILBERT. I mean to say, the Federal reserve bank would have all that borrowing if they borrowed the same amount. They would borrow it from the Federal reserve bank. They borrow \$4,300,000.

Senator REED. I understand; it is plain now, and I knew what you meant.

Mr. GILBERT. In the Eastern group, that is, New York, New Jersey, Pennsylvania, Delaware, Maryland, and the District of Co-

lumbia, the capital of the bank would be \$33,600,000; deposits \$160,000,000, and they would have cash on hand \$175,000,000 and bills discounted \$18,600,000.

Senator POMERENE. If it will not interrupt you, you would expect, of course, under the new system that the rediscounting would be very materially increased, would you not?

Mr. GILBERT. Well, I would think this, that possibly the facility with which rediscounting could be obtained might stimulate the banks of the different groups to enlarge their business—to go into new fields and make new investments—and consequently require larger rediscounts.

Senator POMERENE. Well, it would be practically introducing into this country the rediscount system which prevails in Europe.

Mr. GILBERT. Much of which is done in the open market.

Senator POMERENE. Yes. That might be done here too, but have you taken into consideration this fact; for instance, in the group of New England States, where your figures were capital and deposits of about \$40,000,000. Now, you are taking away from the banking capital of the New England States \$40,000,000, which you are segregating in the regional bank, and there being that much under the control of the regional bank, it must necessarily follow, it would seem to me, that the rediscount privilege would have to be very greatly increased in order that the New England States might have the same banking capital that they had prior to the adoption of the system.

Mr. GILBERT. They will have the same banking capital. The member banks will continue doing business. The only question is how much the member banks will borrow.

Senator POMERENE. Yes; but they have \$40,000,000 now that are in the ordinary course of trade now segregated and put into the regional bank.

Mr. GILBERT. It is part of their reserve, which they have been carrying, and will not be required to carry, that is put into the Federal reserve bank. There is no decrease of banking capital at all.

Now, the Southern group, would have a capital of \$17,000,000; deposits, \$40,000,000; bills discounted, \$63,000,000. They would be required to issue notes, because their cash would be overdrawn.

Senator REED. They would start out borrowers.

Mr. GILBERT. They would start out in debt; yes.

Senator REED. Instead of being a reserve, there would be a deficit there.

Mr. GILBERT. In the Middle West the capital would be \$28,000,000; deposits, \$115,000,000; bills discounted, \$11,000,000; and cash, \$132,000,000.

Senator NELSON. What do you base that cash on?

Mr. GILBERT. That is the cash that is transferred to them by the member banks as reserve.

Senator NELSON. You count that as cash?

Mr. GILBERT. I am giving a table of Federal reserve banks as they would stand if all of the reserve of member banks was transferred.

Senator NELSON. You count the part of the reserve transferred as cash?

Mr. GILBERT. In the western group the capital would be \$7,200,000; deposits, \$27,000,000. Of course in this table I have not made any allowance for United States deposits, because I do not know how that would be distributed. Bills discounted would be \$4,400,000 and cash \$29,800,000.

Now, as to the size of these various regional banks: There would be one bank with \$7,200,000. The next smallest would be \$10,000,000, the next \$17,000,000, the next \$28,000,000, and the next \$33,000,000. New York would be the largest, the Middle West would be the next, and the South would be the next.

Senator BRISTOW. You did not read the Pacific coast division.

Mr. GILBERT. No; I will give you that now.

The Pacific slope group capital would be \$8,900,000; deposits, \$28,300,000; bills discounted, \$7,500,000; and cash, \$29,700,000.

Senator REED. That is the smallest bank, then?

Mr. GILBERT. No; the Middle West—the western group.

Senator NELSON. The western group is the smallest.

Senator POMERENE. What was the Pacific coast capital?

Mr. GILBERT. \$8,900,000, and their borrowing \$7,500,000.

Senator NELSON. To make that come up to the others those two divisions ought to be grouped in order to make them have a capital commensurate with the others.

Mr. GILBERT. I have only introduced this to give you gentlemen an intelligent idea of how it would be possible to group those banks.

Senator BRISTOW. If we made 12 of them, we would have a lot of trouble, would we not?

Mr. GILBERT. I think you would.

(The figures above given are as follows:)

| | |
|---|--------------|
| New England States (Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, and Connecticut): | |
| Capital..... | \$10,000,000 |
| Deposits..... | 30,000,000 |
| Cash..... | 35,700,000 |
| Bills discounted..... | 4,300,000 |
| Eastern States (New York, New Jersey, Pennsylvania, Delaware, Maryland, and the District of Columbia): | |
| Capital..... | 33,600,000 |
| Deposits..... | 160,000,000 |
| Cash..... | 175,000,000 |
| Bills discounted..... | 18,600,000 |
| Southern States (Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, Louisiana, Texas, Arkansas, Kentucky, and Tennessee): | |
| Capital..... | 17,000,000 |
| Deposits..... | 40,000,000 |
| Bills discounted..... | 63,000,000 |
| Cash..... | Overdrawn. |
| Middle Western States (Ohio, Indiana, Illinois, Michigan, Wisconsin, Minnesota, Iowa, and Missouri): | |
| Capital..... | 28,000,000 |
| Deposits..... | 115,000,000 |
| Bills discounted..... | 11,000,000 |
| Cash..... | 132,000,000 |
| Western States (North Dakota, South Dakota, Nebraska, Kansas, Montana, Wyoming, Colorado, New Mexico, and Oklahoma): | |
| Capital..... | 7,200,000 |
| Deposits..... | 27,000,000 |
| Bills discounted..... | 4,400,000 |
| Cash..... | 29,800,000 |

Pacific States (Washington, Oregon, California, Idaho, Utah, Nevada, Arizona, and Alaska):

| | |
|-----------------------|-------------|
| Capital..... | \$8,900,000 |
| Deposits..... | 28,300,000 |
| Bills discounted..... | 7,500,000 |
| Cash..... | 29,700,000 |

Mr. GILBERT. An analysis of these statements shows that more than three-fifths of the borrowing and rediscounting was for the southern group and that the Federal reserve bank of that group is the only one that would show a paying business for 1913. A careful investigation of the comptroller's figures convinces me that the business of the country does not require at the present time 12 Federal reserve banks; it does not require 6, but 6 would be better than 12, and if the proposed system is to become a law I should favor the division of the country into reserve districts to correspond with the grouping of the comptroller in his reports, viz., one each for New England, Eastern States, Southern States, Middle West, Western States, and the Pacific States.

It should be borne in mind that the object of banking reform is not to increase banking facilities but to remedy existing defects in our present system and make it conform to the requirements of modern business conditions. It would appear that the framers of the proposed Federal reserve bill have failed to differentiate these two objects and that the proposed 12 Federal reserve banks will if organized never attain to the dignity and prestige that should characterize Federal reserve banks. We hear much about the influence to result from these new banks in stimulating business, lowering the rates of interest, and giving to banks facilities they never before enjoyed. But herein lies one great danger which if not properly guarded against may lead to dangerous expansion of credit. It is important that the Federal reserve bank or banks, whether there is one or more, should not lose the character of a reserve bank, but always be in condition to weather the severest storm that it may be called upon to pass through. In this respect I believe 1 bank would be better than 12—would be stronger, could be administered more economically and would not necessitate a close investment of its funds to make dividends for its stockholders. The reserve bank or banks should never in normal times carry less than 50 per cent reserve against liabilities in order to be ever ready for the unexpected.

Senator REED. Now, that is very interesting, and it seems to me that you have argued the impracticability of establishing six banks with the country divided as it is divided, into these particular six groups, that it would be necessary to modify that grouping, even if we had six banks, so that the southern bank would be stronger.

Mr. GILBERT. That is what I remarked a moment ago. I only put in these tables from the comptroller's figures in order to present the idea. I did not mean to give the idea that it would be wise to follow.

Senator SHAFROTH. You would require a new grouping?

Mr. GILBERT. It might possibly, yes. But, inasmuch as the grouping was there in that form, I thought it would show not only the banking capital of the different sections of the country, but the borrowing capacity of the different sections of the country, which was the important thing I had in mind.

Senator REED. Now, of course if all the national banks did not come in just in proportion as they stayed out this whole system is weakened?

Mr. GILBERT. Yes, sir.

Senator REED. Just in proportion as the State banks and trust companies might come in, in addition to the national banks, it would be strengthened.

Mr. GILBERT. Exactly.

Senator REED. And the whole question of how many will come in, of State banks at least, and trust companies, is problematical. The amount of rediscounts that banks might indulge in is problematical; the effect of the withdrawing of deposits of the reserves from the places they now are and the placing of them over into this reserve system is also problematical, is it not?

Mr. GILBERT. Yes.

Senator REED. And does not all that indicate that in starting this system it would be well to start gradually?

Mr. GILBERT. That is what I recommend, that the system should be developed and built up as the business of the country requires; that you do not want at the outset to build up an entirely new system and substitute it for the present system.

Senator REED. Will you kindly refer to your figures of the New York bank? I will assume that one of these regional banks in that group would be located in New York.

Mr. GILBERT. Yes.

Senator REED. I would like to have you kindly tell me what its capital would be.

Mr. GILBERT. \$33,000,000.

Senator REED. It would be a little larger, then, than the largest bank of New York?

Mr. GILBERT. Yes; it would be \$33,600,000; deposits, \$160,000,000.

Senator REED. And its deposits would be less than the deposits of the City Bank now?

Mr. GILBERT. Yes.

Senator BRISTOW. Is there any other bank in New York that would have more than that?

Mr. GILBERT. No. I think the City Bank has a surplus of \$10,000,000.

Senator WEEKS. It would not have as large resources as the National City Bank?

Mr. GILBERT. No; but that would be in its favor, really.

Senator REED. You say the City Bank has a surplus of \$10,000,000?

Mr. GILBERT. I think it has a surplus of \$10,000,000.

Senator REED. So that it would then be, counting its surplus, a little larger than the capital of this bank?

Mr. GILBERT. Yes.

Senator REED. And its present deposits would exceed the deposits of this particular bank?

Mr. GILBERT. Yes. This bank would come next to the City Bank.

Senator REED. Let me ask, do you think there ought to be a limit on the amount of capital any one bank could have—private bank?

Mr. GILBERT. No; I do not.

Senator REED. Do you think there ought to be any limit on the amount of deposits a bank should have in proportion to its capital?

Mr. GILBERT. Well, I never have thought so. I have thought this, along that line, applying simply my thought to my own bank, that about as large a business as we ought to do, to do it safely and conservatively, ought not to exceed six or seven times our capital and surplus. That is what I have thought with regard to our own business.

Senator WEEKS. Mr. Gilbert, if you will let me correct your statement about the City Bank, it has \$25,000,000 capital and \$25,000,000 surplus and \$4,500,000 undivided profits.

Mr. GILBERT. And how much is the Commerce?

Senator WEEKS. The Commerce has \$25,000,000 with \$10,000,000 surplus.

Senator REED. So there would be two banks there with a greater capital than this bank?

Mr. GILBERT. How is the First National?

Senator WEEKS. Ten, fifteen, and six?

Mr. GILBERT. Yes.

Senator REED. I wish, Senator Weeks, that right in this connection and at this point you would put in the capital and surplus and undivided profits and deposits of the larger of the New York banks, so that they might appear in the record.

Senator WEEKS. The banks which have the largest capital and surplus are the National City Bank, the National Bank of Commerce, the First National Bank, the National Park Bank, the Hanover National Bank, the Chase National Bank, and the Mechanics and Metal National Bank.

The capital, surplus, and undivided profits of these banks are as follows:

| Name. | Capital. | Surplus. | Undivided profits. |
|---------------------------------------|--------------|--------------|--------------------|
| National City Bank..... | \$25,000,000 | \$25,000,000 | \$4,500,000 |
| National Bank of Commerce..... | 25,000,000 | 10,000,000 | 6,000,000 |
| First National Bank..... | 10,000,000 | 15,000,000 | 6,500,000 |
| Hanover National Bank..... | 3,000,000 | 13,000,000 | |
| Chase National Bank..... | 5,000,000 | 5,000,000 | 5,000,000 |
| National Park Bank..... | 5,000,000 | 10,000,000 | 5,000,000 |
| Mechanics & Metals National Bank..... | 6,000,000 | 6,000,000 | 2,500,000 |

Senator BRISTOW. I want to ask you a few more questions, Mr. Gilbert. You stated in your paper that you think one Federal reserve bank would be better than any number. What would you think of one Federal reserve bank, managed by this Federal reserve board, which is designed to have supervision over the 12, and let it have the active—

Mr. GILBERT (interposing). I do not think the Federal reserve board would be necessary then. As I understand the new bill, the Federal reserve board is provided to tie, as it were, the regional banks together, to give them that same degree of unity which a Federal bank with branches would have. A Federal bank with branches could, of course, transfer its money to any section of the country where there might be branches. As I understand the idea

underlying the proposed bill, it is that the regional reserve banks may have the same facilities; that what one section lacks or what one reserve bank lacks another may be authorized to make up.

Senator BRISTOW. I understand that. That is the theory. Now, you said that this Federal reserve board would then not be necessary. That would then leave the control of the central bank in the hands of the bankers?

Mr. GILBERT. Unless you made other provisions—

Senator BRISTOW (interposing). Yes.

Mr. GILBERT. Of course, I can see a possibility of your surrounding a central bank with the same safeguards and restrictions that you throw around this regional reserve system. You could give it the same safeguards and might not require the central reserve board.

Senator BRISTOW. I think there were a number of features—at least, I believe that the proper thing in order to accomplish the purpose which this bill intends would be to have a Federal bank with branches, but I would not consent, so far as my vote goes, that there should be one bank as powerful and commanding as it would be if it were controlled by the bankers themselves. I would want that controlled by the Government, with the Federal bank giving all the facilities to the banks that their own bank would give, so far as the rediscounting of paper or the issuing of currency was concerned; and, of course, it would be a place of deposit?

Mr. GILBERT. Yes.

Senator BRISTOW. It would not be run for profit, except to make a fair and reasonable return to the stockholders.

Mr. GILBERT. That is my idea of a Federal reserve bank—that it should not be run for profit.

Senator BRISTOW. It should not be run for profit, but run to supplement and strengthen the present banking system as it is?

Mr. GILBERT. Exactly.

Senator BRISTOW. To do that I think it ought to be independent from the control of any element of the banking system, or all elements of the banking system, and ought to have the same rights and the same opportunities, absolutely free. I think—I may be wrong, but I very firmly believe that the only way to do that and to satisfy the country that it is done is to have this Federal bank governed by a board appointed by the President and confirmed by the Senate. I would have the stock subscription voluntary—not compel anybody to come, but invite them to come in and make it so useful that no bank could afford not to come in.

Mr. GILBERT. I think that is feasible and wise. I think in the case of one bank it could be done, because the capital would be forthcoming in the case of one bank. It might be more or less, but it would be sufficient to meet the requirements of a central bank. I say central bank; it would not be a central bank along the lines of the European central banks, because it would be confined to member banks alone, and would deal only with banks and the Government.

Senator REED. Be a Government bank?

Mr. GILBERT. Yes. You can call it by any name you please—Federal reserve bank, central bank, or central reserve bank; anything you please.

Senator REED. Just so you do not call it the Bank of the United States?

Mr. GILBERT. Yes. I think in that case the capital would be forthcoming and it would not be necessary to make it compulsory, and for that reason it would be much less objectionable, and I think, if it was not made compulsory the objection to Federal control would entirely disappear. I think there would be no objection at all. I think a good deal of the objection to Government control as provided in the present bill arises from the fact that the banks are compelled to subscribe to capital and to furnish 75 per cent, more or less, of the three-fourths of the deposits and are denied representation. They practically own the Federal reserve banks. They have two-thirds or three-fourths of the deposits, and are denied representation. They do not ask for control. They never have asked for control, but they ask for proper representation on that board of control, in order that they may inject into it a healthy amount of banking knowledge and banking capacity and banking conservatism.

Senator O'GORMAN. Would that not be supplied by the advisory council named by the bankers?

Mr. GILBERT. The advisory council is entirely without power. It would meet four times a year.

Senator O'GORMAN. If the bankers had a minority representation—

Mr. GILBERT (interposing). But the advisory council—

Senator O'GORMAN (interposing). They would not be in control; the majority would control. The only advantage of having a minority representation of the banks would be that they would be enabled to intelligently advise the entire board what to do and how to manage the business. That same advice would be given by the advisory council named by the banks.

Mr. GILBERT. It would, with this exception, Senator. As I understand the composition of the advisory council, the members are without a vote. Take three bankers on a Federal board of control comprised of nine; while they would not control, they would have a vote, and if they were voting in favor of a correct policy, and two or three members were in unison with them, they could prevent the adoption of any unwise policy.

Senator O'GORMAN. Not any more than the protest of the advisory council. Public opinion has much to do in the regulation of governmental affairs, and it is difficult to conceive of a reserve board consisting of seven citizens doing anything with respect to the business aspect of it which would invite the condemnation and criticism of the other men constituting the bankers' advisory council.

Mr. GILBERT. Now, admitting all that as true, let us look at it from another standpoint. There is great opposition on the part of the bankers to that feature of the bill simply because they feel, as I said a moment ago, that they own all the capital and two-thirds of the deposits, and they ought to have representation. Why not give it to them? They do not control; they can not control. Why not remove that opposition? It will go a long way toward inducing the banks to come in.

Senator REED. How do you think the banks would feel if we would apply that at the other end? If we gave the banks a minority representation on the central board, and the Government took a further representation in the regional banks?

Senator O'GORMAN. In other words, what would the banks do if they had a minority representation on the reserve board and a minority representation in the regional bank?

Mr. GILBERT. Well, of course, the Federal board of control is the board that will shape the policy of the regional banks, and while they nominally have the election of six directors in the regional reserve banks, they feel they have not control after all.

Senator REED. How do you think it would suit them if we gave them, say, one-third at both places?

Mr. GILBERT. I have felt this way about it myself, as I said awhile ago: Why not give them three members on the Federal reserve board? What harm can come from that?

Senator NELSON. Would not two do? Give them two out of seven.

Mr. GILBERT. You have nine—

Senator NELSON (interposing). No; seven on the Federal reserve board, is it not?

Senator O'GORMAN. Seven.

Senator NELSON. If you gave the banks two out of seven they ought to be satisfied with that.

Mr. GILBERT. I think very likely they would be.

Senator REED. Do you think they would be satisfied, then, if they had three out of the nine directors of the regional banks?

Mr. GILBERT. Why should they be?

Senator REED. I understood you to say a moment ago that it was a question of representation rather than control, and I thought perhaps we could make a swap.

Mr. GILBERT. Why would you want to make a swap? That would only open another door for opposition. I would not do that.

Senator REED. Of course, we can wipe out all opposition to this bill among the banks very readily, but we might get into some difficulty with the people of the country.

Mr. GILBERT. I do not think so. I do not think the people of the country are so anxious to have this—that is to say, I do not think the people of the country understand and interpret the bankers of the country as our legislators in Washington do, or a great many of them do. I think that the bankers, especially the bankers of the East, and more especially the bankers of New York, are misunderstood and misinterpreted at Washington to a very, very much greater extent than they are throughout the country at large.

Senator REED. You do not live out in the country at large, and I do, and I say frankly I think there is a great deal of prejudice which is unjust against banks—absolutely unjust prejudice—and there is also some prejudice among the bankers against the people at Washington just as unjust. I think there is some right and wrong, but I think this, since we are discussing this matter in this desultory way: That the people in this country would never tolerate the creation of a great central bank controlled by bankers, nor the creation of a system over which they did not exercise a supreme control as to its broad and general policies. Now, I think that is the sentiment. I know it is the sentiment of the part of the country in which I live.

Mr. GILBERT. I think the bankers would be perfectly willing to concede all that.

Senator REED. I said the other day to some gentleman that I get letters every few days attacking all the bankers, which I think are

very intolerant. Yet I think that when bankers get the notion that there is somebody here at Washington wanting to wipe out the banking system, they are equally intolerant and less excusable, because they ought to know better. We want to make the banking system of this country strong; we do not want to destroy the banks; we want to make a strong banking system, and that is the purpose of this bill.

If you are through with that branch of the subject, there is one thing I want to ask before you leave the stand.

Senator BRISTOW. If you will pardon me a moment, Senator Reed, there is one question I would like to ask him before he leaves that.

Senator REED. Certainly.

Senator BRISTOW. Mr. Gilbert, speaking of the control of these regional reserve banks, I am frank to say that I am opposed to the present system of control of the regional reserve banks. I do not believe in the control of the regional reserve bank as is provided in this bill, and I am going to do what I can to have that phase of the bill amended. There may not be many members of the committee who agree with me, but I do not mind saying what my views are. If we are to have a Federal system, I want a Federal system open and frank and let the Federal Government take the responsibility for it. I do not want any hybrid. Which do you think would be the best—I want your judgment—to have a Federal reserve bank organized, as I suggested a while ago, governed by a Federal board similar to the one proposed in this bill, except that I would not have any ex officio members on it, with sufficient branches in the reserve cities of the country to handle the business, governed by a Federal board absolutely, with voluntary subscriptions to the stock, and let it perform all the functions which are needed in order to control the situation, as has been outlined. Would that be, in your judgment, a better system than the one we are undertaking to provide here, even with the reduced number of regional banks?

Mr. GILBERT. I think that it would.

Senator BRISTOW. I believe that the banking business of the country, so far as the credits that go to a large enterprise which comes in competition with such institutions as the Steel Corporation and some of the great railroads are concerned, have been controlled, so that the amount of money necessary to build a railroad, if it is in competition with some of the powerful lines, could not be obtained, and they would be strong enough with the banking institutions of the Nation to prevent it, and this does not break up that control.

I do not believe it does. I am asking you frankly, because I want your judgment on that. From your point of view, would this Federal bank—could it not be made absolutely independent of such selfish control?

Mr. GILBERT. I think it could.

Senator BRISTOW. And could not that be done without endangering any legitimate commercial or financial enterprise which any bank might want to promote?

Mr. GILBERT. I think it could.

Senator BRISTOW. Is that not all you want to do when you have provided for any emergency system? Is not our banking system good enough for any nation on earth?

Mr. GILBERT. I think it is. Let me say in that connection just this: I have been officially connected with the New York Clearing House for 50 years. I have passed through every panic since the Civil War. And I think I can say conscientiously that I never have seen a panic that, in its incipiency, could not have been arrested and held in check if we had had one bank of reserve, a Federal bank of reserve, a central bank of reserve, or a Government bank of reserve; if we had had one bank of reserve to which the banks of the central reserve cities could have taken their short-time commercial paper and had it converted into cash in order to have held their reserves together.

Senator REED. You have led up to the very question I wanted to ask you about. You have been the president of the New York Clearing House and have had a long experience. I would like to back up on this question of panics, beginning with the latest. I wish you would tell this committee, in as succinct a way as possible, what brought about the panic of 1907, and what signals of warning, if any, the banks had, and give us your views on it.

Mr. GILBERT. Now, gentlemen, in order to do that I would have to go back to about 1900 or 1901.

Senator REED. Very well. Begin at whatever place is most logical with you.

Mr. GILBERT. At the time the United States Steel Corporation was formed, that was the beginning of the era of big corporations in this country. The successful launching of the United States Steel Corporation and the large amount of money that was made out of it stimulated the formation of these big corporations throughout the country.

Senator REED. What we commonly call trusts?

Mr. GILBERT. Trusts; yes. One after another was formed until the country was flooded with syndicates seeking to merge big business enterprises and form big corporations.

Senator REED. Issuing a lot of watered stock?

Mr. GILBERT. That always follows, of course.

Senator NELSON. That always follows in those cases.

Mr. GILBERT. And that was followed by the formation of large trust companies throughout the country to finance the securities of these big corporations. That stimulated every kind of business enterprise. The result was excessive expansion of business and excessive speculation during all the years between 1901 and 1907.

Senator O'GORMAN. Would you call those boom years?

Mr. GILBERT. I would call them years of great business inflation—boom years; yes—1907 saw the culmination. It was something that had to come. It grew out of what had been taking place for four or five years before. It was like the thunder shower that comes to clear up the atmosphere. And it did clear it up. Nothing else would have cleared it up.

I do not have any sympathy whatever, gentlemen, with the theory that it was bad business management or the bad business operations of the banks of the East that precipitated the panic of 1907. The business inflation and the speculation which grew out of it was country-wide. It was all over the country. It came from every section of the country.

Senator O'GORMAN. What was the immediate cause of the panic?

Mr. GILBERT. I think the immediate cause, as I recall it, was the failure of the Knickerbocker Trust Co.

Senator O'GORMAN. What could have saved that situation?

Mr. GILBERT. A bank of rediscount.

Senator O'GORMAN. Then there was a scarcity of currency at that particular time?

Mr. GILBERT. A scarcity, not of currency, but of banking credit.

Senator O'GORMAN. Credit?

Mr. GILBERT. Yes; banking credit. The credit of the country had become so strained that merchants could not get the accommodation which they required of their banks to meet their maturing obligations, and when that condition ensues it is only a step from that to distrust, apprehension, fear—

Senator REED (interposing). Panic.

Mr. GILBERT (continuing). Rising interest rates, the dropping of securities, panic, and a crash. Every panic comes the same way.

Senator REED. Reduced to a sentence, the organization and overcapitalization of the big industrial combinations brought on the panic of 1907?

Mr. GILBERT. Well, I would not put it in that shape, exactly.

Senator O'GORMAN. Overexpansion of business activities for six years?

Mr. GILBERT. That is it, exactly.

Senator REED. I will add to my previous statement that the multiplication or increase of business incident to that overcapitalization and speculation; would that be about it?

Mr. GILBERT. Well, I would prefer—

Senator REED (interposing). To let your statement stand?

Mr. GILBERT. Yes; to let my statement stand as it is.

Senator NELSON. The first place in New York where trouble broke out was in the Mercantile Bank?

Mr. GILBERT. Yes; I think, very likely.

Senator NELSON. I think that was the first.

Mr. GILBERT. The Heinze Bank.

Senator NELSON. Yes; the Heinze Bank, and then the two trust companies?

Mr. GILBERT. Yes.

Senator NELSON. And it was like a prairie fire; it got away from you up there?

Mr. GILBERT. Yes.

Senator REED. I wanted to ask you a few more questions. You have been dealing with generalizations; you have been saying that there was overstimulation of business; the merchant could not renew his loans or get his accommodation as he had expected, and that introduces an element of distrust, etc. Now, that was country-wide.

Did that result in a drain of money from New York and the other central reserve cities, or did the New York and the other central reserve city banks have more money? Did they draw money to themselves or was the money drawn away from them before the panic actually came?

Mr. GILBERT. No; the demand for money became so great that credit facilities were strained, and the New York banks commenced to lose their lawful money reserves.

Senator REED. Now, did they lose through other banks withdrawing; through country banks withdrawing?

Mr. GILBERT. Through withdrawals by interior banks. Of course, the very approach of a panic stimulated the fears of the interior banks, and they, actuated by a desire to strengthen their lawful money reserves, drew on New York very heavily.

Senator REED. So that New York had a drain upon it instead of New York drawing upon the country for money and locking it up?

Mr. GILBERT. Oh, indeed, yes; New York ran largely below its reserves. I can not give you the figures now. I wrote an article for one of the New York magazines which gave a concise statement of the condition of things at that time.

Senator O'GORMAN. When were the first symptoms of the approaching panic in 1907 observed?

Senator NELSON. The 19th of October.

Mr. GILBERT. I was going to say about the 20th to the 25th of October.

Senator O'GORMAN. Were those the first symptoms?

Mr. GILBERT. Those were the first symptoms—or, at least, the first acute symptoms.

Senator O'GORMAN. I ask that because I have a recollection of meeting a gentleman in July who had large business interests in New York, who spoke of the probable approach of the panic which culminated in October afterwards. In July that was.

Senator NELSON. Yes.

Mr. GILBERT. Well, of course, the bankers themselves, for two or three months prior to the outbreak of the panic, realized that there was great danger of inflation and speculation being carried to such a point that it would get beyond control. And they felt a misgiving as to the actual condition of things as early as July and August. There is no question about that.

Senator REED. You have spoken about the reserves in New York being lower in the banks. But that is a little different proposition from the one which I have put—your reserves might have been lowered by loans made in New York?

Mr. GILBERT. No; they were not.

Senator REED. Were your reserves lowered through the withdrawal of balances, or parts of the balances, of the banks outside of New York?

Mr. GILBERT. They were lowered by actual shipments of money.

Senator NELSON. Mr. Gilbert, one witness here stated that on the first Sunday of the panic a committee of the clearing house met and decided that they would not extend any help to that Heinze bank or to the Morse bank, unless they would remove Morse and Heinze from the control of those institutions. That is true, is it not?

Mr. GILBERT. That is practically true.

Senator NELSON. Yes. And this witness also claimed that that very fact, that that committee of the clearing house took that action on Sunday and it became known the next morning—that was one of the things that bred the want of confidence in your money institutions of New York.

Mr. GILBERT. No; that is not correct. I have a very clear recollection of that, for I was one of the committee of three that went to

the Mercantile Bank on that Sunday morning, and I was the spokesman for the three.

Senator REED. What did you go there for?

Mr. GILBERT. We went there because, I think, through an examination made by our own clearing-house examining force, we discovered that the Mercantile Bank was in a strained condition and it had applied to the clearing house for help.

Senator REED. Oh, they had applied for help, and you went there to see whether you ought to give it to them?

Mr. GILBERT. Well, they had applied for help—

Senator NELSON (interposing). And you decided that you would not give it unless they removed Heinze; is that not correct?

Mr. GILBERT. Let me give the story as I remember it—and I think my memory is very clear on that point. They had applied to the clearing house for help. The clearing house, before deciding, sent their examining committee to look over the affairs of the bank and see how they stood. The committee reported that, through mismanagement, the bank was in a bad condition—that is, they were not insolvent; they had assets enough to pay their liabilities; but they had made unwise loans and had mismanaged in a way that made it desirable for a change of administration—

Senator REED (interposing). What was the character of that mismanagement? Were these loans made to themselves to promote their own enterprises?

Mr. GILBERT. You see, gentlemen, I am speaking entirely from memory.

Senator REED. Yes.

Mr. GILBERT. And I do not wish to go into details for fear I may make some misstatement. If I had my memoranda before me, I would be perfectly willing to give it to the committee.

Senator REED. I wish we had it, because it refers to a point which has been much disputed in the hearings before this committee.

Mr. GILBERT. In a general way I will tell you what happened.

We went there Sunday morning. First, we had a meeting at the clearing house and we resolved that before extending any help we would call for the resignation of all the directors, in order that the bank might be put into new hands. And we went there. We were all gathered around the directors' table, as we are now, and I arose and stated what the decision of the clearing house was. I said:

Gentlemen, we are willing to help you. We are anxious to help you. Your bank has a long and honorable record; but there is only one condition upon which we will help you, and that is that the directors hand in their resignations to us and allow us to put the bank into new hands.

Senator REED. Well, was it to be put in particular hands?

Mr. GILBERT. Our policy was to obtain the resignation of certain ones of the old directors, and in order to accomplish this to get the resignations of all—

Senator O'GORMAN (interposing). That is, you wanted the resignations of some of them?

Mr. GILBERT. We wanted the resignations of some of them; we wanted some to resign. This was accomplished; the ones objected to resigned, the others remained, and they chose their own president. They had one or two men in view. So far as that is concerned, the

thing was done in a businesslike way and there was no clearing-house pressure in the direction of the management of the bank at all.

Senator REED. They actually did it?

Mr. GILBERT. They actually did it.

Senator O'GORMAN. And they all handed in their resignations, did they not?

Mr. GILBERT. They all handed in their resignations.

Senator REED. That was what bank?

Mr. GILBERT. The Mercantile National Bank.

Senator REED. And who was president?

Mr. GILBERT. Mr. Heinze.

Senator O'GORMAN. Was it Heinze or Miles O'Brien?

Mr. GILBERT. I think Miles O'Brien was vice president.

Senator NELSON. Heinze was president.

Senator O'GORMAN. Miles O'Brien was the active officer.

Senator NELSON. What steps did you take with Morse's bank? Did you take similar steps with his bank?

Mr. GILBERT. Morse's bank—let me recall. Morse was the president of the Bank of North America.

Senator WEEKS. Morse was not the president, was he? Was not Curtis the president?

Mr. GILBERT. Yes; Curtis was the president. I think Morse was vice president.

Senator WEEKS. I think so.

Mr. GILBERT. Yes; I think Morse was vice president.

Senator NELSON. Well, tell us what you did with Morse and his bank.

Mr. GILBERT. Well, I am trying to recall now just how the thing occurred with the Bank of North America.

Senator O'GORMAN. That was a very large bank, was it not?

Mr. GILBERT. Yes; it was a large bank—a good-sized bank.

Senator O'GORMAN. With approximately what deposits?

Mr. GILBERT. Oh, I think they had about \$30,000,000 of deposits. It was not one of the largest banks, but it was a large bank.

Senator O'GORMAN. Well, to refresh your recollection there, was there not some statement at that time that Morse was using the credit of his own bank to promote some of his industrial enterprises?

Mr. GILBERT. There was that statement; yes. I think the resignation of Morse was brought about through a meeting of some members of the clearing-house committee, with some of the directors of the Bank of North America, which resulted in their obtaining Morse's resignation and Curtis's resignation, and making Mr. Havermeyer president of the bank. That is my recollection, but just exactly the details of the thing I do not remember.

Senator O'GORMAN. Well, a practical question: Did the clearing house give all the assistance to the Heinze and the Morse bank that they needed at the time?

Mr. GILBERT. Yes; we issued clearing-house certificates to them and gave them what help they asked for.

Senator NELSON. That is after they had purged themselves in the manner you have indicated?

Mr. GILBERT. Yes.

Senator NELSON. Well, do you not think that that action—I am not criticizing the action of itself; it may have been warranted; but do

you not think if the public found out the action you had taken on that Sunday with Heinze's bank and Morse's bank, that tended to breed a want of confidence?

Mr. GILBERT. I do not think so.

Senator NELSON. Did it not aggravate it; was it not worse after that?

Mr. GILBERT. I do not think so. I think the public were highly satisfied with our elimination of the objectionable element.

Senator NELSON. But did you not follow that up immediately with suspension?

Mr. GILBERT. Not for several months afterwards.

Senator NELSON. Why, the banks closed?

Mr. GILBERT. No. The Mercantile Bank—

Senator NELSON (interposing). I do not mean suspension of the bank; I mean suspension of payments.

Mr. GILBERT. Oh, no.

Senator NELSON. Oh, yes. They closed within a week after that.

Mr. GILBERT. Oh, no; the Mercantile Bank did not close.

Senator NELSON. I do not mean the bank suspended and went into liquidation; but I mean your banks there stopped paying cash, as you say, promptly.

Mr. GILBERT. We issued clearing-house certificates.

Senator NELSON. That is what I mean. Immediately the following Monday or Tuesday after this Sunday?

Mr. GILBERT. I can not tell you whether our dealings with the Mercantile Bank were before the issuance of clearing-house certificates or afterwards. But I think that—

Senator O'GORMAN (interposing). Now, Mr. Gilbert, will you get down to the panic preceding that—the panic of 1893?

Senator REED. I would like to ask this question before you leave this subject: Do you know anything about a meeting at Mr. Morgan's house at which it was decided to refuse to return to the banks of the interior the money that was in the New York banks?

Mr. GILBERT. Never heard of such a thing.

Senator REED. Would you have been likely to know of it if it was true?

Mr. GILBERT. I very likely should.

Senator REED. Before I leave the question, if Senator O'Gorman will pardon me one further inquiry—you spoke about being unable to give details because you did not have your memoranda, and said if you did have it you could probably give the details. I am very greatly interested myself in clearing up this much-disputed question, because it has been contended in said quarters, and believed by some people, that the banks of New York for certain reasons desired to eliminate Mr. Heinze and Mr. Morse, and that they started with the purpose of eliminating them, and that the result was a distrust which finally came mighty near eliminating all of them for the time being.

Now, it would therefore be interesting, and I think very valuable, to have at first hand from a man who was on the ground the details and the reasons—the exact reasons. I think it would be of value to the banks—of value in the matter of advising the public.

And if you have no objection, I would thank you very much if you would procure that memoranda and give us a statement of it, either personally or in writing.

Mr. GILBERT. I would be only too happy to help clear it up. I would be only too glad to go home and refresh my memory and come back and tell you all about it.

Senator O'GORMAN. You probably would not have to come back if you would just dictate the statement to your stenographer and send it to the chairman of the committee, giving your recollection of the incidents connected with the panic of 1907.

Mr. GILBERT. I would rather come back, because I want to put it in right.

Senator REED. I should be very glad to have you do so.

Mr. GILBERT. I do not want to make a bald statement which might be misinterpreted.

Senator BRISTOW. Yes; it would be more satisfactory to have you return and give it to us personally.

Senator O'GORMAN. Going back to the panic of 1893, what were the features of that, and the conditions that led up to it?

Mr. GILBERT. The 1893 panic?

Senator O'GORMAN. Yes.

Mr. GILBERT. I think that grew out of the Treasury conditions, did it not

Senator O'GORMAN. Well, your recollection is not clear on that?

Mr. GILBERT. No.

Senator O'GORMAN. What was the cause of the 1873 panic?

Mr. GILBERT. General expansion and speculation.

Senator NELSON. The Jay Cooke failure.

Senator O'GORMAN. The general inflation?

Mr. GILBERT. Yes.

Senator O'GORMAN. That explains everything, does it not?

Mr. GILBERT. Yes; excessive speculation, general inflation of business, too much railroad construction after the war. This reached its culmination in 1873.

Senator NELSON. With the Jay Cooke failure also.

Mr. GILBERT. Yes.

Senator NELSON. But do you not remember this, Mr. Gilbert, that after the panic of 1873 you appointed a committee of the clearing house to investigate that panic and to make a report, and that committee reported unanimously to the clearing house of New York that the one bad feature that brought about the situation there was the fact that they were paying interest on the deposits of banks?

Mr. GILBERT. Yes; I remember that.

Senator NELSON. And that the board unanimously recommended that the banks cease paying interest on bank deposits?

Mr. GILBERT. I recall that; yes, sir.

Senator NELSON. Yes. And that you attempted to enforce it, but there was a small minority of the banks that would not agree to it. Is that not true?

Mr. GILBERT. Yes; quite a large number would not agree to it.

Senator NELSON. Well, do you not think, still, that that has been a vice of the present reserve system—the drawing of funds of the country banks to the cities and paying them interest on them; that that has been one of the things that has piled up money in New York and led the banks to protect themselves, or to recoup themselves from paying that interest on bank deposits to loan out their money on call loans with stock collaterals?

Mr. GILBERT. Well, I do not think they did it for that purpose—to loan out the money on call loans—because they never get a very high rate of interest on their call loans.

Senator NELSON. Well, they get more than 2 per cent—a little.

Mr. GILBERT. Not much; not enough to justify them in doing that.

Senator NELSON. Well, they save themselves.

Mr. GILBERT. Oh, this much I will agree to in your statement: That it would be better for New York if so large an amount of money did not concentrate there.

Senator NELSON. In dull times.

Mr. GILBERT. Yes.

Senator O'GORMAN. Why would it be better?

Mr. GILBERT. Simply because in times of panic the withdrawal of that money, or the danger of withdrawal, is one of the things that we have to look out for; and if it was not there, the interior banks could not make such heavy drafts upon us.

Senator NELSON. And the payment of interest attracts the money there, does it not?

Mr. GILBERT. Yes; the payment of the interest. The interior banks send it to New York because they get the interest on it, of course.

Senator REED. To what extent did the loaning of money on call in New York upon stock-exchange securities contribute to the panic of 1907?

Mr. GILBERT. Well, that is hard for me to answer; that is a situation that is hard for me to diagnose. There is one thing you want to bear in mind, and that is to differentiate what I would call legitimate, nonspeculative Wall Street loans from what you would call speculative Wall Street loans.

Senator NELSON. Marginal loans.

Mr. GILBERT. Well, I would not say marginal loans, because the marginal principle is connected with every branch of business that is carried on in this country. Tobacco is bought on margin; wheat is bought and sold on margin; corn is bought and sold on margin; everything is bought and sold on margin.

Senator O'GORMAN. And the business man nine times out of ten is carrying on his business on a margin.

Mr. GILBERT. Exactly; and a very large proportion of the business of this country is carried on without any margin at all. It is carried on open accounts on the books of the merchant, and 95 per cent of the business of the country is done on credits.

But I want to fix your thought on this Wall Street business, which seems to be somewhat misunderstood and exaggerated in your minds. There is a large amount of that Wall Street business that is just as legitimate and nonspeculative as any business in the world.

Senator NELSON. But look here, Mr. Gilbert—excuse me if you have not finished.

Mr. GILBERT. Yes; let me finish, please. There are a large number of large, respectable banking houses in New York that have to borrow large sums of money to carry the securities of the country that are placed in their hands for sale and distribution, without which the country could not get along. Those houses and those loans are just as important to the business enterprise of the country as any other business.

Take our large transportation companies and all our large industrial enterprises that are issuing bonds and stocks and other securities. They could not get along were it not for the facilities that are offered by these big houses to furnish money as they require it.

New York—Wall Street, the stock exchange of Wall Street—that is the largest and quickest open market in the world for the sale of securities. It is the quickest call-loan money market in the world. And we can not get along without it. Under all the restrictions and safeguards you may throw around it you can not lessen the amount of money that Wall Street in its legitimate business requires to borrow from the banks of New York.

Senator NELSON. I know; but is not that diverting the liquid assets or money from the channels of commerce and manufacturing industries into quasi-permanent investments? Is that not drawing it out from our every-day trade and commerce that should be supported—the traffic of the country—and is it not investing it in something of a more permanent character? Is it not more of the permanent investment and diversion of funds from purely commercial purposes?

Mr. GILBERT. No; it is not a permanent investment at all.

Senator NELSON. No; it may not be in the sense that it is perpetual; but, still, it is more of a long-time investment than commercial paper, ordinarily.

Mr. GILBERT. The banks of New York carry a certain amount of their money in call loans to have what you would call a secondary reserve—to adjust the fluctuation of their lawful money reserves. And it is always quick and responsive, except—

Senator NELSON (interposing). But not in times of panics?

Mr. GILBERT. Not so much so; but it does not entirely lose its responsive character in times of panic. It may with some houses; but there are always a large number of houses that are able to respond.

Senator NELSON. Now, I want to ask you a question, and I am very anxious to get to the bottom of it. My recollection is that during the panic somewhere about \$95,000,000 of gold was imported, mainly on commercial bills. The bank circulation was increased, in round numbers, about \$50,000,000 during that period, and the Government deposited mainly in the New York banks and mainly in two or three banks between \$30,000,000 and \$40,000,000.

So that during the panic—I mean during the panic when you were living on clearing-house certificates there—there was injected \$95,000,000 of gold, \$50,000,000 of additional bank-note circulation, and Government deposits to the extent of—my recollection is somewhere around \$40,000,000.

Now, where did that money go to during that period? Was it used to stop the panic on the stock exchange?

Mr. GILBERT. No; it was not used to stop a panic on the stock exchange.

Senator NELSON. Where did it go? Most of the money—the Government deposits—went to New York at that time, nearly all of it.

Mr. GILBERT. In 1908 I appeared before the House committee or the Senate committee—I think both—and I was asked this question: “Is it true that you are loaning money at this time to stock-exchange houses for purposes of speculation?” I said: “It is not true.” “But

are you not loaning money to stock-exchange houses at this time?" "We are."

Senator NELSON. Yes.

Mr. GILBERT. "We are loaning money and trying to protect every weak spot that legitimately needs protection in order to stay the panic."

Senator NELSON. Yes.

Mr. GILBERT. "And if it is a responsible Wall Street house that needs protection or a responsible dry goods establishment or industrial corporation, we loan the one as quickly as the other."

Senator NELSON. What about these stock brokers who deal in call loans and put up securities? What about them?

Mr. GILBERT. Well, it is necessary that you should understand this connection with the stock brokers: There are a large number of first-class, strong stock brokerage houses—

Senator NELSON. Yes.

Mr. GILBERT (continuing). Who keep large accounts with certain of the New York banks and do a legitimate business.

Senator NELSON. Yes; I am not criticizing. I am not saying it is illegitimate, but my idea is that it is a business that is of a speculative character.

Senator O'GORMAN. Mr. Gilbert—are you through, Senator Nelson?

Senator NELSON. No; just a moment. But I will stop if you want to go on now, Senator O'Gorman.

Senator O'GORMAN. No. I only wanted to ask a question suggested by a remark which you made, Senator Nelson. Is it not a fact that when New York received about \$170,000,000 or \$175,000,000, in the manner indicated by Senator Nelson, inclusive of the money that was furnished by the United States Government and sent over to Wall Street, a large part of that money was used by the New York bankers to accommodate the country bankers throughout the country during that time, Mr. Gilbert?

Mr. GILBERT. To accommodate the country bankers?

Senator O'GORMAN. Yes; to make loans. We have had country bankers testify here before this committee that right in the midst of the panic they went to New York and got their money. I received a letter to-day from a country bankers to the same effect, that during the height of the panic he received from the New York bankers at 6 per cent.

Mr. GILBERT. Yes; we were sending them money all the time; just as we could afford to spare it.

Gentlemen, I try to make every word express conscientiously what I have to say upon this subject, but I want to say to you that although I was close to the command of the ship during the whole panic of 1907, I never really became aware of anything in our business transactions, either with Wall Street houses or the bankers of the country or the merchants of the country, that I would be ashamed to tell in the utmost detail.

I have seen statements made from time to time about the New York banks dealing with Wall Street that were not only very much exaggerated but which were untrue. They simply showed that the people who made those statements—and they were made in high political quarters—did not really understand the transaction of busi-

ness between the banks of New York and Wall Street or the necessity for their making advances here, there, and in other places.

But during the panic of 1907 the bankers of New York—the clearing-house bankers—worked as conscientiously as they possibly could to help every legitimate business man who needed it, if he had an account with them.

Senator O'GORMAN. Mr. Gilbert, will you allow me to ask you another question here?

Mr. GILBERT. Certainly.

Senator O'GORMAN. It has been suggested that there is an inducement to the country banker to send part of his reserves to New York because he is able to secure 2 per cent of interest; and that to the extent that he is induced to send his money to New York local legitimate demands in his own locality are neglected.

Is it not a fact that every country banker who sends his money to New York does it more because he wants to be in a position to get accommodation from city banks than because he gets a nominal return of 2 per cent interest on deposits?

Mr. GILBERT. There are two or three things which influence the country banker to keep his account in New York. In the first place, he wants to be able to draw against the New York bank for New York exchange. He wants interest on his money. It constitutes a part of his reserve. The law requires him to carry a reserve, and he can get interest on that portion he keeps in New York, and he can get discounts from his bankers. If he did not have a balance there, of course he would not have any claim on his bank and would not ask accommodation.

Senator NELSON. Do you not think this bill is much better as to the reserve than the existing system?

Mr. GILBERT. Yes. I really think it will be to my interest to say so. I think it favors the banks.

Senator NELSON. In one respect we have carried out the report of your clearing-house committee in 1873; that is, to not pay interest on balances.

Mr. GILBERT. Now, gentlemen, while we are talking about this clearing-house business, here is a thing I would like for you to know.

Senator NELSON. I am afraid I am diverting you.

Mr. GILBERT. No; that is all right.

Senator BRISTOW. You started out, originally, when Senator Nelson began interrogating you, and stated there were two kinds of business in Wall Street, and the Senator did not allow you to finish, and you have never stated what the two kinds of business are that are done on Wall Street. Now, what is the difference in those two?

Mr. GILBERT. Well, the difference, I tried to explain, was what I would call a legitimate, nonspeculative Wall Street business which the New York banks have to handle, is the business of those large concerns who negotiate loans and securities for the large corporations of the country. Take our transportation lines and our industrial lines that are issuing securities all the time, and which need to be distributed, and they need advances on those securities before they are distributed.

Senator BRISTOW. That is, if the Santa Fe Railroad concluded to extend its lines somewhere or double its track, and wanted to issue

bonds to get the money to do it, there is a banking house on Wall Street that takes and floats that security on commission?

Mr. GILBERT. There are banking houses, there are large banking houses of New York or in the near adjacent large cities that are always willing to undertake the sale and distribution of those securities.

Senator BRISTOW. You would call that legitimate banking business?

Mr. GILBERT. I think it is not only legitimate, but I think it is a highly important business.

Senator NELSON. If you will allow me, I would like to have you explain to the committee how they go to work—what is the plan on which they float those securities and what is the bonus or compensation?

Mr. GILBERT. I could not go into that, because I do not belong to the inner circle.

Senator REED. You still have not given us the speculative. You have told us about the legitimate things but you have not told us about the speculative business.

Mr. GILBERT. The speculative business is what you call the marginal business. It is the purchase and sale of stock on the stock exchange, which is carried on margin.

Senator REED. Now, was there, during this panic of 1907, a lot of capital used for the purpose of enabling certain institutions or men to control that market?

Mr. GILBERT. So far as my knowledge goes, I should say no; I never heard of it.

Senator O'GORMAN. You mean to steady the market, Senator?

Senator REED. Suppose I am a speculator on Wall Street. I am not a speculator, I am a broker; and I have been doing business for a lot of speculators by buying and selling simply on margin for what they can make from day to day. Now, the Santa Fe Railroad Co. finds its securities are tumbling, and they give me a lot of money to go in and steady the market with. Was a lot of that done?

Mr. GILBERT. Not done through the clearing house.

Senator REED. By the banks?

Mr. GILBERT. Not to my knowledge.

Senator REED. Now, let me ask you another question. Do you know anything about any refusal to advance money to any large institutions so that they were forced into liquidation or forced to sell just prior to that panic?

Mr. GILBERT. No, I do not.

Senator REED. Not during the panic?

Mr. GILBERT. No; I do not.

Senator REED. I refer, now, to be specific, to the Tennessee Coal & Iron Co. It has been claimed here that it was a perfectly solvent concern, and that their credit was shut off at the bank, and they were forced to sell.

Mr. GILBERT. I do not know anything personally about the Tennessee Coal & Iron Co. I was not present at the meeting at Mr. Morgan's house.

Senator O'GORMAN. Or the subsequent meeting at the White House?

Mr. GILBERT. No; I was not.

Senator NELSON. I happened to be at the White House that very night, about an hour before.

Mr. GILBERT. But I can easily understand they could have applied for loans and were not able to get them.

Senator REED. I understand that could happen to anybody. But it would be a mighty different thing if it happened to a legitimate enterprise, when the banks were in cash and it is a part of the business of the banks, as you have stated, to take care of these large industrial concerns—to float their loans for them. Now, that being the case, it is quite one thing to have denied an institution credit which was tottering on the verge of bankruptcy, and was about to fall, and to have denied credit to an institution that was entitled to credit for the ultimate purpose of forcing that institution either into bankruptcy or into a sale they did not desire to make. That is what I am talking about.

Mr. GILBERT. Of course. I know what you are after; but, at the same time, as I say, I am not familiar with the inside history of that. I was not at the meeting, and I never learned the details.

Senator NELSON. You suffered from that panic through a scarcity of currency?

Mr. GILBERT. We always do in time of panic.

Senator NELSON. The newspapers sent out a report that Mr. Morgan had stopped the panic and relieved the financial situation and broken the back of the panic by absorbing the Tennessee Coal & Iron Co. Now, what he did—he did not put any money into it—he exchanged the 4 per cent bonds of the Steel Trust for the stock of the Tennessee Coal & Iron Co. Can you explain how that made currency more plentiful in New York City?

Mr. GILBERT. No; I can not. I would not undertake to do that. But I do not think the Tennessee Coal & Iron Co. had any relation whatever to the currency. When currency became scarce, when the speculators in currency saw that it was getting scarce—they always, in times of panic, know that currency will probably get scarce—they commenced to hoard it for speculative purposes.

Senator NELSON. Then Mr. Morgan did not really relieve the panic by effecting that exchange of securities?

Mr. GILBERT. No; not at all.

Senator NELSON. It had no effect on it at all?

Mr. GILBERT. It had no relation to it.

Senator NELSON. How do you account for the fact that the papers heralded it—what a great thing he had done?

Mr. GILBERT. I would hardly be responsible for what the newspapers said.

Senator NELSON. You remember the papers said so?

Mr. GILBERT. I can not say I do.

Senator POMERENE. You remember at that very time there were \$27,000,000 in Government funds deposited in banks in New York?

Mr. GILBERT. There was \$25,000,000.

Senator O'GORMAN. I do not know that we are making much progress, Mr. Chairman, with our bill. This, of course, is all very interesting. Is there anything else you want to say, Mr. Gilbert?

Mr. GILBERT. While we are on that Wall Street theory I want to say this—

Senator REED. I want you to discuss, if you kindly will, this provision of the bill which undertakes to limit the loaning of money on speculative collateral.

Mr. GILBERT. Yes. You will allow me to introduce this?

Senator REED. Oh, certainly.

Mr. GILBERT (continuing). Because I think it has some bearing on the subject, and I think it possibly may correct a wrong impression which prevails in Congress in regard to the relation of New York banks and Wall Street to other sections of the country.

Senator O'GORMAN. Mr. Gilbert, you will not find that impression prevailing in this committee, except on the part of those gentlemen from the West.

Senator NELSON. Oh, I want to disabuse the Senator's mind. Mr. Gilbert, while I have asked many questions, I have no prejudice whatever against the banks; not at all. I am only, in these questions, voicing the sentiment of the Mississippi Valley, of our people out there; that is all. [Laughter.]

Mr. GILBERT. This is a statement that was made up at the close of business on September 24, which showed—

Senator O'GORMAN (interposing). This year?

Mr. GILBERT. Yes; September 24 of this year. It shows the distribution of loans and discounts made by 30 of the largest banks and trust companies in New York, each having approximately \$20,000,000 or more of loans and discounts, and aggregate loans and discounts of \$1,226,974,500. I present this to show one thing, that the statement made here by one of your body—one of the Senators—that the banks of the South failed to get accommodations from New York because New York was investing its money in Wall Street, was not correct.

Senator O'GORMAN. That has been contradicted by other southern bankers during this hearing.

Mr. GILBERT. I would like to read this to you just to show you how far from the truth that is. The loans made to Wall Street brokers for banks outside of the city of New York; that is, through their New York correspondents on September 24—

Senator REED (interposing). What year?

Mr. GILBERT (continuing). This year—was \$174,945,900. That is, loans made to Wall Street brokers for banks outside the city of New York.

Loans made to Wall Street brokers for banks' own account; that is, by the New York banks, \$264,383,800.

Senator BRISTOW. One was \$179,000,000?

Mr. GILBERT. \$174,000,000 loans made to Wall Street brokers for banks outside of the city of New York; that is, the interior banks.

Senator BRISTOW. The other was \$264,000,000?

Mr. GILBERT. The other was \$264,383,800.

Other loans, discounts, and advances of every nature, distributed geographically as follows:

Northern States: Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, and Connecticut. Eastern States: New York, Pennsylvania, New Jersey, Maryland, District of Columbia, and Delaware, \$617,830,800.

Southern States: Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, Louisiana, Kentucky, Tennessee, Texas, and Arkansas, \$174,140,500.

The Middle Western States: Ohio, Illinois, Indiana, Michigan, Wisconsin, Minnesota, Iowa, and Missouri. Western States: North Dakota, South Dakota, Nebraska, Kansas, Montana, Wyoming, Colorado, Oklahoma, and New Mexico. And Pacific States: Washington, Oregon, California, Idaho, Utah, Nevada, and Arizona, \$167,720,600.

Foreign (Canada, etc.), \$2,898,800.

Making a total, altogether, of \$1,226,974,500, out of which \$264,000,000 was made by New York banks to Wall Street. So there is nearly one thousand millions of dollars loaned outside.

Senator O'GORMAN. That is, made by New York City for the rest of the country?

Mr. GILBERT. Yes; made by New York for the rest of the country.

Senator NELSON. It was investments made by the brokers for country banks, was it not? Loans?

Mr. GILBERT. No; you do not understand; \$174,000,000 was sent to New York banks by their interior correspondents—the country banks.

Senator NELSON. Yes; for investment.

Mr. GILBERT. For investment? To loan on call, so that they could have it as a secondary reserve. Some of these large interior banks carry a secondary reserve in New York all the time, so that they can get it on demand.

Senator O'GORMAN. \$175,000,000 came from interior banks to New York?

Mr. GILBERT. Yes.

Senator O'GORMAN. Now, during the same period, how much money went out of New York City to the various sections of the United States?

Mr. GILBERT. At the same time New York banks were loaning for their own account \$264,383,000 to Wall Street, and to all other sections of the country, including that \$264,000,000, \$1,226,974,500.

Senator O'GORMAN. Then approximately, in rough figures, Mr. Gilbert, while \$174,000,000 or \$175,000,000 came from the interior banks for investment or deposit in New York—

Mr. GILBERT (interposing). No; not for deposit in New York. It was not sent for that purpose.

Senator O'GORMAN. For investment in New York call loans, New York was sending out almost a billion dollars through the country?

Mr. GILBERT. That is it exactly.

Senator NELSON. And New York had a little over \$200,000,000 in call loans?

Senator REED. But while New York was sending this money out for loan over the country, it ought to be stated how much New York had of the moneys of the country banks deposited in her banks.

Mr. GILBERT. Well, they had due national banks outside \$330,000,000.

Senator REED. So that New York was not furnishing money to the country, but New York was receiving from the country something like \$100,000,000 more than it loaned back. Am I not correct?

Mr. GILBERT. Oh, no. We were loaning a billion dollars.

Senator REED. Oh, I understand.

The figures above given by Mr. Gilbert are, in tabulated form, as follows:)

Distribution of loans and discounts made by 30 of the largest banks and trust companies in New York City, each having approximately \$20,000,000 or more of loans and discounts, and aggregate loans and discounts of \$1,226,974,500 at close of business September 24, 1913.

| | |
|--|------------------|
| First, loans made to Wall Street brokers for banks outside of the city of New York..... | \$174, 945, 900 |
| Second, loans made to Wall Street brokers for banks' own account | 264, 383, 800 |
| Third, other loans, discounts, and advances of every nature distributed geographically as below: | |
| Total Eastern States: Northeastern States—Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, and Connecticut; Eastern States—New York State, Pennsylvania, New Jersey, Maryland, District of Columbia, and Delaware..... | 617, 830, 800 |
| Total Southern States: Southern States—Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, Louisiana, Kentucky, Tennessee, Texas, and Arkansas | 174, 140, 500 |
| Total Western States: Middle Western States—Ohio, Indiana, Illinois, Michigan, Wisconsin, Minnesota, Iowa, and Missouri; Western States—North Dakota, South Dakota, Nebraska, Kansas, Montana, Wyoming, Colorado, Oklahoma, and New Mexico; Pacific States—Washington, Oregon, California, Idaho, Utah, Nevada, and Arizona..... | 167, 720, 600 |
| Foreign: Canada, etc..... | 2, 898, 800 |
| Total banks' own loans..... | 1, 226, 974, 500 |

Senator POMERENE. Let me understand what is the nature of those loans. With money from the outside you say there is more than a billion dollars loaned out. What is the nature of those loans?

Mr. GILBERT. It is paper discounted and loans in various ways.

Senator POMERENE. Does it include bond issues and matters of that sort?

Mr. GILBERT. Yes, to some extent; seven-eighths of the amount would be probably commercial paper and loans on securities.

Senator REED. How much of that money loaned to the country was insurance money that had been collected from the country?

Mr. GILBERT. I do not know what you refer to by "insurance money."

Senator REED. Insurance premiums collected over the country and brought into the insurance coffers and put into the banks.

Mr. GILBERT. That has never exerted an important enough influence to be spoken about to any extent. I never heard anything about it.

Senator REED. Is it not something like \$300,000,000?

Mr. GILBERT. I could not tell you that. Of course the insurance companies in New York keep their bank accounts in New York.

Senator REED. What I was interested in was a question Senator O'Gorman apparently had in his mind—he was never quite able to bring it out—was that New York not only financed itself, but the business of the rest of the country, and I am trying to disabuse his mind. [Laughter.]

Senator O'GORMAN. But you see that, for a given year, 1913, while \$175,000,000 has come into New York from interior banks, New York sends out over a billion dollars.

Senator NELSON. As I understand your figures, Mr. Gilbert, see if I get the right idea: One hundred and seventy-five million dollars has been sent in by country banks for investment in call loans.

Mr. GILBERT. Yes.

Senator NELSON. But during that same period New York banks have invested something over \$200,000,000 in the same kind of loans.

Mr. GILBERT. \$264,000,000.

Senator NELSON. And about 1,000 millions in commercial loans through the country.

Mr. GILBERT. That is it exactly.

Senator REED. The country banks have deposited \$300,000,000.

Mr. GILBERT. \$331,000,000.

Senator O'GORMAN. In addition to the \$175,000,000?

Mr. GILBERT. That is the amount of reserve money that they carried, due other national banks.

Senator BRISTOW. That was national banks only?

Mr. GILBERT. Yes.

Senator BRISTOW. What about State banks and trust companies?

Mr. GILBERT. It is not a large amount. I should say, in round figures, about \$150,000,000. But I can tell you accurately just what it is. [After a pause.] No; I can not, either.

Senator REED. Was that money sent to the country banks, or was it in the shape of bank credits—that 1,000 millions of dollars?

Mr. GILBERT. Why, it was discounting commercial paper and extending accommodations of all kinds, asked for by merchants, manufacturers, and banks of the country.

Senator BRISTOW. Of course, New York is not a commercial center, and this 1,000 millions that you sent out, of course, you got from the country in the processes of business. It did not originate—there is nothing in New York that is created there? It is simply a mart of trade, is it not?

Mr. GILBERT. Oh, my dear fellow, nothing in New York that is created there.

Senator BRISTOW. What do you create in New York?

Senator O'GORMAN. Will you allow me to interpose? Our manufacturing interests in the City of New York exceed in volume all the manufacturing interests of all the New England States, including the great manufacturing State of Massachusetts.

Senator BRISTOW. In the City of New York?

Senator O'GORMAN. In the City of New York. It is the greatest manufacturing city in all the world.

Senator NELSON. They make all the clothing there for America. [Laughter.]

Senator O'GORMAN. Am I right, Senator Weeks?

Senator WEEKS. I think you are substantially right, but that is not disparaging New England.

Senator O'GORMAN. Not at all.

Senator NELSON. I think from your total, Mr. Gilbert, from the 1,000 millions your banks advanced for commercial purposes to the outside country, you should deduct the \$200,000,000 of country deposits you have, reserve money. Give them credit.

Senator BRISTOW. That was \$331,000,000.

Mr. GILBERT. Why not deduct all the deposits we receive from all of our customers?

Senator NELSON. No; I refer to bank deposits.

Senator REED. Why not deduct them all?

Mr. GILBERT. Yes; why not deduct them all?

Senator NELSON. So you can not claim you are loaning out your own money, altogether.

Mr. GILBERT. We have nothing but our capital and surplus. All the rest belongs to our depositors.

Senator NELSON. And the bulk of your deposits, a large share of them, are country bank deposits?

Mr. GILBERT. Oh, no.

Senator POMERENE. A great many manufacturing concerns are in the West.

Mr. GILBERT. The deposits in the clearing-house banks amount to about \$1,350,000,000.

Senator NELSON. How much of that is represented by New York discounts?

Mr. GILBERT. A large portion of it. That is the fund we use for discounting purposes.

Senator NELSON. Your deposits, you know, are to a large extent bank credits that you give for your discounts.

Mr. GILBERT. Yes.

Senator NELSON. Now, a merchant comes in there and gives his note for \$10,000. You hold his note and give him credit for \$10,000 on the books and call that part of your deposits.

Mr. GILBERT. We do, of course, because we loan out our depositors' money.

Senator NELSON. Yes. And, deducting your discounts to New York people from your deposits, what is the net amount?

Mr. GILBERT. That I could not tell without going into a very close calculation. The deposits from customers amount to 200 or 300 millions daily, principally in New York City. That is actual deposits.

Senator NELSON. How much do your discounts average?

Mr. GILBERT. I could not tell that.

Senator NELSON. They constitute the bulk of your deposits?

Mr. GILBERT. What I am speaking about now is the actual deposits.

Senator POMERENE. Mr. Gilbert, let me suggest in that connection: You have a large number of manufacturing establishments and mercantile establishments in the Western States that carry accounts in your New York banks?

Mr. GILBERT. Yes.

Senator POMERENE. Large manufacturing establishments will get lines of credit of your banks?

Mr. GILBERT. Yes.

Senator POMERENE. And they carry heavy accounts in your banks?

Mr. GILBERT. Yes.

Senator POMERENE. So that while there is a large amount of paper discounted, there is a large amount of deposits also made over your counter by western concerns. That is correct, is it not?

Mr. GILBERT. Yes.

Senator POMERENE. Can you state the amount?

Mr. GILBERT. Well, I would not try to. It would be simply straining my memory.

Senator O'GORMAN. The particular item he is interested in is, Can you give an idea of the amount of Ohio money coming into New York City? [Laughter.]

Senator REED. I am interested in this question, as to how much of the deposits of this money that New York sent out to the country was actual money belonging to the citizens of New York and how much of it was money that belonged outside of New York. Could you tell us that?

Mr. GILBERT. Well, it would be rather difficult to differentiate. I would like to express it on the general principle that the business of the New York banks is to receive deposits from their customers and to loan out the deposits of their customers after keeping a lawful reserve against it in their vaults.

Senator REED. And their customers are not limited to New York, but extend over the country?

Mr. GILBERT. That is it exactly.

Senator REED. So that there is a large-sized hole—

Mr. GILBERT. We do not differentiate as to whom we loan or where we loan it. We have our own clientele and the interests of the bank is to accommodate its customers, if it can do it with safety.

Senator REED. I was only discussing Senator O'Gorman's—

Mr. GILBERT (continuing). And it always tries to do it. It does not discriminate between the man who lives out of New York and the man who lives in New York.

Senator O'GORMAN. Your bank would take Kansas City money just as readily?

Mr. GILBERT. Yes; it would take Kansas City money just as readily.

Senator REED. But just as soon as it takes that Kansas City money Senator O'Gorman says it is New York money. [Laughter.]

Senator NELSON. Now, Mr. Gilbert, are there other portions of the bill you want to discuss?

Mr. GILBERT. After listening to Mr. Morawetz with a great deal of interest last night, I went home and wrote this off before I went to bed:

Whatever view is expressed as to the practical working of the proposed currency bill must be on the assumption that all of the national banks will enter the new system. If we could definitely determine this point we could accurately determine the changes that would follow the introduction of the measure. If perchance it should happen that a large number of banks should decline to make the change, it would imperil the success of the bill at the start. The advantages which this bill offers would seem to outweigh the disadvantages, and yet there are some features which serve to keep alive a good deal of opposition to the measure, and which can be removed without any sacrifice of principle. The most prominent of these is the refusal to give the banks a proper representation on the board of control. They are to become the owners of all the stock and about two-thirds of the deposits, and be without voice in the management. They do not ask for control, but simply for a healthy leaven of banking knowledge, banking capacity, and banking conservatism. Why not concede this? The request is reasonable and logical and would be justified by all business practice.

The compulsory features of the bill compelling subscription to capital and deposit of reserves seem very obnoxious, but it must be admitted they are vital to the working out of the plan as laid out.

They would not seem so obnoxious if the member banks should be given proper representation on the board of control, but to be threatened with dissolution on refusal to accept the plan creates an opposition that otherwise might not exist. And if the penalty should have to be enforced to any great extent the result would be disastrous for a time to the business interests of the country.

While it may be that all national banks will within a reasonable time enter the system, it would not be wise to rely entirely on compulsion to get them in.

Senator O'GORMAN. Does that conclude your views?

Mr. GILBERT. Unless you want to talk to me on some other point.

Senator REED. I want to ask you a question: If this bill is put into effect, of course the money that goes into those regional banks must come from some place. I take it that a large amount of the money will be withdrawn from central reserve cities in order to transfer it into the regional bank?

Mr. GILBERT. Yes.

Senator REED. And, of course, from the reserve cities there will be money drawn from, strictly speaking, the country banks?

Mr. GILBERT. Yes.

Senator REED. Now, during that transition period, will that involve any considerable contraction?

Mr. GILBERT. Well, I have some figures here which bear on that point. I will give it to you in gross.

Senator REED. Have you written an article upon it?

Mr. GILBERT. No; but I have a calculation that was made by a personal friend of mine, a banker, which he gave me to look over. I do not feel at liberty to present it, but it contains the information you would like to have. From this analysis of the best working of the proposed bill it would appear that at once after the law goes into effect the banks in New York City may be called upon to pay out the amount of \$85,000,000 of the present deposits from national banks, which, after allowing for the 20 per cent reserve released thereon, would mean a contraction of loans to the amount of \$68,000,000, all of which, it would seem, would have to be provided for from their own resources, because their deposit of 3 per cent of their reserve with the Federal reserve bank is not called for until after 60 days, and they probably would have no claim upon said bank for discount accommodations until deposit had been made. In addition to the contraction of the amount named above would be the amount required to meet two of the $4\frac{1}{2}$ per cent that the reserve city banks could draw out after 60 days, which would amount to \$34,468,263, and the 10 per cent payment on account of the capital of the Federal reserve bank, which would amount to \$11,970,000, thus producing a total contraction in the loans of the New York City national banks, after allowing for the 18 per cent reserve released on deposits withdrawn, of \$40,000,000 at the expiration of 60 days after the act goes into effect; showing that in 60 days after the act becomes operative the withdrawal of deposits of national banks in the city of New York would amount to \$120,000,000, and the loans of such national banks of the city of New York would be contracted \$108,000,000.

Senator REED. That is the application of this to the city of New York?

Mr. GILBERT. Yes, sir; to the clearing-house banks of the city of New York.

Senator REED. Now, if that is true, and assuming we want to create this system and that it is a desirable thing, what suggestion have you to make as to a method by which the system could be created without suddenly withdrawing that money and so doing the work of creating the system as not to give the financial situation a violent and sudden lurch or jar?

Senator O'GORMAN. Suppose that provision were made to have the 20 per cent payment made in five different installments of 4 per cent each—

Senator NELSON (interposing). They will be in two payments; the other is only subject to call.

Senator O'GORMAN. I understand that. My question will only relate to the first payment of 10 per cent. I am making that in five payments, extending over a period of 18 months. Would that lessen the contraction?

Mr. GILBERT. That is only a matter of \$11,000,000.

Senator NELSON. Senator, will you kindly allow me to suggest another thought in connection with yours, and that is, if we adopted Mr. Gilbert's plan of one central bank, or reduced the number to four or five we could reduce the corporation to half the amount and get enough capital for this central bank to start on.

Mr. GILBERT. Yes; if it were one central bank \$20,000,000 would be ample to start with.

Senator O'GORMAN. Suppose you make the actual cash contribution 5 per cent, in 5 payments extending over a period of 18 months.

Mr. GILBERT. I do not think, so far as the capital payments are concerned, it would cut very much of a figure.

Senator O'GORMAN. Suppose the same idea were carried out with reference to the deposits; instead of requiring the deposit of 5 per cent of the reserves—

Mr. GILBERT (interposing). That would make a very good deal of difference.

Senator O'GORMAN (continuing). Have that in 5 equal payments, covering a period of a year or more. Would not that minimize the disturbance necessarily incident to such a change?

Mr. GILBERT. Yes; it would, of course. But it would also lessen the ability of the Federal reserve banks to discount, because they would rely on the transfers of reserves.

Senator O'GORMAN. But the development of the bank would in that way be gradual.

Mr. GILBERT. You could easily see, though, from the statement I have furnished here, that the borrowing by the banks of the country is not heavy, and they probably would have ample resources to accommodate all legitimate borrowing.

Senator REED. Besides that the banks would not need to borrow a large amount if they were required to transfer only a small amount.

Mr. GILBERT. No; they would not.

Senator BRISTOW. If we followed out the idea of the Federal reserve bank, of one Federal reserve bank, this transfer could be made with very much less disturbance, could it not, to the whole banking and financial system of the country?

Mr. GILBERT. Yes; it could be. It would not require as much capital to commence with, and the transference of the reserves to the central bank could be made in several installments.

Senator BRISTOW. If experience demonstrated that we needed more; if we found that, because of the peculiar conditions in our country, additional banks should be created, that could be done as experience pointed out the way?

Senator O'GORMAN. The power could be confided to the reserve board from time to time to create additional banks, indicating the limit to which the board might go.

Senator BRISTOW. Yes; that might be done. It would simplify it very much.

Mr. GILBERT. I think it would; yes.

Senator O'GORMAN. Let me ask you another question right there. Do you think, Mr. Gilbert, that a Government board of seven members, such as is proposed in this bill, constituting the reserve board, could dispose of the applications for rediscount from the member banks as intelligently as the members of the regional banks as constituted by this bill?

Mr. GILBERT. I do not.

Senator O'GORMAN. You would have more confidence in the personnel of the regional banks—

Mr. GILBERT (interposing). The administration of the regional bank alone is competent to decide the question, it seems to me.

Senator O'GORMAN. As to rediscount?

Mr. GILBERT. As to rediscount.

Senator O'GORMAN. You do not think this reserve board could take up that work?

Mr. GILBERT. I should not think it ought to do it.

Senator O'GORMAN. It would have to do it if we had but a single bank.

Mr. GILBERT. No; the administrative officers of the bank could do it. The Federal board would simply supervise.

Senator NELSON. Suppose, Mr. Gilbert, you had, under the Federal board for this central bank, a discount committee of nine.

Mr. GILBERT. Every well-regulated bank of any size has an executive committee. Now, the bank officers are the ones that are familiar with the standing of their customers. The administrative officers of a regional reserve bank would know the banks of their district. It would be their duty to become familiar with their habits.

Senator O'GORMAN. You evidently look upon that as one of the advantages of the regional bank system, do you?

Mr. GILBERT. It is an advantage; yes. At the same time the central bank should distribute its branches throughout the country and the branches would come in close and intimate contact—

Senator O'GORMAN (interposing). And perform that same function?

Mr. GILBERT. Yes.

Senator POMERENE. I think that Mr. Gilbert, among other things, was going to discuss before us the question of foreign exchange, and I was anxious to hear him.

Mr. GILBERT. I do not want to go into that now, but perhaps the next time I come I shall do so. However, here are one or two things that I jotted down last night, and that I should like to emphasize.

Much stress is being laid on the industrial expansion that will result from the establishment of the Federal reserve bank owing to their capacity to expand credit. It must not be overlooked, however,

that there is a limit to their power to expand credit, and when that limit has been reached they will be simply ordinary banks in competition with each other with no reserve power to meet unexpected crises. The reserve bank should not seek to build up a big business, to expand credit, or to make profit. Its prime object should be to maintain its reserve power and be always ready to perform its proper function in a money crisis. If it can not do this and earn dividends it would be better to dispense with the dividends. Under normal business conditions it should not carry less than 50 per cent reserve against all its liabilities, otherwise it will not be ready for a crisis when it comes. Under normal conditions it is doubtful if all of the reserve banks can pay dividends to stockholders; certainly not for several years.

The bank-note issue should not be guaranteed by the United States Government nor made payable at the United States Treasury. This would be a mistake that would prove embarrassing to the Government in a panic. We have only to go back to the panic of 1907 to find a parallel case in the volume of national-bank notes that were presented for redemption.

I was in Washington in 1908 and I called on Secretary Cortelyou, to talk over the Aldrich-Vreeland bill, which was then before Congress. He told me at that time that the Treasury Department was very much embarrassed by the large volume of national-bank notes that were being presented for redemption; that it had almost exhausted his cash balances; and that his force was not large enough to send the notes that were presented for redemption home to the banks of issue, and he was waiting for an appropriation to enlarge his force to do that. After talking with him, I suggested that he use his influence with Congress to omit from the face of the notes issued under the Aldrich-Vreeland bill, if the bill became a law, the words "Payable by the Treasury of the United States in lawful money," and I think it was done. I know that he and I both communicated with several of the influential members of both Houses at that time, and I think when that bill passed it was omitted. I think it is very necessary you should consider that, because it is not necessary that these bills should be payable at the Treasury of the United States.

Senator WEEKS. If you will allow me to interrupt you, you will find that the bills that have been printed since have all been alike, and they have had these words on them: "Secured by a deposit of United States bonds or other securities," instead of "Secured by deposit of United States bonds" as heretofore. That, I think, was the only change made in the bill.

Mr. GILBERT. But, under the national-bank act, the old bills were stamped on their face, "Payable at the Treasury of the United States."

Senator WEEKS. I have not one of the bills in my pocket, but if that were true I think that has been left off.

Mr. GILBERT. I think it has been left off, and I think it was left off as a result of that experience in 1907. Don't you remember?

Senator WEEKS. Yes; I remember very well. But even now in normal times the Treasury has redeemed more national-bank bills than the 5 per cent fund amounts to. There is an actual debit there to-day against the banks.

Mr. GILBERT. The volume was very, very large, indeed, and it embarrassed the Treasury Department very much.

Senator REED. What is the limit, Senator?

Senator WEEKS. There is no limit.

Senator NELSON. You believe, of course, that these notes should be redeemable in gold only?

Mr. GILBERT. I do. Let me continue.

Let these be the notes of the Federal reserve banks protected by a 50 per cent gold reserve, a first lien upon the assets, and payable on presentation in gold at any Federal reserve bank. They would be amply secured by the 50 per cent reserve and the commercial paper behind them, and the fact that they were not guaranteed by the Government might possibly add to their elasticity by causing them to be presented for redemption more quickly than otherwise would be the case.

Federal reserve banks should pay out their own notes only. Notes of other Federal reserve banks when received should be sent home for redemption. If not guaranteed by the Government, they would be less likely to be carried in reserves of State banks and trust companies, nonmembers.

Senator O'GORMAN. Do you see any advantage at all in having the notes Government notes?

Mr. GILBERT. No; I do not.

Senator O'GORMAN. Do you know why it is proposed that they be Government notes rather than bank notes?

Mr. GILBERT. I do not. Since I became familiar with the bill I have formed the impression that there is an influence in the Cabinet which is in favor of having the Government issue its own notes, instead of allowing the banks to issue notes.

Senator O'GORMAN. That is the only explanation you can think of?

Mr. GILBERT. That is the only explanation.

Senator O'GORMAN. You do not approve of it?

Mr. GILBERT. I do not.

Senator O'GORMAN. You think it is not sound?

Mr. GILBERT. I do not think it is sound. My own view is that I would as much as possible divorce the Government from—

Senator REED (interposing). Do you think that the 50 per cent reserve under this bill against notes issued by these Federal reserve banks would be perfectly sound?

Mr. GILBERT. I do.

Senator REED. Do you think they should always be redeemable in gold?

Mr. GILBERT. Yes; I think so.

Senator REED. If that is true, if you have a system that provides that the notes shall always be redeemed in gold at the till of the bank, a system which is safe and sound, how can a run upon the Treasury be effected, and why should it ever be effected? The minute you say that currency is absolutely safe you take out all danger to the indorser.

Mr. GILBERT. There never was any question about the national-bank notes, but they were turned home in such large volume for payment to the Treasury of the United States.

Senator REED. That is because there was a raid on the gold; they were raiding for gold, were they not?

Mr. GILBERT. They were payable in lawful money.

Senator NELSON. Ought not the burden of gold redemption to be put entirely on the regional banks instead of the Government?

Mr. GILBERT. I think we should do everything we can to concentrate in these regional reserve banks a large gold fund.

Senator REED. And make them keep it?

Mr. GILBERT. And make them keep it.

Senator NELSON. And call upon the Government to supply the gold.

Mr. GILBERT. In fact, I sometimes think that, being regional reserve banks, they ought to be a higher order of bank than the ordinary commercial bank of the country, especially as we have between 700 and 800 million of national-bank currency outstanding, and that it will be a good many years before it is largely reduced, and that, in order to make these regional reserve banks extra conservative, we should compel them to carry a much larger gold reserve.

Senator O'GORMAN. Why do you urge a 50 per cent gold reserve instead of the 33 $\frac{1}{3}$ per cent proposed in the bill?

Mr. GILBERT. Because I think it would be safer.

Senator O'GORMAN. Would not 33 $\frac{1}{2}$ per cent be safe?

Mr. GILBERT. I do not say I do not think 33 $\frac{1}{3}$ per cent reserve would be good, conservative management—using care to discount short-time commercial paper—but a reserve bank should only discount short-time commercial paper; it should be maturing all the time.

Take the Bank of France. Under the First Empire, when Napoleon became Emperor he felt that he wanted a bank that would have a little more banking power than the Bank of France, as it existed at that time, had. So he said to his finance minister, "I have drawn up a scheme for a bank; I want to read it to you." And he read it over to him. It was a scheme which provided for making advances on short-time commercial paper, with three good names, and a very small gold reserve, but a gold reserve large enough to meet any demands that might be made for the redemption of the notes. He said to him, "I want you to take that to the corps legislatif and present it as your own bill, because if they know it is my bill they won't pass it. If you present it as your own bill they will give it more consideration." That bill was introduced and eventually became the system under which the Bank of France was organized and operated.

I only mention that to show he had the right idea there, that a reasonable gold reserve and short-time commercial paper amply secured, which would be redeeming itself all the time, would keep that bank amply supplied with gold to meet its notes as they became due.

Senator O'GORMAN. You now touch upon an objection which has been strenuously urged on behalf of the country bankers. It is this: In various sections of the country the country bankers do not deal in the commercial paper with which the banks in large cities are familiar—the paper running for 30, 60, or 90 days. They deal largely in what is called "seasonal paper," very frequently running from six to nine months. It is claimed on their behalf that they can not avail themselves of the rediscount privileges of this bill, or, if they do enjoy the privilege at all, they can only enjoy it in a modified way. Of course, it is suggested that even with six months

paper it is available for discount during the second half of that period; so also with the nine months' paper. But it has appeared before this committee that under the plan proposed in this bill country banks will only have a modified use of this privilege. How can you remedy that?

Mr. GILBERT. Unfortunately that is an obstacle.

Senator O'GORMAN. Do you think it possible that the reserve board might, under rules and regulations, permit a certain percentage of the rediscounts in certain regions to be used for paper maturing longer than 90 days?

Mr. GILBERT. I do not think the correct working of the system ought to admit of the rediscounting of—

Senator O'GORMAN (interposing). You think any maturity longer than 90 days is not a liquid asset?

Mr. GILBERT. I do for a reserve bank.

Senator NELSON. I think there is an avenue out of the difficulty, and that is this: The large commercial banks would always have an abundance of such paper to discount, and they could supply the smaller banks. The smaller banks could obtain their discounts from the larger banks.

Senator O'GORMAN. That is true—

Mr. GILBERT. They could supply the currency.

Senator NELSON. Yes.

Senator O'GORMAN. The fact would still remain that the country bank is not permitted to enjoy the rediscount privileges of this bill—

Senator NELSON (interposing). That is true.

Senator O'GORMAN. To the same extent as the large city bank.

Mr. GILBERT. That is right.

Senator POMERENE. I was about to suggest this thought with regard to that matter: Assuming you are right as to the 90-day provision, here is a farmer who wants \$1,000, and he gives his season note for it. He expects to pay that out of his wheat crop or out of the sale, it may be, of stock which he has fatted. Assuming that his credit is the same as that of the merchant who has commercial paper within the contemplation of this statute, why should he not be given the same right? Why should not that paper be given the same right of discount at the bank as the merchant's note that is given for merchandise? Why is it not one and the same thing?

Senator O'GORMAN. They are maturing at different periods.

Senator POMERENE. I am waiving that, for the time being. If a note of that character is to mature within 90 days, why should it not have the privilege of discount just the same as the merchant's note?

Mr. GILBERT. The only reply I could make to that would be this: I understand the character of the farmer's paper very well, and I know it is difficult for the farmer to borrow money on the same terms as a merchant can borrow money. Of course, the farmer borrows from his own bank, and the amount of paper that is received from farmers must be a very small portion of the amount of paper that the bank would discount.

Senator POMERENE. That depends. If you go into the agricultural regions—for instance, in Minnesota, Kansas, or Nebraska,

where the industries are almost entirely agricultural or closely allied thereto—I suspect a goodly part of their paper would be farmers' paper.

Mr. GILBERT. They would have to have a sufficient amount of good commercial paper, eligible for discount, to supply their needs, I should think, in case they wanted rediscount.

Senator REED. That is what we are told by these gentlemen from the small banks that are really farmers' banks; that is, banks of which the farmers are the principal supporters or shareholders.

Senator POMERENE. And that is true in a good many of the rural districts.

Mr. GILBERT. Exception might be made in favor of the paper in the agricultural districts, up to a certain percentage. I can not see any other solution.

Senator POMERENE. Would there be any objection to it from an economic standpoint?

Senator O'GORMAN. If you will pardon me, Senator, it occurs to me there might be this objection: The success of this proposed system depends upon several requirements, an important one being that the assets of these regional banks shall always be liquid; and, in the estimation of bankers, an asset can not be considered liquid that takes more than 90 days to mature.

Senator POMERENE. Here is a farmer that wants \$1,000, which he expects to pay as soon as his wheat crop is harvested and marketed. When he borrows it it may be 6 months' paper, but when it is within 90 days of maturity—

Senator O'GORMAN (interposing). He can use it under this bill. He may have a 1-year note, but during the last 90 days he can discount it.

Senator POMERENE. That is just one of the difficulties here. It is said by some of the witnesses that that is not really commercial paper, within the contemplation of the act.

Mr. GILBERT. I should say so, too.

Senator O'GORMAN. That it is not commercial paper?

Senator POMERENE. What is there inherently different between the merchant's paper maturing within 90 days and the farmer's paper which is maturing within 90 days? I am assuming, of course, that they are men of equal credit and standing in the community.

Mr. GILBERT. Is it not true that the farmers as a class rely upon their banks to carry them until their crops are marketed?

Senator REED. But he has drawn the note—

Senator POMERENE (interposing). He has drawn the note so the note has to mature, and its collection is enforceable just the same as the collection of the merchant's paper is enforceable.

Senator REED. It is a 9 months' note, due in the month of August, and he intends to pay it out of his wheat crop, and by that time his wheat crop is harvested, thrashed, and marketed. Now, it is not put up with the bank until the 1st day of July. It is then due, we will say, the 15th day of August.

Mr. GILBERT. If his crop did not turn out well, it would have to be carried another year.

Senator BRISTOW. What about the merchant? If the crop did not turn out well—

Mr. GILBERT (interposing). He is provided with the merchandise to pay his note.

Senator POMERENE. The farmer has the same credit, even if his crop is a failure. He expected to take care of it in the same way.

Mr. GILBERT. Of course, we draw our conclusions from experience. We find that, as a rule, the commercial paper we get from business men is very largely paid at maturity, and our experience with eastern farmers—of course, we have had no experience with western farmers—is that a note payable in even three, six, or nine months is really payable at the farmer's convenience.

Senator POMERENE. I suspect we have got to recognize this as a fact: That when any paper is rediscounted the regional bank is going to depend largely upon the indorsement of the member bank.

Mr. GILBERT. Yes.

Senator POMERENE. And if the member bank is willing to take the paper of the farmer and to rediscount it, he would understand whether or not it was probably going to be paid when it matured.

Mr. GILBERT. Here is one question I would like to submit to you gentlemen. I read the remarks made by Senator Owen last night at some gathering of bankers in this city. The remarks appeared in the papers this morning, and the question arose as to the banks' ability to buy paper in the open market, and the Senator is quoted as having said that one of the powers of the regional reserve bank would be to enter the market and buy commercial paper. Some banker present raised the query as to whether or not that would not be competing with other banks. It occurred to me—

Senator O'GORMAN (interposing). That is only for the purpose of regulating the interest and discount rate.

Mr. GILBERT. It occurred to me that under the law as I understand it the regional bank can only enter the open market to buy commercial paper that is eligible for rediscount, and only paper that has the indorsement of a member bank is eligible for rediscount.

Senator NELSON. You are right about that, I think.

Mr. GILBERT. And there will be no paper in the market that is indorsed by member banks until an open money market is created. Is that not correct?

Senator REED. I think you are right on that.

Senator NELSON. It seems to me you are right about it. I think your deduction is correct.

Senator REED. Unless the bill is amended.

Senator NELSON. There is one question more I would like to ask you, Mr. Gilbert, and that is do you not think that the extensive discount privileges are the discount privileges extended here to the regional banks and the privilege that the member banks have to discount may lead to the inflation of credit?

Mr. GILBERT. It can very easily do that.

Senator NELSON. And be very general?

Mr. GILBERT. Yes, sir.

Senator NELSON. And there may be a danger in it?

Mr. GILBERT. I think so.

Senator NELSON. Can you suggest any limitation that we ought to put into the bill?

Senator REED. I do not think that construction follows—that construction which has been made here. I do not think that construction necessarily follows.

Mr. GILBERT. What is that?

Senator REED. That they could not buy anything unless it was paper indorsed by another bank.

Senator NELSON. It must be paper eligible for rediscount.

Senator REED. Of course, in construing any act you must take into consideration all of its language.

Section 15 says:

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—

Mr. GILBERT. "From or to."

Senator REED (reading):

From or to domestic or foreign banks, firms, corporations, or individuals, prime bankers' bills—

Mr. GILBERT. "Prime bankers' bills."

Senator REED. Yes. [Reading:]

And bills of exchange of the kinds and maturities by this act made eligible for rediscount and cable transfers.

Now, I think the construction that would necessarily be put on that would be—

Mr. GILBERT (interposing). What would you call "prime bankers' bills" and "bills of exchange"?

Senator REED. What are prime bills or bills of exchange? I have contended all along we have no rule to go by. But, waiving that, I am simply discussing the question whether a bank would have to indorse them. I think this section certainly would be susceptible of the construction and would probably be construed to mean this: That the words "bills of exchange and the kinds and maturities by this act made eligible for rediscount," that that would mean that they must be promissory notes or bills of exchange maturing within 30 days and signed in the manner in which a note must be signed if it passes through a bank and is indorsed and by it rediscounted, but that the indorsement of a member bank—I hardly think that would be necessary under that language.

Mr. GILBERT. I am sorry if that is the proper construction.

Senator BRISTOW. I think that is undoubtedly a good construction.

Now, Mr. Gilbert, do you find anything in the bill as to the difference in the paper that can be used as the basis for currency or which the bank will rediscount? Could the bank rediscount paper that could not be used as a basis for currency by the regional bank?

Mr. GILBERT. As I interpret the bill, you can only rediscount commercial paper of certain maturities.

Senator BRISTOW. Any paper that it can rediscount can be used as the basis for currency, as I understand it.

Mr. GILBERT. Well, it will be used, of course.

Senator NELSON. That is the way the bill reads.

Senator O'GORMAN. It is contemplated that the paper must be of a character upon which currency can be issued by the Government?

Senator NELSON. There is no doubt about that.

Senator WEEKS. If we had a strictly correct system, when that rediscount was made it would be put to the credit of the bank making the application, and it would not make any difference to the reserve bank whether it gave the discounting bank currency or a credit on its books or a check.

Mr. GILBERT. None at all.

Senator WEEKS. It would be the same thing.

Senator REED. I believe that is all at this time, Mr. Gilbert. If you can come back, say, on Friday, and give us the additional information which was asked for, I think we can hear you on that day.

Mr. GILBERT. I can return on Friday.

Senator REED. I have here a letter which was handed me by Senator Martine for insertion in the record, and, if there is no objection, the letter will be placed in the record at this point.

(The letter referred to is as follows:)

FIRST NATIONAL BANK,
Plainfield, N. J., October 14, 1913.

HON. JAMES E. MARTINE,
Washington, D. C.

DEAR SIR: We feel constrained to call upon you to use your utmost endeavors to defeat the passage of the present currency bill. Among the features particularly objectionable to us are the segregation of savings and commercial funds. If the proposed bill becomes law, we will be forced to call in loans aggregating over \$1,000,000, and you can readily imagine what that would mean to merchants of Plainfield, or, as an alternative, we must surrender our national charter and throw our Government bonds on a sagging market which at to-day's prices would mean a loss of from \$12,000 to \$15,000. It would seem that if banks situated as we are are to be forced out of the national banking system a method should be provided by which the Government twos should be paid off immediately at par.

We have been 10 years building up our savings department business, and this segregation of assets plan would be the destruction of it, as we can not pay 4 per cent interest, as we are now doing and are forced to do by the trust-company competition, and loan the money at a profit on the securities to which it is proposed to restrict the investment of such funds. The proposed plan is not only bad for the banks, but bad for the community at large, as it curtails our loans to our home people who need the money and forces investment in outside securities. Moreover, it would immediately create a situation whereby we would have a surplus of funds in our savings department and an extreme shortage in our commercial department. The act proposes to prohibit one department using the surplus funds of the other, or, in other words, we must let our savings-department money lay idle or invest it out of town and borrow money to supply the needs of our customers, or else refuse to loan them their reasonable requirements. We believe the strict enforcement of the proposed law will put the country in such a state of chaos that business men will not know what to do.

We urge you to give this matter most careful consideration, and would greatly appreciate a favorable reply from you.

Very truly, yours,

J. A. HUBBARD.
C. FRANK FRENCH.
B. FRANK CORIELL.
D. M. RUNYON.
E. H. BIRD.

W. R. CODINGTON.
J. A. SMITH,
A. J. BRUNSON.
P. Z. ZEIGLIO.

(The following are inserted at the request of the chairman of the committee:)

Statement showing clearings for 1912, from Jan. 1 to Dec. 28.

| | | |
|--------------------------|-------|----------------------|
| New York City | ----- | \$100, 111, 150, 886 |
| Outside of New York City | ----- | 73, 609, 760, 971 |
| Total | ----- | 173, 720, 911, 857 |

[From the Financial Age, Nov. 30, 1912.]

REPORT OF THE COMMITTEE ON INLAND EXCHANGE TO THE NEW YORK CLEARING HOUSE COMMITTEE.

The subcommittee on inland exchange which was appointed by the clearing-house committee last April to investigate the subject of exchange charges on inland checks after months of constant activity made its report last Monday.

After quoting the resolution under which the committee was appointed, the following results of the investigations are set forth:

Your committee approached this investigation with an entirely unprejudiced mind and has maintained an attitude of strict impartiality throughout. It has given careful consideration to the facts it has gathered and feels that it is now in a position to report its conclusions and the findings upon which these conclusions are based.

Under its direction two forms were prepared. A copy of one of these forms was sent to each bank and trust company member of the New York Clearing House Association, the purpose being to place the committee in possession of information with respect to what, if any, changes they felt should be made in our existing rules and regulations affecting the collection of country checks.

In furtherance of your committee's desire to receive as many different points of view as possible on this most important subject it met frequently at the clearing house during the spring and summer months for the purpose of discussing it in a frank and unbiased way with the president or such officer as he elected to represent him of each clearing-house institution.

The second form prepared under the committee's supervision was designed for use in conveying to it certain information for statistical purposes in respect of the amount, source of receipt, disposition, and cost of collection, as well as time consumed in collecting foreign items received by each individual institution during the month of May, 1912. A copy of this form was handed to each member's representative at the time he appeared before the committee, with a careful explanation of its purpose and confidential nature.

The figures compiled from the data contained in these reports indicate that the gross income of the members of the clearing-house association from collection exchange during the year 1911 was—

| | | |
|--|----------------|---------------------|
| Collection exchange during 1911----- | | \$2,139,551.00 |
| Exchange cost----- | \$1,176,162.00 | |
| Proportionate share postage, rent, stationery, and salaries for 1911----- | 569,461.78 | |
| Estimated loss of interest on interest-bearing accounts where immediate credit is given for foreign checks, based upon figures submitted by eight of the largest institutions in the clearing house----- | 296,460.00 | |
| | | <u>2,042,083.78</u> |
| New income----- | | 97,467.22 |

It should be borne in mind that this net income is the result of handling a volume of business, based on the figures gathered for the year 1911, of, approximately, \$4,859,187,900, and when distributed between the 64 active members of the clearing-house association represents an annual increment of income to each of only about \$1,500.

The figures gathered by your committee for the month of May, 1912, show: Daily average of foreign checks received, \$16,284,346.

As to discretionary and charge points this volume was distributed as follows:

| | |
|---------------------------|--------------|
| Discretionary points----- | \$11,404,363 |
| One-tenth points----- | 3,938,198 |
| One-fourth points----- | 865,785 |

It will be observed from these figures that of our daily volume of out-of-town business for May, 1912, 71 per cent was on the discretionary points, 24 per cent was on the one-tenth points, and only 5 per cent was on the one-fourth points.

The daily average amount of cash items outstanding during the same period was \$68,215,328, indicating that the average time consumed in the collection of our country checks was 4.19 days.

Your committee also procured from the members of the clearing-house association the data with reference to the average daily outstandings of cash items during the year 1911, which amounted to \$67,866,658. Considerable labor was involved to the banks in providing this information, but as a medium for comparison with the same figures for May, 1912, which, as previously stated, totaled \$68,215,328, the committee was enabled to confirm its impressions that the month of May, upon which its principal figures were based, was an excellent average month.

The succeeding table shows the average daily amount, the average time consumed, and the average cost of collecting checks on the discretionary points, and also on a number of other more important nondiscretionary cities of the United States:

| City. | Average. | | |
|------------------------|-------------|-------|---|
| | Amount. | Days. | Cost. |
| Philadelphia..... | \$4,174,177 | 3.514 | 2 banks, \$0.340 per M (49 par, 13 not reporting). |
| Boston..... | 2,874,831 | 3.523 | 4 banks, \$0.069 per M (47 par, 13 not reporting). |
| Baltimore..... | 958,796 | 3.243 | 21 banks, \$0.36 per M (28 par, 15 not reporting). |
| Newark..... | 943,321 | 4.047 | 1 bank, \$0.29 per M (48 par, 15 not reporting). |
| Albany..... | 889,410 | 4.117 | 2 banks, \$0.208 per M (47 par, 15 not reporting). |
| Providence..... | 351,282 | 4.188 | 3 banks, \$0.156 per M (46 par, 15 not reporting). |
| Troy..... | 110,280 | 3.935 | 5 banks, \$0.363 per M (39 par, 20 not reporting). |
| Jersey City..... | 370,781 | 3.657 | 2 banks, \$0.18 per M (46 par, 16 not reporting). |
| Hoboken..... | 134,240 | 3.63 | 1 bank, \$0.01 per M (46 par, 17 not reporting). |
| New York..... | 1,068,025 | 3.885 | No cost (42 par, 22 not reporting). |
| Greater New York..... | 847,883 | 4.053 | 2 banks, \$0.107 per M (40 par, 22 not reporting). |
| Chicago..... | 417,320 | 4.739 | 34 banks, \$0.54 per M (13 par, 17 not reporting). |
| Pittsburgh..... | 132,797 | 3.95 | 24 banks, \$0.768 per M (22 par, 18 not reporting). |
| Cleveland..... | 135,622 | 4.341 | 37 banks, \$0.618 per M (9 par, 18 not reporting). |
| St. Louis..... | 109,470 | 4.787 | 38 banks, \$0.788 per M (8 par, 18 not reporting). |
| Buffalo..... | 96,850 | 4.143 | 20 banks, \$0.616 per M (23 par, 21 not reporting). |
| Cincinnati..... | 79,588 | 4.178 | 41 banks, \$0.631 per M (6 par, 17 not reporting). |
| Washington..... | 71,374 | 2.95 | 37 banks, \$0.60 per M (9 par, 18 not reporting). |
| Hartford..... | 57,872 | 4.705 | 15 banks, \$0.62 per M (32 par, 17 not reporting). |
| Kansas City..... | 42,719 | 5.31 | 38 banks, \$0.91 per M (6 par, 20 not reporting). |
| Minneapolis..... | 30,861 | 5.02 | 40 banks, \$1.14 per M (5 par, 19 not reporting). |
| St. Paul..... | 23,615 | 4.923 | 39 banks, \$1.18 per M (5 par, 20 not reporting). |
| Atlanta..... | 25,229 | 5.196 | 37 banks, \$1.06 per M (6 par, 21 not reporting). |
| New Orleans..... | 20,838 | 6.941 | 32 banks, \$1.16 per M (12 par, 20 not reporting). |
| Omaha..... | 19,309 | 5.787 | 39 banks, \$1.11 per M (6 par, 19 not reporting). |
| Denver..... | 19,786 | 6.47 | 41 banks, \$1.15 per M (4 par, 19 not reporting). |
| Seattle..... | 34,095 | 8.928 | 40 banks, \$1.36 per M (4 par, 20 not reporting). |
| San Francisco..... | 50,745 | 9.404 | 39 banks, \$0.87 per M (6 par, 19 not reporting). |
| Los Angeles..... | 27,967 | 8.937 | 40 banks, \$1.10 per M (4 par, 20 not reporting). |
| One-tenth points..... | 4,177 | 4.177 | 44 banks, \$0.609 per M (20 banks not reporting). |
| One-fourth points..... | 7,000 | 7.000 | 44 banks, \$1.40 per M (1 par, 19 not reporting). |

Subsequent to the appointment of this committee on inland exchange by the clearing-house committee of the New York Clearing House Association the bankers' association of New York, New Jersey, Connecticut, and Massachusetts took similar action. These committees in due course communicated to your committee their desire to discuss this subject fully with it. Their requests were gladly granted, and at appointed times your committee has had the pleasure of entertaining the representatives of each of these associations.

In view of the foregoing résumé of the scope and detail of the work of your committee and of the facts thus ascertained, and because your committee is convinced that the operation of the present rules and regulations of the New York Clearing House Association in respect of charge on inland exchange results in barely making good to the banks and trust companies making their exchanges through the clearing house their actual outlay in handling such business, including the amounts of exchange charged on or deducted from return remittances, without substantial return for the enormous volume of the business thus undertaken and its risks, your committee feels itself compelled, in the interest of the conservative business methods which are required in good banking, respectfully to recommend that the main body of the existing rules and regulations of the New York Clearing House Association regarding collections outside of the city of New York shall remain unchanged.

In the judgment of your committee, however, within certain restricted territories, and for reasons which are in each instance peculiar to the areas in-

volved, the rules should be modified with advantage alike to ourselves and to the inland banks and business interests affected by them.

After a careful consideration of all the questions involved it furthermore respectfully recommends that all banks and trust companies in the States of Massachusetts, Rhode Island, Connecticut, New Jersey, and New York which will engage themselves in writing to the manager of the New York Clearing House over the signature of the president, cashier, or treasurer to remit to the members of the New York Clearing House Association at par in New York funds on the day of receipt the charge shall in all cases be discretionary with the collecting bank.

It is not proposed that the foregoing recommendations shall in any way disturb the relations now existing between our members and the banks located in the present discretionary cities.

In the opinion of your committee this proposed modification of the rule respecting discretionary places, so as to include the entire region mentioned, provided the local banks themselves in any community wish it, rather than extending the privilege to a few specially designated cities or towns in that territory, will, if adopted, do much toward relieving the irritation and dissatisfaction which have heretofore existed among many near-by banks not situated in a discretionary city. This proposal affords opportunity to the banks in each locality to determine for themselves and for their customers whether or not they wish to enjoy the benefits and share the burdens of a discretionary or free collection point.

All of which is respectfully submitted.

JAMES G. CANNON,
WALTER E. FREW,
JOSEPH T. TALBERT,
EDWARD TOWNSEND,
JOHN W. PLATTEN,

Committee on Inland Exchange.

The report will be considered by the clearing-house committee and its recommendation acted upon by the full membership at a meeting to be held in the clearing house on December 4 at 2 p. m.

CHAMBER OF COMMERCE OF THE UNITED STATES OF AMERICA.

RIGGS BUILDING,
Washington, D. C., October 18, 1913.

HON. ROBERT L. OWEN,

*Chairman Committee on Banking and Currency,
United States Senate, Washington, D. C.*

DEAR SENATOR OWEN: Pursuant to my promise I herewith submit for the record a complete tabulation of the referendum vote of this chamber upon the report of its committee on currency and banking relative to the Owen-Glass currency bill.

* * * * *

Very sincerely, yours,

ELLIOT F. GOODWIN, *Secretary.*

REFERENDUM NO. 4.

Statement of vote on the question of approval of the report of the standing committee on currency and banking of the Chamber of Commerce of the United States of America upon the Owen-Glass currency bill (S. 2639, H. R. 6454, Sixty-third Congress, first session).

[Question submitted Aug. 26, 1913; vote closed Oct. 10, 1913.]

| Name of organization. | Report. | | A. | | B. | | C. | | D. | | | | E. | | F. | | G. | |
|---|------------------|----------|------------------|----------|------------------|----------|------------------|----------|-----------|----------|-----------|----------|------------------|----------|------------------|----------|------------------|----------|
| | Number of votes. | | Number of votes. | | Number of votes. | | Number of votes. | | a and c. | | b. | | Number of votes. | | Number of votes. | | Number of votes. | |
| | In favor. | Opposed. | In favor. | Opposed. | In favor. | Opposed. | In favor. | Opposed. | In favor. | Opposed. | In favor. | Opposed. | In favor. | Opposed. | In favor. | Opposed. | In favor. | Opposed. |
| | | | | | | | | | | | | | | | | | | |
| Arizona: | | | | | | | | | | | | | | | | | | |
| Phoenix, Board of Trade..... | 3 | | 3 | | 3 | | 3 | | 3 | | 3 | | 3 | | 3 | | 3 | |
| Arkansas: | | | | | | | | | | | | | | | | | | |
| Little Rock, Chamber of Commerce..... | | | 4 | | 4 | | 4 | | 4 | | 4 | | 4 | | 4 | | 4 | |
| Pine Bluff, Chamber of Commerce..... | | 2 | 2 | | 2 | | 2 | | 2 | | 2 | | 2 | | 2 | | 2 | |
| Texarkana, Board of Trade..... | | 1 | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | |
| California: | | | | | | | | | | | | | | | | | | |
| Los Angeles, Chamber of Commerce..... | | | 10 | | 10 | | 10 | | 10 | | 10 | | 10 | | 10 | | 10 | |
| San Diego, Chamber of Commerce..... | 7 | | 7 | | 7 | | 7 | | 7 | | 7 | | 7 | | 7 | | 7 | |
| Connecticut: | | | | | | | | | | | | | | | | | | |
| Derby, State Business Men's Association of Connecticut..... | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | |
| Hartford, Chamber of Commerce..... | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | |
| Delaware: | | | | | | | | | | | | | | | | | | |
| Wilmington, Chamber of Commerce..... | 2 | | 2 | | 2 | | 2 | | 2 | | 2 | | 2 | | 2 | | 2 | |
| District of Columbia: | | | | | | | | | | | | | | | | | | |
| Washington, Chamber of Commerce..... | | | 3 | | 3 | | 3 | | 3 | | 3 | | 3 | | 3 | | 3 | |
| Illinois: | | | | | | | | | | | | | | | | | | |
| Alton, Board of Trade..... | 2 | | 2 | | 2 | | 2 | | 2 | | 2 | | 2 | | 2 | | 2 | |
| Champaign, Chamber of Commerce..... | 2 | | 2 | | 2 | | 2 | | 2 | | 2 | | 2 | | 2 | | 2 | |
| Chicago— | | | | | | | | | | | | | | | | | | |
| Association of Commerce..... | 10 | | 10 | | 10 | | 10 | | 10 | | 10 | | 10 | | 10 | | 10 | |
| Board of Trade..... | 9 | | 9 | | 9 | | 9 | | 9 | | 9 | | 9 | | 9 | | 9 | |
| Bureau of Barley & Malt Statistics..... | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | |
| Central Supply Association..... | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | |
| Garment Manufacturers' Association..... | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | |

| | | | | | | | | | | |
|---|----|----|----|----|----|----|----|----|----|----|
| Illinois Manufacturers' Association | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| Industrial Club | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| International Association of Manu- facturing Photo-Engravers | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Millinery Jobbers' Association | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| National Association of Box Manu- facturers | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| National Association of Retail Drug- gists | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 |
| National Association of Tanners | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| National Confectioners Association of United States | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| National Hardwood Lumber Associa- tion | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| National Shoe Wholesalers' Associa- tion of United States | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| National Veneer & Panel Manufac- turers Association | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Tight Barrel Stave Manufacturers' Association | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| United Typothetae of America | | 9 | | 9 | 9 | 9 | 9 | 9 | 9 | 9 |
| Western Cigar Box Manufacturers' Association | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Wholesale Saddlery Association of United States | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Decatur, Chamber of Commerce | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Freeport, Citizens' Commercial Association | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Kankakee, Commercial Association | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| La Salle, Commercial Association | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Peoria, Association of Commerce | 6 | 6 | 6 | 6 | 6 | 8 | 6 | 6 | 6 | 6 |
| Quincy, Chamber of Commerce | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Springfield, Commercial Association | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Indiana: | | | | | | | | | | |
| Indianapolis— | | | | | | | | | | |
| Board of Trade | | 3 | | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Chamber of Commerce | | 10 | | 10 | 10 | 10 | 10 | 10 | 10 | 10 |
| Logansport, Commercial Club | 2 | | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| South Bend, Chamber of Commerce | | 2 | | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Iowa: | | | | | | | | | | |
| Sioux City, Commercial Club | | | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Louisiana: | | | | | | | | | | |
| New Orleans— | | | | | | | | | | |
| Association of Commerce | 10 | 10 | 10 | 10 | 0 | 10 | 10 | 10 | 10 | 10 |
| Board of Trade (Ltd.) | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Maine: | | | | | | | | | | |
| Bangor, Chamber of Commerce | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Maryland: | | | | | | | | | | |
| Baltimore— | | | | | | | | | | |
| Board of Trade | | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Merchants & Manufacturers Associa- tion | | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Frederick, Board of Trade | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |

REFERENDUM No. 4—Continued.

Statement of vote on the question of approval of the report of the standing committee on currency and banking of the Chamber of Commerce of the United States of America upon the Owen-Glass Currency bill (S. 2639, H. R. 6454, Sixty-third Congress, first session)—Continued.

| Name of organization. | Report. | | A. | | B. | | C. | | D. | | | | E. | | F. | | G. | |
|--|------------------|----------|------------------|----------|------------------|----------|------------------|----------|-----------|----------|-----------|----------|------------------|----------|------------------|----------|------------------|----------|
| | Number of votes. | | Number of votes. | | Number of votes. | | Number of votes. | | a and c. | | b. | | Number of votes. | | Number of votes. | | Number of votes. | |
| | In favor. | Opposed. | In favor. | Opposed. | In favor. | Opposed. | In favor. | Opposed. | In favor. | Opposed. | In favor. | Opposed. | In favor. | Opposed. | In favor. | Opposed. | In favor. | Opposed. |
| Massachusetts: | | | | | | | | | | | | | | | | | | |
| Boston— | | | | | | | | | | | | | | | | | | |
| Chamber of Commerce..... | 10 | | 10 | | 10 | | 10 | | 10 | | 10 | | 10 | | 10 | | 10 | |
| New England Shoe & Leather Association..... | | | | 2 | | 2 | | 2 | | 2 | | 2 | | 2 | | 2 | | 2 |
| Everett, Board of Trade..... | 2 | | 2 | | 2 | | 2 | | 2 | | 2 | | 2 | | 2 | | 2 | |
| Fall River, Chamber of Commerce..... | | | | 3 | | 3 | | 3 | | 3 | | 3 | | 3 | | 3 | | 3 |
| Farmingham, Board of Trade..... | 2 | | 2 | | 2 | | 2 | | 2 | | 2 | | 2 | | 2 | | 2 | |
| Malden, Board of Trade..... | 2 | | 2 | | 2 | | 2 | | 2 | | 2 | | 2 | | 2 | | 2 | |
| New Bedford, Board of Trade..... | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 |
| Springfield, Board of Trade..... | 5 | | 5 | | 5 | | 5 | | 5 | | 5 | | 5 | | 5 | | 5 | |
| Worcester— | | | | | | | | | | | | | | | | | | |
| Board of Trade..... | | | | 5 | | 5 | | 5 | | 5 | | 5 | | 5 | | 5 | | 5 |
| New England Builders' Supply Association..... | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | |
| Minnesota: | | | | | | | | | | | | | | | | | | |
| Duluth— | | | | | | | | | | | | | | | | | | |
| Board of Trade..... | | | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 |
| Commercial Club..... | | | | 6 | | 6 | | 6 | | 6 | | 6 | | 6 | | 6 | | 6 |
| Minneapolis— | | | | | | | | | | | | | | | | | | |
| Chamber of Commerce..... | 3 | | 3 | | 3 | | 3 | | 3 | | 3 | | 3 | | 3 | | 3 | |
| Civic and Commerce Association..... | 10 | | 10 | | 10 | | 10 | | 10 | | 10 | | 10 | | 10 | | 10 | |
| Minneapolis, Federation of Commercial Clubs..... | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | |
| St. Paul, Association of Commerce..... | 5 | | 5 | | 5 | | 5 | | 5 | | 5 | | 5 | | 5 | | 5 | |
| Winona, Association of Commerce (Inc.)..... | 4 | | 4 | | 4 | | 4 | | 4 | | 4 | | 4 | | 4 | | 4 | |

| | | | | | | | | | | | | | | |
|---|----|---|----|---|----|---|----|---|----|---|----|---|----|---|
| Mississippi: | | | | | | | | | | | | | | |
| Greenwood, Business League..... | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | |
| Missouri: | | | | | | | | | | | | | | |
| Kansas City, Southwestern Interstate Coal Operators' Association..... | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | |
| St. Louis— | | | | | | | | | | | | | | |
| Merchants' Exchange..... | 6 | | 6 | | 6 | | 6 | | 6 | | 6 | | 6 | |
| National Leather & Shoe Finders' Association..... | 2 | | 2 | | 2 | | 2 | | 2 | | 2 | | 2 | |
| Montana: | | | | | | | | | | | | | | |
| Fromberg, Commercial Club..... | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | |
| New Jersey: | | | | | | | | | | | | | | |
| Passaic, Board of Trade..... | 2 | | 2 | | 2 | | 2 | | 2 | | 2 | | 2 | |
| Plainfield, Chamber of Commerce..... | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | |
| Rahway, Board of Trade..... | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | |
| Trenton, Chamber of Commerce..... | 2 | | 2 | | 2 | | 2 | | 2 | | 2 | | 2 | |
| New York: | | | | | | | | | | | | | | |
| Buffalo, Chamber of Commerce..... | 10 | | 10 | | 10 | | 10 | | 10 | | 10 | | 10 | 0 |
| Canajoharie, Board of Trade..... | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 |
| New Rochelle, Merchants' Exchange..... | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | |
| New York— | | | | | | | | | | | | | | |
| American Hardware Manufacturers' Association..... | | | 2 | | 2 | | 2 | | 2 | | 2 | | 2 | 2 |
| American Paper & Pulp Association..... | | 2 | | 2 | | 2 | | 2 | | 2 | | 2 | | 2 |
| Eastern Supply Association..... | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | |
| Merchants' Association..... | 10 | | 10 | | 10 | | 10 | | 10 | | 10 | | 10 | |
| National Association of Manufacturers..... | 10 | | 10 | | 10 | | 10 | | 10 | | 10 | | 10 | |
| National Paint, Oil & Varnish Associa- tion..... | 4 | | 4 | | 4 | | 4 | | 4 | | 4 | | 4 | |
| National Wholesale Lumber Dealers' Association..... | 2 | | 2 | | 2 | | 2 | | 2 | | 2 | | 2 | |
| Natural Ice Association of America..... | | 2 | | 2 | | 2 | | 2 | | 2 | | 2 | | 2 |
| Railway Business Association..... | 2 | | 2 | | 2 | | 2 | | 2 | | 2 | | 2 | |
| United States Brewers' Association..... | | | 4 | | 4 | | 4 | | 4 | | 4 | | 4 | 4 |
| United States Trade Mark Association..... | 3 | | 3 | | 3 | | 3 | | 3 | | 3 | | 3 | |
| Poughkeepsie, Chamber of Commerce..... | 3 | | 3 | | 3 | | 3 | | 3 | | 3 | | 3 | |
| Rochester, National Boot & Shoe Manu- facturers' Association of United States..... | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | |
| Syracuse, Chamber of Commerce..... | | 5 | | 5 | | 5 | | 5 | | 5 | | 5 | | 5 |
| Utica, Knit Goods Manufacturers' Associa- tion..... | | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | |
| North Carolina: | | | | | | | | | | | | | | |
| Washington, Chamber of Commerce..... | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 |
| North Dakota: | | | | | | | | | | | | | | |
| Devils Lake, Commercial Club..... | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | |
| Fargo, Commercial Club..... | | | 2 | | 2 | | 2 | | 2 | | 2 | | 2 | |
| Grand Forks, Commercial Club..... | 3 | | 3 | | 3 | | 3 | | 3 | | 3 | | 3 | |
| Ohio: | | | | | | | | | | | | | | |
| Cincinnati, Chamber of Commerce and Merchants' Exchange..... | 10 | | 10 | | 10 | | 10 | | 10 | | 10 | | 10 | |

REFERENDUM No. 4—Continued.

Statement of vote on the question of approval of the report of the standing committee on currency and banking of the Chamber of Commerce of the United States of America upon the Owen-Glass Currency bill (S. 2639, H. R. 6454, Sixty-third Congress, first session)—Continued.

2796

| Name of organization. | Report. | | A. | | B. | | C. | | D. | | | | E. | | F. | | G. | |
|--|------------------|----------|------------------|----------|------------------|----------|------------------|----------|-----------|----------|-----------|----------|------------------|----------|------------------|----------|------------------|----------|
| | Number of votes. | | Number of votes. | | Number of votes. | | Number of votes. | | a and c. | | b. | | Number of votes. | | Number of votes. | | Number of votes. | |
| | In favor. | Opposed. | In favor. | Opposed. | In favor. | Opposed. | In favor. | Opposed. | In favor. | Opposed. | In favor. | Opposed. | In favor. | Opposed. | In favor. | Opposed. | In favor. | Opposed. |
| Ohio—Continued. | | | | | | | | | | | | | | | | | | |
| Cleveland— | | | | | | | | | | | | | | | | | | |
| National Cloak, Suit & Skirt Manufacturers' Association | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | |
| National Machine Tool Builders' Association | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | |
| National Petroleum Association | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | |
| Hamilton, Chamber of Commerce | 3 | | 3 | | 3 | | 3 | | 3 | | 3 | | 3 | | 3 | | 3 | |
| Lima, Progressive Association | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | |
| Steubenville, Chamber of Commerce | 2 | | 2 | | 2 | | 2 | | 2 | | 2 | | 2 | | 2 | | 2 | |
| Toledo, Commerce Club | | | 8 | | 8 | | 8 | | 8 | | 8 | | 8 | | 8 | | 8 | |
| Oklahoma: | | | | | | | | | | | | | | | | | | |
| Muskogee, Commercial Club | | | 3 | | 3 | | 3 | | | 3 | | 3 | | 3 | | 3 | | 3 |
| Oregon: | | | | | | | | | | | | | | | | | | |
| Portland, Chamber of Commerce | 5 | | 5 | | 5 | | 5 | | 5 | | 5 | | 5 | | 5 | | 5 | |
| Pennsylvania: | | | | | | | | | | | | | | | | | | |
| Beaver Falls— | | | | | | | | | | | | | | | | | | |
| Manufacturers' Association of Beaver County | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | |
| Tile Manufacturers' Credit Association | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | |
| Philadelphia, National Manufacturers of Soda Water Flavors | | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | |
| Pittsburgh— | | | | | | | | | | | | | | | | | | |
| American Warehousemen's Association | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | | 1 | |
| Chamber of Commerce | | | 6 | | 6 | | 6 | | 6 | | 6 | | 6 | | 6 | | 6 | |

BANKING AND CURRENCY.

| | | | | | | | | | | | | | | | | | | |
|--|-----|----|-----|----|-----|----|-----|----|-----|----|-----|----|-----|----|-----|----|-----|----|
| National Pipe & Supplies Association | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Oakland Board of Trade | 1 | | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| York, Chamber of Commerce | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Porto Rico: | | | | | | | | | | | | | | | | | | |
| Ponce, National Coffee Growers' Association | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| San Juan, Porto Rico Association | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| South Carolina: | | | | | | | | | | | | | | | | | | |
| Charleston, Chamber of Commerce | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Tennessee: | | | | | | | | | | | | | | | | | | |
| Chattanooga, Manufacturers' Association | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Texas: | | | | | | | | | | | | | | | | | | |
| Beaumont, Chamber of Commerce | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Houston, Chamber of Commerce | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| Paris, Board of Trade | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Virginia: | | | | | | | | | | | | | | | | | | |
| Alexandria, Chamber of Commerce | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Norfolk, North Carolina Pine Association | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Washington: | | | | | | | | | | | | | | | | | | |
| Seattle, New Seattle Chamber of Commerce | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 |
| Tacoma, West Coast Lumber Manufacturers' Association | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Wisconsin: | | | | | | | | | | | | | | | | | | |
| La Crosse, Board of Trade | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Manitowoc, Citizens' Association | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Milwaukee— | | | | | | | | | | | | | | | | | | |
| Chamber of Commerce | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Merchants & Manufacturers' Association | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| Wisconsin Manufacturers' Association | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Superior, Commercial Club | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| France: | | | | | | | | | | | | | | | | | | |
| Paris, American Chamber of Commerce | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Total | 303 | 17 | 346 | 70 | 333 | 82 | 343 | 73 | 397 | 17 | 378 | 31 | 367 | 48 | 378 | 38 | 390 | 23 |

(Thereupon, at 5.42 o'clock p. m., the committee adjourned to meet to-morrow, Wednesday, October 22, 1913, at 10.30 o'clock a. m.)

WEDNESDAY, OCTOBER 22, 1913.

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

The committee assembled at 10.40 o'clock a. m.

Present: Senators O'Gorman (presiding), Hitchcock, Reed, Hollis, McLean, Nelson, Bristow, and Weeks.

Senator O'GORMAN. Mr. Gilbert, you may resume where you left off last night.

STATEMENT OF ALEXANDER GILBERT—Resumed.

Mr. GILBERT. The only part of my testimony which was not complete was that which dealt with the relations of the clearing house with four banks which afterwards went into liquidation. I did not yesterday feel that I could state clearly and definitely the dealings of the New York Clearing House with those banks, because the dates of the different borrowings with relation to the outbreak of the panic had escaped my mind entirely.

Senator HOLLIS. What year was that, please?

Mr. GILBERT. That was in 1907. After I got back to my hotel last evening I looked over my papers, and I found some memoranda there which refreshed my mind, so I got the thing pretty clearly in my mind.

By the by, before I go ahead with this I would like to correct my testimony of yesterday. I was asked when I was elected president of the clearing house, and I stated October, 1907. That was true, but I had first been elected president of the clearing house October, 1906, so that during the years 1906 and 1907 and until October, 1908, I was president of the clearing house, which covered the entire period of the panic and one year previous. That enables me to say this, that during the years 1906 and 1907, from October, 1906, to October, 1907, before the outbreak of the panic, there were four banks which were being very closely watched by the clearing-house committee.

Senator O'GORMAN. You mean they were suspects?

Mr. GILBERT. They were suspects.

Senator WEEKS. Were they members of the clearing-house association?

Mr. GILBERT. They were members of the clearing-house association.

Senator NELSON. Have you any objection to giving their names?

Mr. GILBERT. None whatever. They were the Mercantile, the Bank of North America, the Mechanics & Traders, and the Oriental.

Senator NELSON. Those were all banks—not trust companies.

Mr. GILBERT. They were banks.

Senator O'GORMAN. All Federal banks?

Mr. GILBERT. No; the Mercantile was a national bank; the Oriental and the Mechanics & Traders were State banks; and the Bank of North America, I think, was a national bank—the National Bank of North America—yes. Two national banks and two State banks.

Senator O'GORMAN. Will you state, briefly, why they were under suspicion?

Mr. GILBERT. The Mercantile Bank was under the Heinze influence. Heinze had obtained a control of the stock and elected himself president, and of course the bankers in the clearing house were very familiar with Heinze's operations, and they knew pretty well what kind of a banking administration he would be likely to give the Mercantile Bank.

The Bank of North America was under the Morse influence, and Morse was in various operations which made him one of the suspects. The Mechanics' & Traders' Bank had been captured by a man named Sullivan, who owned a chain of banks in Brooklyn under the leadership of the Union Bank in Brooklyn. He had, I think, 20 or 22 branch banks in Brooklyn, and he had acquired control of the Mechanics' & Traders' Bank, because the Mechanics' & Traders' Bank was a clearing-house bank in New York, and he wanted to get a direct connection with the clearing house, and Sullivan became a suspect.

Senator O'GORMAN. Is he in prison now?

Mr. GILBERT. Yes; he is in prison now.

Senator O'GORMAN. He was afterwards indicted.

Senator NELSON. And imprisoned?

Mr. GILBERT. He is in prison now; yes. The Oriental Bank had a change of management. I think it was a southern representation that got control of the Oriental Bank, and from a number of their practices which the clearing house became cognizant of they thought it their duty to watch the Oriental, although the Oriental had had a long and honorable record.

Senator O'GORMAN. It subsequently liquidated and paid everybody.

Mr. GILBERT. Yes; I think it did.

Senator O'GORMAN. I was a judge in New York at the time, and there were certain proceedings that came before me affecting that bank, and I know they liquidated and paid everybody.

Mr. GILBERT. Yes; I think you are right. Three or four days before the outbreak of the panic these small banks—one or all of them—applied to the clearing house for help. That is, before the outbreak of the panic.

Senator NELSON. Applied to the clearing house for help?

Mr. GILBERT. Yes. And the clearing house at that time, when they applied, had not issued clearing-house certificates. Please take note of this; I want to emphasize this to show you that there was no desire on the part of any member of the clearing house or the administration of the clearing house to crush any of these banks, because as soon as they applied for help, although we had not issued clearing-house certificates, we formed a syndicate among ourselves to advance them the money they wanted.

Senator HOLLIS. Was that not partly, at least, a measure of self-protection?

Mr. GILBERT. Certainly.

Senator HOLLIS. Because as soon as you get a hole through a dam the whole dam is apt to go.

Mr. GILBERT. Certainly. We wanted to save the situation, and we simply said to the members who were gathered around the advisory board of the clearing-house committee: "How much will you lend

this bank?" "How much will you?" "How much will you?" to each of the members present, and we contributed to it and raised a fund to help these banks before we knew we were going to issue clearing-house certificates. I mention that to show you the banks appreciated the situation, and there was no desire on the part of any member to crush out any other bank because of competition. We wanted to save the situation.

Senator O'GORMAN. You looked on the management of those small banks with distrust?

Mr. GILBERT. We did, and yet we wanted to help them. We wanted to sustain them if we could.

Senator NELSON. When you started to help them what then took place?

Mr. GILBERT. Let me read here, which is evidently a statement by some member of the clearing house, because it details very correctly the situation. It is headed, "A Tale of Two Banks." It was published in the Boston Transcript.

Senator O'GORMAN. If you have no objections, Mr. Gilbert, we will have the stenographer place that in the report.

Mr. GILBERT. I will not read it all, but let me read first the case of the Mechanics & Traders Bank.

Senator NELSON. That is the Heinze bank?

Mr. GILBERT. No; the Sullivan bank. I stated yesterday in my testimony, so far as the Mercantile Bank was concerned, after they applied for help we made an examination of the Mercantile Bank and that resulted in the Sunday morning interview and our asking the resignation of the officers and directors so that a new administration could take charge and continue the bank. The Mercantile Bank was assisted promptly and they worked out all right and Mr. Morse and his influence resigned from the bank, and we eliminated that influence, which was a very good piece of work so far as the Mercantile was concerned, because the Mercantile was shortly relieved of its troubles and put on its feet and worked out splendidly.

Senator WEEKS. Mr. Morse was not an officer in the Mercantile, was he?

Mr. GILBERT. No; he was one of the directors, but Heinze was the president.

Senator WEEKS. Are you quite sure about that? My recollection was the same as Senator O'Gorman's that Mr. O'Brien was the president. Are you sure of that?

Mr. GILBERT. No; Mr. Heinze was president.

Senator O'GORMAN. He may have been the vice president.

Mr. GILBERT. That is right.

Senator O'GORMAN. He had had a long Mercantile career and association in the house of John Claffin. I think he had been invited to go into the banking business by Mr. Morse perhaps five, six, or seven years before the failure.

Mr. GILBERT. Yes; I think you are right about that. Now, with regard to the Mechanics & Traders, between October 18 and 25 the banks of the clearing house made cash loans to the Mechanics & Traders Bank of \$2,220,000. This was converted into clearing house loan certificates October 26, 1907. As soon as the clearing house issued the clearing-house certificates then the loans which had been

made to the bank by various other member banks were retired and the clearing-house certificates took their place. These loans were made on the assurances of Chief Examiner M. W. Hutchins of the State banking department that the bank was solvent. The aggregate issue amounted to \$4,520,000.

Senator WEEKS. To that bank?

Mr. GILBERT. To that bank.

Senator NELSON. Clearing-house certificates?

Mr. GILBERT. Clearing-house certificates.

Senator WEEKS. What was the capital of that bank?

Mr. GILBERT. I think the capital of the Mechanics & Traders was \$2,000,000.

Senator WEEKS. And how much in deposits did they have?

Mr. GILBERT. Well, it was not a large bank. The deposits were not, I think, over \$10,000,000 to \$15,000,000.

Senator WEEKS. Then, in all probability their loans were not smaller than, say, seven or eight millions?

Mr. GILBERT. Probably not. Of course, I have not the definite data before me and I could not speak intelligently.

Senator WEEKS. In other words, they must have taken out clearing-house certificates equal to about half of their loans?

Mr. GILBERT. I think they took out pretty nearly as much as they had negotiable assets to borrow upon; that is, good liquid assets to borrow upon. That was my impression. The aggregate issue amounted to \$4,520,000, and these were outstanding 137 days. That is nearly five months.

January 30, 1908, this bank was placed in the hands of the superintendent of the State banking department. The charge was made and reiterated before the Pujo committee that had the clearing-house loan committee extended credit the bank would have been saved. The inference intended was, of course, that credit could and should have been extended, and that if it was not, the reason was that two representatives of the Corn Exchange Bank, who also were members of the clearing-house committee, had used their influence to put a competitor out of business. That was the statement made to the committee.

Senator NELSON. The Pujo committee?

Mr. GILBERT. It is true that the clearing-house committee demanded more and a different kind of collateral from the Mechanics & Traders Bank, and that when this was not forthcoming it refused to extend credit. The collateral back of the loans had a face value of some \$6,373,000, but before the receivers of the Mechanics & Traders Bank paid off the balance due the clearing house, \$2,100,000, the committee had begun to collect \$3,447,000 of the collateral and had received \$1,000,000 in cash; the balance went to protest. The point is that the result of the attempt to collect on the collateral clearly demonstrated that the loan committee of the clearing house exercised good judgment in confining their advances to the proportion they did. This bank had from October 26, 1907, to January 30, 1908, to adjust its affairs. It wanted more money, but at no time could offer acceptable collateral in addition.

The point was made by Mr. Untermeyer, in questioning witnesses before the Pujo committee, that the Metropolitan Bank of New York

had taken over the Mechanics & Traders and paid off all its depositors in full, thus, according to the intimations of Mr. Untermyer, confuting the judgment of the clearing-house committee that the bank was in danger when further loans were refused.

But the testimony was not permitted to go far enough to tell all the facts in the case. It is true that the Metropolitan took over the New York branches of the Mechanics & Traders and paid off the depositors, but it is also true that the bank was allowed to reopen by the State banking department on the deferred-payment plan under the title of the Union Bank of Brooklyn.

Senator O'GORMAN. Would you prefer to read it all?

Mr. GILBERT. Yes; I would like to have this go on the record.

Senator O'GORMAN. The only reason that justifies my making this suggestion is that there are two witnesses who were here yesterday, and they were promised a hearing this morning.

Senator HOLLIS. I do not see the exact bearing of this.

Senator O'GORMAN. It was in answer to some inquiries made last night, particularly by Senator Reed, who is not here to get the benefit of it, as to how the panic of 1907 began in New York.

Mr. GILBERT. I am exceedingly anxious that the Senator should understand this, because the New York banks have been placed in a wrong position in regard to this.

(At this point Senator Reed entered the room.)

Senator O'GORMAN. Senator, Mr. Gilbert is giving at some length an explanation as to the panic of 1907.

Mr. GILBERT. As I was saying, the Mechanics & Traders' was permitted to reopen and go into business again under the title of the Union Bank of Brooklyn. After Sullivan, who was at the head of the Union Bank of Brooklyn, got control of the Mechanics & Traders, and when the Mechanics & Traders' went out of existence he simply got permission to go ahead under his old banking affiliations in Brooklyn. I was just referring to the failure of the Mechanics & Traders' Bank, because the statement was made that because of the refusal of the clearing-house committee in New York to extend it additional credit, it was compelled to go to the wall, whereas if credit had been extended it could have been saved. That is all in the record now, and I will go on.

The testimony was not permitted to go far enough to tell all the facts in the case. It is true that the Metropolitan took over the New York branches of the Mechanics & Traders' and paid off the depositors, but it is also true that the bank was allowed to reopen by the State banking department, on the deferred-payment plan, under the title of the Union Bank of Brooklyn. This occurred in October, 1908. This Union Bank, successor to the Mechanics & Traders', closed its doors April 4, 1910, and up to date it has not paid one cent to its depositors.

The books showed that a large portion of the unliquidated assets of the Union Bank were in the Mechanics & Traders' Bank when that bank closed January 30, 1908. In other words, the Union Bank allowed deposits of money to be used to pay off all deposits. Now, the probabilities are said to be that after a long wait the Union Bank depositors will receive dividends not to exceed 50 per cent. The former president of the Mechanics & Traders', David J. Sullivan,

and W. C. Damron, a director of the same bank, are serving terms in the State prison for offenses growing out of the situation described.

Senator O'GORMAN. Who is the director?

Mr. GILBERT. William C. Damron, a director.

Senator O'GORMAN. A Brooklyn banker?

Mr. GILBERT. Yes. Now, that, it seems to me, ought to pretty fully clear up the situation, as far as the Mechanics & Traders' Bank is concerned.

Senator O'GORMAN. When did the Carnegie Trust Co. go under? That is more recent?

Mr. GILBERT. It is more recent; yes.

Senator REED. So the sum of it then was that this bank was actually in an insolvent condition?

Mr. GILBERT. To state it briefly, the bank borrowed money before the clearing house commenced to issue clearing-house certificates.

Senator NELSON. It borrowed of the clearing-house members.

Mr. GILBERT. Yes; they borrowed of the clearing-house members, and after the clearing-house certificates were issued they paid off those loans with the clearing-house certificates, and the clearing house loaned them up to the extent of four or five millions of dollars, which was all they had collateral to offer for, and when they wanted more the clearing house refused to give it to them.

Senator REED. As I say, the sum of it all is that the clearing house supported them to the full extent of their good assets, and the bank was actually insolvent, and the clearing house, having gone to the point where it could go no further without danger of losing, stopped advancing money?

Mr. GILBERT. That is it, exactly.

Senator WEEKS. Now, Mr. Gilbert, the real point at issue, I think, in all this controversy is whether the New York Clearing House is preventing banks coming into the clearing house on account of a desire to prevent them from developing into active competitors, or whether it is using its strength and power to destroy banks that it wants to get rid of because they were competitors. When you boil all this controversy down about the New York Clearing House I think it is covered in that statement. You have had long experience with the clearing house, and I think if you will state to the committee whether within your knowledge there has been any case where a bank has been refused membership in it or has been forced out, if it were solvent and serving the public, I believe you will cover the whole question.

Mr. GILBERT. Well, of course, Mr. Weeks, you, as a member of banking interests in Boston, know that the clearing house has its rules and regulations with regard to the qualifications for membership, etc. A bank to enter the New York Clearing House must have a capital of \$500,000 and a reasonable surplus; and before being admitted to membership they are examined very carefully—very rigidly, I will say—with reference to their methods of doing business, the character of their assets, and their banking habits. I never have known of any disposition on the part of members of the clearing house to force out or to deny membership to any bank that was worthy of membership. As an illustration of that—well, I will let

the statement stand there. I have never seen any disposition whatever on the part of the membership of the New York Clearing House to bar from membership any bank that was really eligible for membership; and any bank that is not eligible for membership really has the facilities of the clearing house through its ability to make negotiations with member banks to clear for them.

Senator O'GORMAN. Have you ever known a case where business rivalry or jealousy has been sufficient to keep out a bank that wanted to come in the clearing house?

Mr. GILBERT. I never have known a single case, Senator; I can not recall a single case.

Senator O'GORMAN. Whatever may have been said with regard to the banking interests of New York toward Mr. Morse and Mr. Heinze and their banking activities, the objection of the clearing house to them was due to their methods rather than any other cause.

Mr. GILBERT. Entirely.

Senator O'GORMAN. I think that covers that situation. Is there any other question?

Senator HITCHCOCK. I did not have the pleasure of hearing Mr. Gilbert yesterday afternoon, and I would like to ask a few questions. Suppose, Mr. Gilbert, under this new system, when it is in vogue—

Senator O'GORMAN (interposing). Do you know who the writer of the article is?

Mr. GILBERT. I do not.

Senator O'GORMAN. But it correctly states the facts?

Mr. GILBERT. It correctly states the facts as I know them.

(The article referred to by Mr. Gilbert will be found at the conclusion of his statement.)

Senator HITCHCOCK. I wanted to propose a hypothetical condition to Mr. Gilbert and see what course would be adopted. If this new system were in practice which is proposed in this bill, suppose there should follow a condition when there should be a considerable deficit in our national revenues. Suppose that should be accompanied, as it might be and has been in the past, by a condition of fear in the business world, and railroads going into the hands of receivers, and a considerable exportation of gold, and such a stringency in the banking world as to produce runs on the banks of the country or some of the banks here and there, with possibly an occasional bank failure, say, of a bank not in the system. What method would then be adopted by the board of control to check such a condition or the conditions that would arise under those circumstances?

Mr. GILBERT. That would be a very serious situation. It is really, I think, an extreme case. I think it would tax the regional banks to their utmost. Their discounting facilities would have to be exercised to their fullest extent and the issue of bank notes would have to be permitted up to the fullest extent of its reserve.

Senator HITCHCOCK. Now, then, suppose they made a great issue of national currency under those circumstances. Would not that intensify the exportation of gold?

Mr. GILBERT. It probably would, if they had to go beyond their gold-reserve limit. If they could keep up their gold reserve, if they could keep it from going below $33\frac{1}{3}$ per cent, it might not have that effect.

Senator HITCHCOCK. Would it not be very hard to maintain the gold reserve while there was a constant demand for more currency?

Mr. GILBERT. I think it would.

Senator HITCHCOCK. And the more the currency expanded the more easily it would flow abroad?

Mr. GILBERT. I think it would.

Senator O'GORMAN. Do you know of any way, under those conditions, to discourage or prevent the exportation of gold? Could it be stopped?

Mr. GILBERT. In the panic of 1907, when currency had been hoarded and a premium of 4 or 5 per cent existed on currency, the banks imported gold, but they were only able to import gold through the issuance of clearing-house certificates. You say, How did they do it through the issuance of clearing-house certificates? We could use our clearing-house certificates for the settlement of our balances in the clearing house. We could arrange through our large foreign-exchange houses to import gold for us. We were paying them for currency and a premium for doing it, but we were paying them in our checks, which were settled in the New York Clearing House, and our balances in the New York Clearing House were settled, not with money but with our clearing-house certificates. So we could buy gold or we could import gold from abroad so long as there were foreign-exchange balances abroad to draw against.

Senator O'GORMAN. Would not the conditions that would permit you to import gold also permit you to retain the gold in this country?

Mr. GILBERT. That would depend largely upon the condition of the exchange market.

Senator O'GORMAN. In that connection, I want to make this observation. It has been suggested here at some time during these hearings that we could control the gold in our own country, or discourage its export, by placing a tax on the exportation of gold. What would be the effect of such a practice? Would it discourage the importation of gold?

Mr. GILBERT. I think it would have a disastrous effect on foreign trade as well as gold imports.

Senator O'GORMAN. You think it would?

Mr. GILBERT. I think it would. I think it would be difficult to prevent by tax the outflow of gold.

Senator REED. It would be a danger signal—

Mr. GILBERT (interposing). A dangerous thing to do; it would be an interference with the natural laws of trade.

Senator REED. What do you actually pay for this gold? Say you want \$10,000,000 of gold from Europe. Of course, you have to pay for it. What do you pay for it? What do you pay for it with? Bills of exchange or what?

Mr. GILBERT. If we want \$100,000,000 of gold from Europe we have to buy foreign exchange; we have to arrange with a foreign exchange house to import the gold for us.

Senator REED. How do you pay that foreign exchange house?

Mr. GILBERT. We pay the foreign exchange house in New York that imports the gold in check drawn against funds here which covers the gold, with interest, shipping charges, and commission added. The balances abroad accumulate just in proportion to the volume of

our export commodities more or less. If we have a balance abroad we can buy exchange just as we can buy any other commodity.

Senator REED. I was assuming that the balance of trade was against us, and, of course, there would be a balance abroad then, but it would probably be small——

Mr. GILBERT (interposing). Then your balances must be constituted in some other way, either through borrowings abroad, or finance bills——

Senator REED (interposing). What do you include in finance bills in this sense?

Mr. GILBERT. Well, if a bank wants to borrow a half million dollars abroad for immediate use it would, through a foreign exchange house, sell foreign exchange.

Senator O'GORMAN. Where will it get the foreign exchange; will they get it in the market in the first place?

Mr. GILBERT. No; it will create foreign exchange by drawing on a foreign bank or banking house through its agent in New York and depositing securities with the New York agent. This draft is indorsed by the New York agent and forwarded to the foreign bank or banker for acceptance. When accepted it becomes a prime bankers' bill, eligible for rediscount or sale in the open market abroad. These drafts are generally drawn for 60 or 90 days and are cashed by the New York agent at the prevailing market price of exchange, less the agent's commission. When due they are payable in sight exchange. This is the modus operandi of borrowing on finance bills.

Senator REED. Just to get that down in A, B, C style, if your bank wanted \$5,000,000 of gold you would first try to ascertain whether there were balances over there that some of your correspondents or people you were in relations with could draw against?

Mr. GILBERT. If we wanted the gold, we would have to import it through a foreign exchange house, either by negotiating a loan and depositing securities against it or by paying cash for it in New York or by buying foreign exchange and using it abroad. If we wanted money for immediate use, we could arrange to sell foreign exchange in this market, as I have already explained.

Senator O'GORMAN. To sell or to buy?

Mr. GILBERT. To sell. They practically sell it in this market and give us the proceeds.

Senator REED. You would then make a draft upon whom?

Mr. GILBERT. Upon the foreign exchange house with which we were dealing.

Senator REED. And this local exchange house would indorse the draft?

Mr. GILBERT. Yes; and we put up the securities.

Senator REED. And you would put up bonds and stock, etc.?

Mr. GILBERT. Or commercial paper—any acceptable security.

Senator REED. Then, that draft having been indorsed in this way, it would be sent over to the agent of this foreign exchange house in London and he would take that draft to a bank or capitalist and sell it?

Mr. GILBERT. It would practically be sold in this market. They would buy it themselves, and they would give us the cash, and then they would send it to their agent for acceptance. If he wants to

hold it until it matures, well and good; but if he wants money over there, it is eligible for rediscount.

Senator REED (interposing). They give you the gold?

Mr. GILBERT. Yes; if we should desire it.

Senator REED. Very well. I merely wanted to get the details of that method.

Senator O'GORMAN. Would you get the gold or the proceeds?

Mr. GILBERT. The draft, after it had been indorsed by our foreign exchange house—the one we were dealing with—would be practically sold in this market. That house might buy it themselves, and they would give us their check at once. We want the money at once. They sell that for us; we are selling it to them.

Senator O'GORMAN. Now, you get a check, for what?

Mr. GILBERT. A check on their bank for currency—clearing-house money.

Senator REED. How does that bring gold in?

Mr. GILBERT. They can arrange to give us the gold if we want it.

Senator REED (interposing). They send it abroad and they bring the gold in?

Mr. GILBERT. If they want it; yes.

Senator O'GORMAN. And adjust balances from time to time.

Mr. GILBERT. Yes.

Senator HITCHCOCK. Is it customary for the New York banks to keep balances in London?

Mr. GILBERT. Some of the larger banks do; those who deal largely in foreign exchange.

Senator O'GORMAN. Of course, if there are certain large banking institutions, like Mr. Morgan's firm, that have large foreign connections?

Mr. GILBERT. Oh, yes; and there are banks like the City Bank and the Bank of Commerce and others who deal largely in foreign exchange and have balances on the other side.

Senator HITCHCOCK. They keep those balances simply for the purpose of accommodating their customers who have remittances to make to London?

Mr. GILBERT. Why, yes; they keep those balances to draw against.

Senator HITCHCOCK. Just as a western bank would keep a balance in New York, because western men must have New York exchange.

Mr. GILBERT. Yes; exactly.

Senator HITCHCOCK. So the only way in which a man in New York can get exchange on London is by buying it of New York concerns?

Mr. GILBERT. That is it.

Senator HITCHCOCK. And that compels New York concerns to keep balances in London?

Mr. GILBERT. Yes.

Senator HITCHCOCK. Now, do London banks keep balances in New York?

Mr. GILBERT. Not to any great extent.

Senator HITCHCOCK. How do people in London, then, make their remittances to New York for grain and cotton and such goods as America sells?

Mr. GILBERT. They would do it by buying foreign exchange, through foreign exchange bankers.

Senator HITCHCOCK. Then the London firm which sells them the exchange must have an account to draw against?

Mr. GILBERT. Of course.

Senator HITCHCOCK. So some of the London banks do keep balances in New York?

Mr. GILBERT. Of course. Suppose a merchant wants to settle a bill in New York. He goes to a foreign exchange banker there and buys a bill of exchange and sends it over here.

Senator HITCHCOCK. Well, a bill of exchange is simply an order on some one in New York, and that order can not be issued unless there is a credit there, can it?

Mr. GILBERT. Of course not.

Senator HITCHCOCK. So there must be balances kept in New York banks by European houses.

Senator O'GORMAN. They might not be balances; they might be credits.

Mr. GILBERT. There are always debits and credits on both sides. Foreign exchange houses are constantly buying and selling exchange and adjusting balances by the shipment of exchange or gold.

Senator HITCHCOCK. Is there anywhere anything like a report as to the extent to which those balances exist?

Mr. GILBERT. I do not know of any.

Senator HITCHCOCK. We have, for instance, complete knowledge of the credits in New York belonging to the West, and we have knowledge of the credits in Chicago belonging to the West, and we have not any figures at all to show to what extent the New York houses have credits in London.

Mr. GILBERT. You see, this whole question resolves itself into this: It depends entirely upon the volume of exports and imports. A merchant abroad wants to pay for the importation of goods from this side. A country that is not exporting to this country, of course, would have no balances here to draw against, and consequently a country that has very small export relations with this country would probably have to settle its balance through London and send us London exchange.

Senator HITCHCOCK. Partly because London is a great buyer.

Mr. GILBERT. Yes; London always has balances to draw against on this side. The ability of one country to maintain balances to draw against on this side depends entirely upon its export and import business.

Senator HITCHCOCK. I want to revert again to the question I asked you, based on a hypothetical condition. I understand you to say that if the country should be afflicted as I pictured, if we should have a considerable exportation of gold to Europe, possibly by some perfectly legitimate method; if we should have runs on banks and uneasiness in the banking world and should have a deficit in our national revenues so that the Government would be drawing its funds out of these reserve banks in order to meet that deficit; if United States notes were being presented at the Treasury for gold, and gold certificates were being presented at the Treasury to procure gold, and gold exportations were in progress, and the reserve banks were met by a large demand from their member banks for rediscounts, and in order to grant those rediscounts they were compelled to call upon the Treasury for additional paper currency; and if that

additional paper currency were issued so that there would be an expansion of our currency, that very remedy would tend to intensify the exportation of gold?

Mr. GILBERT. It would tend to inflate things materially. So long as they demanded currency for their customers, of course they would have commercial paper to deposit with the Federal board agent for additional currency, but their gold reserve might be depleted; it might not be sufficient to maintain the volume they would have to carry. In that case they might have to borrow gold abroad. Frequently in a money panic England has to borrow of France, and they borrow on exchequer bonds or on commercial paper.

Senator HITCHCOCK. The difficulty about emitting an increased amount of paper currency is that it makes it easier for gold to leave the country, is it not?

Mr. GILBERT. Yes; that is the effect.

Senator HITCHCOCK. So the remedy they would be compelled to apply would really intensify one of the evils they were seeking to combat?

Mr. GILBERT. Yes; it would. The greater the volume of bank notes issued—

Senator NELSON (interposing). But could not the discount fever, as I call it—the eagerness for excessive discounts—be checked by raising the discount rate to such a figure that it would not be possible to discount? Would not that be a restraining influence?

Senator HITCHCOCK. Senator, perhaps you have a misconception. I am not basing this increased issue of currency upon the idea that people are asking for an unusually large amount of credit at the member banks. They are not. But the member banks are embarrassed by demands for deposits, and in order to satisfy those demands they take paper which they already have to the reserve banks, have it discounted, and get the currency.

Senator NELSON. But the depositors are the member banks.

Senator HITCHCOCK. Yes; but it is the individual men and women who are drawing this money out that creates a demand on the member banks for currency, and it is in order to settle the demand of the member banks for currency that the reserve banks are compelled to discount commercial paper. It is because commercial paper is being turned into currency.

Senator NELSON. But suppose the discount rates are high, it can not be profitable.

Senator HITCHCOCK. That does not make any difference. The bank that has a run on it, a withdrawal of funds that are being taken out to be put into stockings, can not benefit matters much by raising the rate. It must go to the reserve bank to get the relief.

Senator NELSON. But the reserve bank, in issuing currency—

Mr. GILBERT (interposing). Of course, that is a very extreme case, you know, and it is really a panicky condition that prevails.

Senator HITCHCOCK. That is what we want to provide against, and I am asking whether the remedy that is provided in such a case is really going to meet the situation.

Mr. GILBERT. When a panic prevails and is under full headway no ordinary safeguard can check it.

Senator O'GORMAN. It is like a fever; it must run its course.

Mr. GILBERT. It must work itself out. It is like a disease in the system. You have lived at a riotous pace until you have disordered your system to such an extent you must have a fit of sickness before you can relieve yourself of that condition.

Senator REED. Are we to understand, then, that there is no way of preventing these panics?

Mr. GILBERT. There is a way of preventing panics, but I am speaking now with reference to the case that Senator Hitchcock stated.

Senator O'GORMAN. You wish to be understood, Mr. Gilbert, as saying that there is a way of preventing the conditions—

Mr. GILBERT (interposing). The conditions which lead up to panics.

Senator REED. But if we take such a case as that stated in Senator Hitchcock's hypothetical question, which, I think, really involves a panic, then you think there is a day of reckoning and there has got to be trouble and disaster, and how it will work out depends upon the particular conditions of each case?

Mr. GILBERT. That is very true.

Senator REED. Then, I understand, you think that with such a panicky condition given, neither this bill nor any other bill you can suggest would enable immediate relief to be given?

Mr. GILBERT. I do not know of any bill that would.

Senator REED. You do not think the issuance of this paper money, even in very large volume, would end the panic?

Mr. GILBERT. No; not after it got started. In 1907 the issuance of clearing-house certificates stopped the panic immediately, as far as credit was concerned. It made it possible for the banks to accommodate their dealers and give them what they required for legitimate business purposes. Of course, no bank wanted to take out clearing-house certificates to a greater extent than was necessary, but they were all willing to take out a volume sufficient to accommodate the customers for their legitimate requirements. Before the issuance of clearing-house certificates, when a merchant went to his bank and said, "I want \$10,000 or \$15,000 to meet my immediate obligations," the bank was compelled to say, "Now, you will have to go very easy with us, for we are below our reserve and we can not increase our loans and discounts." But after the banks had decided to issue clearing-house certificates the banks could hypothecate their securities and obtain clearing-house certificates, and then they could extend to their customers accommodations for their legitimate requirements. The trouble was this—that there was a hoarding of currency. Currency, of course, is needed for certain things—for the payment of wages, for all our retail business operations, and for other things—and our manufacturers and those who required currency wanted currency, and they wanted gold to make their customhouse payments; but the hoarding of currency locked up not only the paper money but gold, and it was difficult to get that.

I came to Washington at that time. Senator Weeks probably remembers, because I went before his committee, and I suggested that they make an amendment to the banking act which would permit the New York banks, or the central reserve city banks, to deposit the clearing-house certificates with the controller and take out currency against those instead of being required to furnish United States

bonds—that the term “other securities” would embrace clearing-house certificates. Do you remember?

Senator WEEKS. I think I do.

Mr. GILBERT. Now, if we could have been granted that facility at that time we could have broken the premium on currency in 10 days, because the very moment we could advertise the fact that the Government was going to receive our clearing-house certificates and issue currency against them—

Senator O’GORMAN (interposing). Do you understand there is any legal difficulty in the way of the Treasury accepting those clearing-house certificates?

Mr. GILBERT. I think I had a talk with Senator Weeks at that time. I wrote an amendment and presented it to his committee, and I think Senator Weeks told me afterwards “the difficulty is, we can not get such an act through Congress.”

Senator O’GORMAN. As a matter of law, you probably would not be required to put it through Congress, because under a recent interpretation of the same law by the same administration it will be in the discretion of the Secretary to accept that as adequate security.

Senator REED. Senator, is there not a basis there for misapprehension? Mr. McAdoo deposited the moneys of the United States in various banks upon that kind of security. Mr. McAdoo did not issue new money.

Senator REED. Now, I confess that I am not clear as to how the issuance of the clearing-house certificates between the banks enables the banks to extend accommodation to their customers.

Mr. GILBERT. I will try to make that clear.

Senator REED. For instance, John Wanamaker wants to borrow \$5,000,000 for the purpose of meeting obligations, the notes of his firm that are out floating around the country and that are maturing. Now, he comes to your bank and says, “I want \$5,000,000.” The currency of the country is tied up and we have the condition of 1907. Take that condition. How does the issuance of clearing-house certificates enable your bank to extend to him \$5,000,000 of credit and give him the money to actually pay that \$5,000,000 of debt?

Mr. GILBERT. I will try to make that clear to you. The necessity for maintaining a lawful money reserve in gold and lawful money is largely to meet our payments day by day in settlement of our balances with the clearing house. All the checks that are drawn against us and the notes that are maturing that are payable at our bank come to us, as a rule, from the clearing house. We take to the clearing house every day at 10 o’clock all the checks of the various banks, all the items drawn on the various banks in New York. We take them to the clearing house, and we receive all that are drawn against us, and we settle the balance.

Senator REED. And you may transact \$5,000,000 worth of business and actually not use \$1,000 of cash?

Mr. GILBERT. Exactly.

Senator REED. Because one offsets the other?

Mr. GILBERT. We strike a balance. But when there comes a time when we have not the money to use for the settlement of our clear-

ing-house balances—because they must be settled in gold or lawful money—then we have to provide some other means of settlement, and so long as we can provide some other means of settling our balances at the clearing house every day we can go on making loans as usual.

Senator REED. But they do not pay this money out.

Mr. GILBERT. No; we pay it by settling the balances every day.

Senator O'GORMAN. How do you settle them? Just by adjusting the debit and credit?

Mr. GILBERT. Just by adjusting the debit and credit. When we make a loan it is not drawn out, Senator, in cash. It is drawn against us in a check and it comes against us into the clearing house the next day, and it is offset by the items we send to the clearing house for settlement, which are checks on other banks deposited with us.

Senator O'GORMAN. How do you make the difference good—by cashier's checks?

Mr. GILBERT. No; by taking the actual gold there.

Senator HITCHCOCK. Until you begin issuing clearing-house certificates.

Senator REED. I must ask your pardon for my apparent dullness, but you New Yorkers must have some charity for Senator Bristow and myself. Now, here is \$5,000,000 that John Wanamaker owes to 100 men scattered over the country. He must pay them \$5,000,000 on notes that mature on the first day, we will say, of the month of July. That money has to be taken out of New York and sent to these people. In the ordinary course of business he would come to you; he would give you his note for \$5,000,000; you would give him a credit upon your books for \$5,000,000. He would immediately draw his checks for \$5,000,000 and get drafts and send those drafts out to these different people to take up his notes. The drafts would come back, and the money would have to be paid.

Mr. GILBERT. Yes. Now, they would all come back through the New York Clearing House. If they were all on our bank they would come back to us from time to time through the New York Clearing House. Every day at the New York Clearing House we receive everything that is drawn against us, and we take to the New York Clearing House everything we receive from our customers drawn on other banks through the New York Clearing House, and we offset the debits and credits by settling the balance.

Senator REED. Now, there has actually been sent from New York \$5,000,000. Does not that depreciate the aggregate of the money that the New York banks would have by that amount, although you use the clearing-house certificates?

Mr. GILBERT. It would, if we were not getting money every day from other sources.

Senator REED. If I understand you, then, at the same time this transaction goes on and that money is going out of your bank in this way there is another bank which collects in—

Mr. GILBERT (interposing). It goes to some other banks, of course.

Senator REED. Collecting in money—

Mr. GILBERT (interposing). Yes.

Senator REED. What you really do by the clearing-house arrangement is to unite all the banks into one general scheme whereby the

debits and credits on the whole offset each other; and there must be—if you maintain your clearing-house stability and do not drain the whole system of banks—a stream of money or credits coming in to equalize the stream that is going out?

Mr. GILBERT. Exactly. The balance required to settle the whole every day at the New York Clearing House is a very small percentage of the whole.

Mr. GILBERT. Exactly, and the balance required to sustain the whole every day at the New York Clearing House is a very small percentage of the whole.

Senator REED. By this system checks and drafts all take the place of money for the time being, so that you can have transactions aggregating, perhaps, \$50,000,000 or \$60,000,000 carried on through checks and drafts, and perhaps there will not be \$20,000 of actual cash in the transaction to digest the balance?

Mr. GILBERT. That is the theory exactly.

Senator REED. And the fact of the clearing-house certificate being issued carries that balance from day to day, and what you lack to supply that to-day in the way of cash the clearing-house certificate is given, and to-morrow the balance being the other way, you use that certificate and wipe it out?

Mr. GILBERT. That is it exactly. When we have not the money to supply the balance we issue clearing-house certificates and use those.

Senator REED. It looks a good deal like the miracle of the loaves and fishes, but I guess you make it work.

Senator HITCHCOCK. That is all right when conditions are normal.

Mr. GILBERT. That is when conditions are abnormal, Senator.

Senator HITCHCOCK. Suppose rumors get afloat that a certain big bank is in trouble, and a run starts on that bank and some of the depositors go and demand their cash and others write their checks for the amount of their balances and deposit those checks in other banks, and the result is such a tremendous flow of checks upon that bank that they much more than offset the checks which it receives on other banks, so that that bank is not able to meet its clearing-house balance. Then the question arises whether the clearing house will issue certificates or give the bank credit.

Mr. GILBERT. The general rule would be for the members of the clearing house to protect that bank. They would examine that bank to see if it was in a solvent condition.

Senator HITCHCOCK. What method of protection can they adopt?

Mr. GILBERT. Loaning it money to meet the balances at the clearing house.

Senator HITCHCOCK. Rediscount its paper?

Mr. GILBERT. Yes; rediscount its paper.

Senator HITCHCOCK. Now, I want to ask you this question: Suppose after this bill is in effect it becomes necessary for the Federal board to exercise one of its powers and nominally to suspend one of the Federal reserve banks for violating any of the provisions of this act. The Federal reserve bank is required to keep a reserve of 33½ per cent against its notes and its deposits. Suppose its reserves, in spite of its efforts, fell to 25 per cent and the board should suspend that reserve bank and appoint a receiver. What would the effect of that action be?

Mr. GILBERT. The effect of that action upon the district represented by the Federal reserve bank would be very serious.

Senator REED. Would it not be so on the whole system?

Senator HITCHCOCK. There would be several hundred banks in the whole region which would suddenly have their reserves tied up?

Mr. GILBERT. Their rediscount privileges suspended.

Senator HITCHCOCK. Their rediscount privileges suspended. What would they do for rediscount?

Mr. GILBERT. They would have to make arrangements elsewhere.

Senator HITCHCOCK. No reserve bank could rediscount their paper under this bill?

Mr. GILBERT. No.

Senator HITCHCOCK. Is not that a serious possibility?

Mr. GILBERT. It would produce a serious condition.

Senator HOLLIS. It is a very serious possibility when a man owes money and can not pay it.

Senator REED. Is there not a great difference between failure of a bank of this character, where there are some 600 or 700 or possibly 2,000 banks in a region, the stockholders in which all have their reserves in the one bank, and that one bank has issued a large amount of circulating notes, and, as Senator Hitchcock has put in his hypothesis, they have not been able to maintain their gold reserves, and that is the only bank of reserve for all the 600 or 700 or 2,000 or 3,000 banks, and you close the doors of that bank. What will happen to those other banks?

Senator HOLLIS. My point is that that is exactly what would happen if you assume that the Bank of England, or the Bank of France, or the Imperial Bank of Germany—if such a thing should happen there it would not mean a disaster.

Senator REED. I am not contrasting them with the Bank of England.

Senator HOLLIS. Because the Bank of England would have a reserve.

Senator REED. This bill, put into operation and a condition assumed as Senator Hitchcock has stated in his question, is a very different proposition from that which would occur now, and I want to contrast the proposed situation with the present situation. At the present time the banks do not have their reserves in any one bank. They may be in many banks, and in fact are in many banks. In the second place, they do not have any common stock ownership. Their capital is unimpaired. They act as integers, each bank. Each bank is a thing by itself, and, as a matter of fact, in the last panic, the majority of the strictly country banks—I do not refer to the legal definition of country banks, but the small banks out in the country districts—never closed their doors and never restricted payments, because they were independent banks. We are asked to leave that system and go into a new system, and it is very pertinent to know what the dangers are, as well as the advantages, and I confess I am greatly interested.

Senator HITCHCOCK. I think it is one of the defects of the bill that the spectacle is presented of one of these great reserve banks being suspended and in the hands of a receiver, probably because it is insolvent. It has then a great many stockholding banks whose stock would be impaired, and it has a great many stockholding banks

whose reserves would be impounded, and it is a clearing house for a vast region which is practically paralyzed for the time being, and it seems to me there may be a condition involving a possibility of a great dislocation of commerce, with nothing provided to be done under the circumstances.

Senator HOLLIS. My point was that any system that can be conceived by man can be supposed to be in a condition where it is hopeless. I can not assume a condition that would—

Senator HITCHCOCK (interposing). Do you not think, if such a condition should arise, the bill should contain a provision as to what should be done. Are we to have a financial desert and no provision for anything which may be done?

Senator HOLLIS. What I mean is that you can not build up and construct a system concerning which you can not also assume that it may break down.

Mr. GILBERT. Let me say this: The men who framed the present national banking system were fully as wise, in their day and generation, as the men who are trying to legislate for a financial system to-day. They thought over this question of reserves and mobilization of reserves a long time before they adopted that bill. They did not do it without knowledge. It is not true that under this system the reserves of the banks are scattered over the country in a thousand and one places. It never has been true. That has been one of the misstatements which has been accepted and considered as true in all the discussion of this currency question.

What did they do? They divided the banks of the country into three groups—the country banks, the reserve city banks, and the central-reserve city banks. They said the country banks shall carry 15 per cent reserve, three-fifths of which may be on deposit in a reserve city bank. They said the reserve city bank should carry 25 per cent reserve, one-half of which should be on deposit with a central-reserve city bank, and the central-reserve city bank should carry 25 per cent cash reserve in its vault. The tendency has been for the reserves of the country to grow steadily toward the central-reserve cities, so that the central-reserve cities, and particularly New York—the central-reserve cities, we will say, are the banks of rediscount for the other banks of the country, the country banks and the reserve city banks.

Now, that provided for a simple and natural flow of the reserves of the cities toward a point where they would naturally flow in harmony with the natural trend of business.

Senator HITCHCOCK. Let me go on a little further. Suppose such a condition should arise so that the Federal reserve board felt required, under the terms of this bill, to suspend a great reserve bank with, say, 2,000 member banks and a mass of reserve deposits and a great deal of currency outstanding, subject to presentation, and a receiver were appointed, as provided for in this bill. That receiver could not go on and discount paper, could he? Suppose the bank is put in the hands of a receiver, could he go on and discount paper?

Mr. GILBERT. Not at all, unless provision is made by law to meet the emergency—

Senator HITCHCOCK (interposing). As it is now, when a bank goes into the hands of a receiver, that stops the operations of the bank?

Mr. GILBERT. Nothing can be paid out.

Senator HITCHCOCK. It must be liquidated. Do you think it is a wise provision to allow such a thing to happen?

Mr. GILBERT. I do not.

Senator HITCHCOCK. It seems to me that is one of the serious defects.

Senator REED. What can we do to remedy it?

Senator NELSON. If you will pardon me for interrupting you, the only way you could do that is to provide that all of the assets of the bank put in liquidation should be put into one of the other live regional banks, and let that live regional bank carry on the balance of the work. That is the only way you could do it. You would have to provide the machinery.

For instance, if we had five regional banks, and one of them should suspend or be put in liquidation, the only way you could get immediate relief would be for it to turn its assets into another bank for payment.

Senator REED. How would it be to have the Secretary of the Treasury take hold of it and proceed to do very much as is done now; instead of closing its doors, as the bank examiner might do now, that they proceed immediately to discharge its obligations?

Mr. GILBERT. How would it do to provide that the Federal reserve board should take charge of it?

Senator HITCHCOCK. It might, under its receivership, if it were provided for.

Senator REED. Now, I want to suggest, in this connection, a thing that has been in my mind for some time. I am not referring to bank guaranties, but I am asking you if it is not wise for the income of these banks to be so arranged that there is some surplus income, and that income to be set aside and held in the Federal Treasury in some special fund for the purpose of strengthening the whole banking system, retiring the debts of the Government, possibly, in part, to have a fund to make good just such a situation as this, or to make good any failed member bank, so that depositors could be paid?

I understand there is in Canada a system by which the banks pay a voluntary tribute into a fund, so that if any bank closes its doors the depositors at once get their money.

Mr. GILBERT. That is to protect the circulation?

Senator REED. That is to protect the circulation. Why not extend it to the protection, actually, of depositors?

Mr. GILBERT. I never believed in the principle of guaranteeing deposits.

Senator REED. I am not speaking about an absolute guaranty; I am speaking about creating a fund in this way that could be used for that purpose. There is a difference, of course, between paying, so far as the fund might go, and absolutely guaranteeing them.

Mr. GILBERT. I think the whole thing suggests this: How unwise it would be to undertake to force this measure through hastily. It requires a great deal of careful deliberation. There are a number of problems that will be discovered in this bill that you have not yet discovered. You have been wrestling with this question for some time. You have heard the views of numerous people. You do not understand it. You simply understand the surface features of the bill. We do not know how it will work after it is set up as a piece of machinery, and you have got to carefully weigh this thing, to get

all the expert advice on the subject that you can, in order to help you to solve all these problems which now perplex you, and have them worked out, so that you may determine beforehand how it will be necessary to perfect this machinery before setting it up into practical operation, because if it is not right when it is set up, it may be very annoying or may be very disadvantageous to the business of the country.

Senator REED. But, in view of the fact that we need a house, and we are displeased with the whole plan, do you not think we ought to build the house and then let the architects pass on it afterwards and find out whether it will stand up?

Mr. GILBERT. I think this: I think that time is not an essential element. I think that the old system is working well now, and there are no portents of ill in the financial skies. I think we can run along with the present system for a number of years yet. There is no excessive speculation, no panicky conditions. The country is in excellent condition in a business way, and I think it will pay you gentlemen, and I think it will pay the whole country, to take all the time that is necessary to work this out and reduce it to its most perfect state before substituting an entirely new system for this old one.

Senator REED. Referring to the proposition that was put to you in the form of several questions, but which remains as a proposition, as far as I am concerned, and I think I speak for the committee, you say you can not answer that now offhand?

Mr. GILBERT. No.

Senator REED. I recognize the fact that a question of that kind ought not to be answered offhand, and is not answered offhand by thoughtful men. Will you, after you return home, if you think of a possible solution, suggest it to us in writing?

Mr. GILBERT. I will. If you will reduce to writing several of these questions and send them to me, I will give it my most thoughtful consideration, and give you the benefit of my conclusions.

I am just as anxious as you are to help solve this problem and to work it out. I would like to say—I feel, in order that you may understand my position—I want to say this, that I am thankful to you gentlemen for undertaking to try to give us a bank of rediscount. It is the one thing we have needed for years and years. Ever since the panic of 1873 we have felt the need of a bank of rediscount, and have never been able to find any way to get it, and we are indebted to you for trying to give it to us. In trying to give us that you introduce a number of other problems which require very careful consideration, and I will be only too glad to help you all I can in solving this problem.

Senator REED. May I ask you a question on one other matter? I do not think Mr. Gilbert has touched on this matter. What method should be adopted to restrict the issuance of paper, so that a redundancy may not be created?

Mr. GILBERT. Do you mean bank notes?

Senator REED. Bank notes; yes. I mean this circulation that is contemplated in the bill, whether we call them bank notes or Treasury notes. What checks are necessary in order to prevent inflation? Is it an arbitrary amount fixed by law? Is it the interest rate; and if so, how should that be applied; or is it a combination of both?

Mr. GILBERT. I should say the best thing to restrict the issuance of bank notes is the requirement that a very heavy gold reserve should be carried against it.

Senator REED. Of course, that is an absolute restriction.

Mr. GILBERT. And that the paper rediscounted should be of such a quality that banks could not have it in overabundance. I do not think that in any other way it would be wise for you to undertake to restrict the issuance of it, because when a merchant rediscounts at a Federal reserve bank, he is entitled to draw against it, either as a bank credit or in currency—draw his check against it or draw bank notes—and he would not draw bank notes for any other purpose than for which he legitimately required them.

Senator REED. Mr. Gilbert, I am absolutely unable to formulate in my mind, and I have not heard anybody else yet formulate a definition of commercial paper that to my mind means much. We can say that a note shall be commercial in its character, in accordance with the law merchant. We can say it must be signed by two people or three people, or any other number. We can say it must mature within a given period of time, and that before currency is issued against it, it must be indorsed. Of course, that system has many safeguards, the principal one being the fact that the member bank will probably not accept and indorse the paper unless the makers are supposed to be good. I do not know how you are going to go beyond that, unless you, following this idea of paper being self-liquidating, attach a bill of lading or a warehouse receipt to the paper, and everybody has said that will not do.

Mr. GILBERT. Oh, no; that would not do.

Senator REED. So that we come to the question of a promissory note of a certain maturity. Is not that a certain way?

Mr. GILBERT. It grows out of a legitimate business transaction.

Senator REED. How will you know it grows out of a legitimate business transaction? I am distressed about this situation. I wish somebody would give us a solution.

Let me suppose that you run a bank out in the State of Kansas, or in the city of New York, and you want some money. I come to you with a note signed by John Jones for \$100,000, and I put it through your bank, and you take it down and have currency issued against it, putting up \$33,000 of gold, and we get \$100,000 of currency. Now, we have increased the circulation of the country \$66,000 net. The other is there in gold, and that transaction can be indefinitely multiplied. On its face it is an absolute compliance with this bill. In times of speculation, in times of stress, I do not see how that is to be avoided.

Mr. GILBERT. Let me say, Senator, you are building up a situation that is not likely ever to exist.

In the first place, with regard to the overissuance of currency, it does not seem to me that there can possibly be any inflation of the currency if you will provide a 50 per cent gold reserve to be kept and maintained against the issuance of currency, and that the bills shall be payable in gold on presentation at any Federal reserve bank, and that no bank shall pay out bills of any other Federal reserve bank. It seems to me that that will undoubtedly take care of the situation, so far as inflation is concerned.

Senator REED. I concede that when you raise the gold reserve higher, that, of course, is almost an absolute check.

Mr. GILBERT. In addition to that—

Senator REED (interposing). But there is a great difference between 50 per cent and 33 $\frac{1}{3}$ per cent, is there not?

Mr. GILBERT. I know there is, and I think it ought to be 50. In addition to that, your trouble about the paper currency is not likely to exist, and for this reason:

In the first place you are discounting for your member bank, and your member bank is offering to you a short-time commercial paper which it has discounted for its customers. It may once in a while slip in a piece of paper that would not probably measure up to commercial paper, but he will endeavor to give you commercial paper, and when you rediscount that for him he is not going to ask you to give him currency against it; he is either going to rediscount it to make good his reserve, because he will not come to you for rediscount until his reserve requires it, and if he wants it for currency perhaps he will not want very much, because currency is not required very much. Ninety-five per cent of the business of the country is done on credit, and currency is an unimportant thing except as it may be wanted for the payment of wages, and to carry on our retail trade, and the merchant generally gives his notes, and does not want currency unless it is for small retail items. He draws his check, and the issuance of currency by the Federal reserve bank is not likely to be very heavy. Of course, in manufacturing towns currency may be required to pay wages, and they may draw currency for that purpose.

Senator REED. Then your one idea is that the best check is a larger gold reserve, and if you make that 50 per cent you think that, in itself, fixes the line of safety?

Mr. GILBERT. I think that with the care that will be exercised about the quality of paper that is rediscounted and the making of these notes payable in gold by the banks of issue—the Federal reserve banks—and prohibiting one bank from paying out any but its own notes it will prevent inflation.

So far as the inflation of the currency is concerned, that does not trouble me at all in connection with this measure. It is the inflation of credits that I would fear more than the inflation of currency.

Senator REED. Well, how would you prevent the inflation of credits?

Mr. GILBERT. By being very careful as to the character of paper that is rediscounted.

Senator REED. Well, that goes to the question of the management of the regional bank, does it not?

Mr. GILBERT. Exactly; that is true.

Senator REED. And we can hardly write it into a bill, can we?

Mr. GILBERT. No; we can not.

Senator REED. We have got to leave it to the board of directors of a bank—just the same as if I go to your bank to-morrow and want to give you my note and get a loan.

Mr. GILBERT. Exactly; that is it.

Senator REED. You, then, are going to pass on the question of whether you are going to give me that money or not?

Mr. GILBERT. Yes.

Senator REED. And that puts the same power, then, in the regional bank over the member banks which the ordinary bank has to-day over its customers. You say that is where it ought to be vested?

Mr. GILBERT. Yes, sir.

Senator REED. Then there is this unfortunate thing in connection with that. To-day the individual who is not satisfied with his bank—of course, if he thinks he is badly treated, he goes to another bank?

Mr. GILBERT. Yes; that is right.

Senator REED. But these banks, being members of a regional bank and living under its system, will have only one place to go, and if they are refused accommodations there they would be in pretty bad shape, would they not?

Mr. GILBERT. Yes.

Senator REED. Well, that is not exactly desirable, is it?

Mr. GILBERT. Well, do you refer to the member banks being refused?

Senator REED. Yes.

Mr. GILBERT. Well, it would simply impress upon the administration of the member banks the necessity of doing business on wise and conservative principles.

Senator REED. Suppose the board of directors, however, being possessed of this great power should unjustly use it and discriminate against certain member banks?

Mr. GILBERT. Well, of course, there is always that risk. We are on the planet, and we have got to go around with it; and we are all human, and we have got to consider human defects, you know.

Senator REED. Well, the present condition is this: It is one where that element of human selfishness or human prejudice or individual mistakes has been constantly guarded against and offset by the opportunity to go elsewhere.

So that it seems to me that, when I deprive you of your opportunity to go to a number of places and confine you to one place, it is my duty, if I am doing that, to be pretty careful to see that you shall be fairly treated at that one place. Now, is there not some way to provide for that?

Mr. GILBERT. Well, as a general rule, Senator Reed, every man is fairly treated according to his deserts, you know—especially in the business world.

Senator NELSON. You have one check here, Mr. Gilbert, on this discounting, and that is that these member banks always have to indorse and guarantee all paper that they seek to have rediscounted.

Mr. GILBERT. Yes; that is true.

Senator NELSON. And naturally will not that make the banks careful as to what paper they take?

Mr. GILBERT. It certainly will, and it is a good thing.

Senator NELSON. And does not a banker, as a matter of fact, in making his loans take into account who the borrowers are as well as the signature and the time the note runs?

Mr. GILBERT. They are very, very careful indeed.

Senator REED. All that is true of the general run of banks. The general run of banks do business honestly and discreetly. I am thinking about the power of this regional reserve bank to crush a bank if they wanted to do so. And I think that the reputation of a bank

for solvency is almost as delicate a thing as the reputation of a woman; suspicion is almost equal to destruction.

Mr. GILBERT. And do you not realize this, that the fact of a member bank, when it applies for rediscount, having to expose the character of paper that it has taken from its customers, is going to make it very careful?

Senator REED. Yes; I think that is true. But now I am speaking about the other end of it. The power is put into the hands of the board that controls the regional banks to say "Yes" or "No."

Suppose you come up with perfectly proper paper—paper that is ordinarily good—they refuse you. Then Senator Bristow comes up with paper that is no better and gets the accommodation. Every bank in the district will know inevitably—or at least a lot of them will know—that you have been refused by that regional bank.

Mr. GILBERT. Well, refusing—

Senator REED (interposing). And your customers will get to know it.

Mr. GILBERT. I think any emergency of that kind would correct itself, because any member bank that was being unjustly dealt with would inevitably appeal to the Federal reserve board and say, "We are not being treated right."

Senator REED. You think that is the real check?

Senator BRISTOW. Well, it would be all over with that bank, as far as its reputation is concerned, if it has to take an appeal and fight out, practically, a lawsuit to establish its reputation with the public, you know.

Mr. GILBERT. Well, the customers of a bank understand pretty generally what the reputation of the bank they deal with is, I find.

Senator BRISTOW. Well, this power will be abused—all power is abused more or less.

Mr. GILBERT. Well, of course, that is a—

Senator BRISTOW (interposing). The powers of the courts have been abused outrageously in some instances. Receivers have been appointed for solvent concerns at the instigation of selfish and designing men.

Mr. GILBERT. But if the Federal reserve bank is administered as a reserve bank and not as a bank to make money, that spirit is not likely to prevail; and that is why I emphasized the point yesterday that these Federal reserve banks should be of a higher class than the ordinary, everyday bank. They must be made to administer the business at all times, remembering that they are reserve banks. They have got to maintain that character and they have got to be ever ready for an unexpected crisis. And the question of profit must be something that is not thought of.

Senator NELSON. And that is one reason why they ought to have a 50 per cent gold reserve.

Mr. GILBERT. Yes; that is one reason they should have a 50 per cent gold reserve.

Senator NELSON. Yes. They should be the conservators of the credit of the country.

Mr. GILBERT. Yes; they should.

Senator BRISTOW. Why would it not be better—it grows on me more and more as we go on from day to day—for this reserve bank to be

a Federal bank and not owned or controlled by the banks at all; an independent Federal institution, with a capital and enormous resources of its own, so that any flurry that happened in the ordinary banking business of the country would not affect it?

Mr. GILBERT. Well, I have always felt, and I feel now, that the banking business of the country, apart from the question of control, ought to be divorced from the Government. It ought not to—the business of the country will take care of the banking end of it, if it is permitted to without too much interfering. I see the necessity of Government control, Government supervision, to the extent that the Government now supervises national banks of the country. But I do not think it would be wise to put the Government into the position where it could interfere with the legitimate business operations of the country.

Senator BRISTOW. Well, this Federal reserve bank would certainly not interfere with that?

Mr. GILBERT. No; I think this bill recognizes the idea which I have in mind; it is simply supervision rather than administration.

Senator NELSON. The fundamental principle, Mr. Gilbert, is this, that the basis of our whole credit system is founded after all, when you boil it down, upon the commercial paper, upon the notes and bills which your customers discount at the banks—which you discount.

Mr. GILBERT. Exactly; that is true.

Senator NELSON. They come to your bank and put up their notes and bills of exchange.

Mr. GILBERT. Exactly.

Senator NELSON. And you credit them on the books and call them depositors, and that is the whole basis of the fabric?

Mr. GILBERT. Yes; that is it.

Senator NELSON. Of course, if the Government would go into the business and say to the people: "Come here and file your notes and bills with us and we will open an account with you, and give you a credit on the other side of the ledger," then you could go to the Government in place of the private bank.

Mr. GILBERT. Except that the Government would surround itself with restrictions and safeguards and technicalities.

Senator NELSON. Yes.

Mr. GILBERT. That a real business operation of the banks would not do.

Senator NELSON. Now, the deposits that you parade, you banks—and I am not using the expression in an odious sense; but in one sense you are really parading what you owe to your customers.

Mr. GILBERT. Yes; if you exempt from that our capital and surplus.

Senator NELSON. Yes; I mean if we exempt your capital and surplus. The deposits that you parade before the public are really what you owe to your customers.

Mr. GILBERT. Yes.

Senator NELSON. And those debts which you owe to your customers—what you have to show for them are the notes and bills which they have deposited with you; is that not a fact?

Mr. GILBERT. Yes.

Senator NELSON. And that is the whole basis of the matter. And when you speak of the volume of the bank's credits it simply means how much the people of the country have put up in commercial paper

and deposited with the banks. That is the basis of it, is it not—outside of the mere capital and surplus?

Mr. GILBERT. Well, the whole problem could be very easily stated. The merchant goes to his "bills payable" account and he finds he has a larger amount of notes maturing than he has money in bank to pay. What does he do? He simply goes to his portfolio and he takes out a certain amount of commercial paper and says to his banker, "Put that to my credit."

Senator NELSON. And you credit it on the books of the bank?

Mr. GILBERT. And we simply say "indorse it"——

Senator NELSON (interposing). And then you credit it to him on your books and call him a "depositor?"

Mr. GILBERT. And his notes are presented for payment and are settled, and the world knows nothing about it whatever, and business goes on as usual. Now, that thing is taking place all the time. That constitutes the main business of the banking system all over the country.

Senator NELSON. Yes.

Mr. GILBERT. And this builds up this tremendous superstructure of commercial credits that is always outstanding; and that tremendous superstructure rises and falls and represents the exact rise and fall of the volume of business of the country.

And if anything happened to interfere with that so that when the merchant goes to his bank, when credit is stringent from over-expansion of business, or excessive speculation, or both combined, or from any other cause, and he goes to his bank and he finds that he can not do that as usual, then something happens.

Senator NELSON. Yes.

Mr. GILBERT. Now, abroad nothing would happen. And why? Because the joint-stock banks there, when they find that condition, go to their portfolios, as the merchant did in the other case, and take out their "bills payable" and go to the bank——

Senator NELSON (interposing). The Bank of England?

Mr. GILBERT. Yes; or the Imperial Bank of Germany, or the Bank of France; and they say to one of those banks: "Put this paper to my credit;" and they rediscount for their customers; they give their customers what they want, and everything goes on as usual, don't you see?

Senator NELSON. Yes.

Mr. GILBERT. But here when we come to that point that credit is strained and we can not accommodate our customers something happens. What is it? Credit gets scarce, interest rises, prices of securities fall, distrust prevails, and then panic.

Senator BRISTOW. But now when the joint-stock bank in England goes to the Bank of England, it does not own the Bank of England, it has not any stock in the Bank of England.

Mr. GILBERT. But it has an account there.

Senator BRISTOW. Yes; it has an account, but the Bank of England is an independent institution, over which that bank has no control, and with which it has nothing to do, except as a creditor.

Mr. GILBERT. Well, the cases are parallel there, because our customers do not own our stock.

Senator BRISTOW. But in this institution that we are providing for under this bill, the banks own an interest?

Mr. GILBERT. Certainly.

Senator BRISTOW. They are operating these institutions; and it is a part of the banking system?

Mr. GILBERT. Yes.

Senator BRISTOW. And it would be affected by the same influences that affect the banks?

Mr. GILBERT. Well, I do not think that that necessarily follows.

Senator NELSON. We propose to take the control away from them.

Senator BRISTOW. Well, this control is, perhaps, a superficial and nominal control at Washington. It looks big, but there is nothing to it, any more than the power the Comptroller of the Currency has now—I would not say there is nothing to it, but—

Senator NELSON (interposing). There is under the new system.

Senator BRISTOW. I am referring to the new system. There is very little control over it.

Senator REED. You hold that in the practical operation of this bill, the six members of the boards of directors of the regional banks, who are elected by the banks, will run those banks, do you?

Senator BRISTOW. They will run the institutions.

Senator REED. And that there will be no interference by the central board, except some such regulation, perhaps, as the Interstate Commerce Commission exercises over railroads?

Senator BRISTOW. Well, it is entirely different from that.

Senator REED. Very different; but I am using that, Senator Bristow, only as a parallel to the extent that it is a supervision and not management.

Senator BRISTOW. Yes; that is true; except that the Interstate Commerce Commission has more the functions of a court than this will have; and its cases are tried out. The citizen who thinks that he is abused and is not treated fairly by a railroad goes to the Interstate Commerce Commission, and the commission examines into the case and orders the railroad to do a certain thing. I do not think this Federal reserve board will sustain that relation to the banking business of the country. I do not think that would be possible. It seems to me it would be more logical—like the supervision of the comptroller's office over the present system—or will be in its practical operation.

Mr. GILBERT. Well, I do not think there will be any objection to that.

Senator NELSON. It is away beyond the power which the comptroller has now.

Mr. GILBERT. Yes.

Senator BRISTOW. Of course, they would have more power than the comptroller has now.

Senator NELSON. Absolutely.

Senator REED. Well, it is a power—and I am not prepared to differ with the Senator from Kansas at the present time, although I reserve the right to do so. [Laughter.] But it is a power, probably, that will not be exercised except where the board of directors of the regional bank are manifestly doing an unwise thing. And therefore I think what the Senator says is true. You have a bank owned by bankers and controlled by bankers, and in that respect it is to be distinguished very radically from the Bank of England.

Senator BRISTOW. Or the Bank of France; I think so, very much.

Senator NELSON. Well, in this banking situation it is not altogether dependent on the statutes or laws that we enact, but it requires good, honest men. Now, there are a great many Republics in America that have, on paper, as good constitutions and laws as we have here in the United States; but their Governments are failures, because the men do not know how to use those instrumentalities.

But we ought to assume here, I think, in all fairness, that if we make a fair law the bankers of this country will seek to administer that in a spirit of fairness in the interest of the American people. Their very life depends on it.

Mr. GILBERT. I think they will.

Senator NELSON. What makes the elasticity in currency is the wants of commerce. Suppose I go to you as a banker, and I make a loan. I give you my note for \$10,000, and I say to you, "Mr. Gilbert, I want \$5,000 of currency."

Mr. GILBERT. Yes.

Senator NELSON. And the other \$5,000 you give me credit for?

Mr. GILBERT. Yes.

Senator NELSON. Now, that transaction grows out of commerce.

Mr. GILBERT. We give you credit for the whole, and you draw what currency you want.

Senator NELSON. Yes. I take the currency; and I say I want \$5,000 in currency, and the rest give me a book credit for. Now, that is a business transaction and it grows out of my needs and wants.

Mr. GILBERT. Yes, sir.

Senator NELSON. And that is what regulates the ebb and flow of credits, is it not?

Mr. GILBERT. Yes.

Senator NELSON. Or something of that kind. And that is how you get an elastic currency, when you base it upon the real commercial wants of the country.

But, now, you bankers have a mission, high and low, and that is not to give credits, not to take the notes of people that are not entitled to credit.

Mr. GILBERT. Exactly.

Senator NELSON. Not to allow gamblers or promoters, who engage in hazardous enterprises, to float them by giving them credit on your books, either in the shape of credits or in currency.

Mr. GILBERT. It is in the banking, as it is in every other business, everything depends upon the wisdom and conservatism of the men who are engaged in it.

Senator NELSON. Yes. After all, we can pass the most stringent laws, and if you bankers are all scoundrels and rogues and do not want to carry on your business in a legitimate way the laws will be a failure.

Mr. GILBERT. Yes; and I want to state this: That I have a much higher opinion of the bankers of the country than—I will not say you, gentlemen—the average legislator has. [Laughter.]

I think, when you consider that in every town in this country and in every city in this country the banking men are looked up to for advice by their customers, and the banking men are confided in and believed in and respected—

Senator NELSON (interposing). That is true.

Mr. GILBERT (continuing). They must be a pretty high class of men.

Senator REED. Well, Mr. Gilbert, I want to get myself clearly in the exceptions in this legislative condemnation. I want you to understand that I have the profoundest regard for bankers. They lend me money. [Laughter.]

Now, I do not think we need discuss this phase of it. But I want to discuss one feature. I want to suggest to the Senator from Kansas that, while it is true that there is merit in having a bank entirely disassociated from bankers, there are certain elements of strength in it; and while it is true that these regional banks under this system will be controlled by the banks, that might be an element of strength instead of an element of weakness if it is properly managed. And for this reason:

Every bank that is a member of that regional bank is interested in the maintenance of the regional bank. If it fails, all go down together.

Mr. GILBERT. And if it is unwisely administered all will go down.

Senator REED. Yes; if it is unwisely administered all will suffer. They are not only interested in that, but they are interested in the solvency and in the safe business methods of all other member banks, because if a member bank is doing an unsafe business with the regional bank there the security of each other bank is impaired.

So that there is that compensating element, and it may be great enough to overbalance the objection. I do not want to discuss this at length; I simply want to drop that thought here, because I think it is a matter that we ought to consider.

Is there any other question that any member wants to ask Mr. Gilbert?

Senator NELSON. There is just one other matter that I do not know that I ought to bother him with. But I wanted to go back to that importation of gold into the United States. As I understand, those importations are made through two kinds of bills of exchange—what I call finance bills and commercial bills, usually accompanied with a bill of lading. For instance, a draft is drawn on a business house or a merchant in London, accompanied with a bill of lading for so many thousands of barrels of flour shipped from Minneapolis, or so many thousand barrels of wheat. That is a commercial bill of exchange, and on that gold can be brought here, can it not?

Mr. GILBERT. Yes; anything that piles up a balance abroad, you know, gives us a balance to draw on.

Senator NELSON. Yes. Now, the difference with a finance bill is that it is not based on any such articles of commerce?

Mr. GILBERT. Yes; it is simply borrowing money abroad.

Senator NELSON. It is simply borrowing money abroad on securities that you have put up.

Mr. GILBERT. On securities that are deposited there.

Senator NELSON. Yes; on securities deposited there—for the benefit of the man that is drawn on abroad?

Mr. GILBERT. No; for the benefit of the man who wants the money.

Senator NELSON. Well, the securities are for the benefit of the man abroad.

Mr. GILBERT. Exactly.

Senator NELSON. And it is on those two classes of bills that we get gold here from abroad?

Mr. GILBERT. Well, I would not confine it to those, because those foreign banking houses have their expedients for getting gold. I am not, of course, a dealer in foreign exchange, and I only have a general knowledge of the subject.

Senator NELSON. Yes.

Mr. GILBERT. Of course a foreign exchange house, with strong backing abroad, can resort to other methods of building up its balance there.

Senator NELSON. Yes.

Mr. GILBERT. It might borrow on bonds, or it might have some means of discounting over there.

Senator NELSON. Yes; a great deal will depend upon whether you have to ship actual gold; and that is very seldom. But a great deal also will depend on the balance of trade, will it not?

Mr. GILBERT. Oh, yes; a great deal will depend on the balance of trade.

Senator NELSON. The balance of trade, whether the foreign country is owing us or we are owing them.

Mr. GILBERT. Although in the panic of 1907, at the very worst time, we imported \$100,000,000 of gold from abroad.

Senator NELSON. Yes; well, Mr. Vanderlip tells me that that was imported on commercial bills.

Mr. GILBERT. Very likely it was largely on commercial bills.

Senator NELSON. Yes; not on finance bills, but on commercial bills.

Mr. GILBERT. But, prior to the outbreak of 1907, there was borrowed abroad on finance bills about \$500,000,000. And it was that—

Senator NELSON (interposing). Yes; now, I remember the time—

Senator REED (interposing). Senator Nelson, will you not let Mr. Gilbert finish his sentence? You say, Mr. Gilbert, it was that that did what?

Mr. GILBERT. It was that, largely, that created a feeling of apprehension here, some months before the panic broke out; the knowledge that so large an amount of money was being borrowed abroad.

Senator NELSON. Yes; on finance bills.

Mr. GILBERT. Because we were putting ourselves at the mercy of our creditors over there; the moment they would say: "The time has come for you to pay up," and ask us to pay up, it was going to cause a drain upon us.

Senator REED. Now, if you had borrowed that on commercial bills; on bills representing wheat, cotton, corn, or cattle—

Mr. GILBERT (interposing). Our basis then would have been a sound commercial basis.

Senator REED. Then the wheat, cotton, corn, and cattle, etc., would have liquidated it?

Mr. GILBERT. Yes.

Senator NELSON. Yes; would have liquidated it. That is the difference between a commercial bill and a finance bill?

Mr. GILBERT. Yes; that is it.

Senator NELSON. Now, I recall that during the last year of Cleveland's administration there were firms in New York who were con-

tinually shipping gold abroad; they would use the Treasury notes to get the gold out of the subtreasury.

Mr. GILBERT. Yes.

Senator NELSON. And then they were paying for the gold over there, and those firms found it profitable to ship it, and they shipped the actual gold. I remember one firm—I think it was Heidelbach, Ickelheimer & Co., or some such name as that—that kept shipping week after week.

Mr. GILBERT. I do not know that it was confined to any one firm.

Senator NELSON. No; but there were shipments of actual gold in those days.

Mr. GILBERT. But the export or import of gold depends, as a rule, entirely on the profit in doing it.

Senator NELSON. Yes, of course.

Mr. GILBERT. If there is no profit in exporting gold, it will not be exported.

Senator NELSON. And it depends a great deal on the state of the exchanges.

Mr. GILBERT. Entirely. That is what regulates it.

Senator NELSON. Yes; if the balance, when you look over the whole horizon, is in our favor gold will come here, and if the balance is against us it will go abroad.

Mr. GILBERT. Gold will come here if it is in our favor, unless it is temporarily thwarted by raising rates abroad.

Senator NELSON. Yes.

Mr. GILBERT. Making it more profitable to keep the gold over there than to send it here.

Senator REED. Is there anything in this bill now that will enable us, in an effective way, to control discount rates, or exchange rates, I should have said, so that if the gold started to drop it could be gathered in by these banks—I mean our gold reserve?

Mr. GILBERT. I do not see how. The raising of the interest rate by the Federal reserve bank would have this effect on its members, and no other effect that I can see: It would compel its members to confine their rediscounts to sheer necessity; to borrow as little as possible—that is, to borrow only what was absolutely required to accommodate their customers—and if there was any, if among their customers there was anything like a tendency to expansion, or speculation, the member bank would try to control its customers and say, "You must not push me too hard, because the interest rate has been advanced and I do not want to pay the rate." Do you not see that it could have that effect?

Senator NELSON. There is only one possible exception that I can see. Take a great regional bank at New York City. If their discount rates were very high, a great deal higher than abroad, and we make our paper redeemable absolutely in gold, why, foreigners might come here and say, "If we can get 7 per cent in New York, we will invest some of our funds there instead of at 5 per cent in London."

Mr. GILBERT. That might be if we had an open money market here and had the same class of prime paper always to be bought; but the foreigner is not apt to come here to buy our ordinary commercial paper, because he does not know anything about it. When

he can buy the class of paper that is indorsed by strong, conservative banks, it might tempt him.

Senator NELSON. Yes.

Senator REED. Now, you speak about an open money market. What about that? Do you think that is a good condition to have?

Mr. GILBERT. Excellent.

Senator REED. Well, what is necessary to bring it about? Is it a thing that can be brought about by any law, or is it a thing that must grow up out of business conditions?

Mr. GILBERT. It must grow up out of business conditions.

Senator REED. Why has it never grown up here?

Mr. GILBERT. Simply because we never have exercised our banking privileges—or rather, we have never had the same banking privileges the bankers have abroad. The provision in this bill which permits bankers to accept the drafts of their customers drawn on the bank would make the same class of paper which prevails to a large extent abroad—prime bankers' bills.

Senator NELSON. Yes.

Mr. GILBERT. But they do not have that here now.

Senator NELSON. No; you see, they do not deal in promissory notes, as we do. They deal in bills of exchange and drafts.

Senator REED. Acceptances.

Senator NELSON. Acceptances, yes.

Senator REED. Is there any further question to be asked of Mr. Gilbert?

Senator NELSON. No.

Senator HOLLIS. I just want to ask you this, Mr. Gilbert: Do you recall how it was that we borrowed that \$500,000,000 before the panic of 1907?

Mr. GILBERT. Well, it largely grew out of speculation.

Senator HOLLIS. What was that?

Mr. GILBERT. Out of stock-exchange speculation largely.

Senator HOLLIS. That is, you sent gold abroad to speculate in securities?

Mr. GILBERT. No; we borrowed gold from abroad.

Senator HOLLIS. Oh, you borrowed it from abroad?

Mr. GILBERT. Just negotiated the ordinary finance bill, by depositing securities and borrowing abroad instead of here.

Senator REED. Do you know that recalls to my mind the fact that, while we started yesterday to discuss the question of the undesirability of the banks loaning money for speculative purposes—we will say on the New York Stock Exchange—we never did get down to what method of restriction, or what safeguard should be interposed.

Mr. GILBERT. I do not think that you can interpose any safeguard or any restriction that will prevent that condition, because—

Senator REED (interposing). This bill undertakes to do it.

Mr. GILBERT. I know it does; and it will, to a certain extent. But then, I do not think there will be any less amount of money loaned to the stock-exchange houses in New York than there is now. Of course, speculation may be restricted to some small extent.

But there always is, and always will be, a certain volume of money required to carry on the legitimate—and when I say "legitimate" I mean the nonspeculative business of Wall Street and its large houses, and what you would call the speculative interests. There always will

be speculative interests. In one sense it is legitimate, unless it is carried to excess. And there always will be a demand for a certain amount of money to carry on that business. It exists in every civilized country in the world under the best banking conditions. And after this bill goes into operation the result will be, probably, to limit the amount of call loans and to expand to a larger degree the time loans.

Senator HOLLIS. Now, I want to ask you this—

Mr. GILBERT (interposing). There is one thing that you want to bear in mind, that those loans are so well secured that they are very desirable loans. I can not recall, in my long connection with the banking interests in New York, a single case where there has been an absolute loss to any bank from the loans made in Wall Street; and they are considered prime loans; and that is why the country banks, in order to make a secondary reserve, send their money there to have it invested on call. And a great volume of the money that is loaned in Wall Street is on time. It is attended with very much less risk than going into the market and buying commercial paper.

Senator REED. I understand perfectly that a financial house, whether it is located on Wall Street or on Pennsylvania Avenue, that is engaged in gathering together large amounts of money and using them for the purpose of financing a new railroad or an electric-light plant or a telephone plant or anything of that kind, is engaged not only in a legitimate business but probably in a very useful business for the country, and that that involves the sale of the stock of that railroad or that electric light company, or the bonds, or both.

Now, that is legitimate. But what about this thing that is set up there in New York, where they post the value of stocks and men are betting that the stocks are going up two points; and if the stock goes up they make money and somebody else loses, so that you have a wild, almost indescribable mob, surging and beating back and forth, and suddenly the market breaks, and when the market breaks all the country, to a certain extent, reflects that condition, and then it breaks and breaks until the banks that held those securities begin to break?

It seems to me there must be some remedy for that sort of thing, and I wondered if you could not suggest it.

Mr. GILBERT. But, Senator, if you were to go to New York and go into the stock exchange and watch the buying and selling of stocks, and then go down to the cotton exchange and watch the buying and selling of cotton, and then go down to the wheat pit and watch the buying and selling of wheat, and then go down to the tobacco exchange and watch the buying and selling of tobacco, you would see exactly the same conditions.

Senator REED. Well, that only argues this, that whereas we once had in this country gambling joints running everywhere, a man who attacked the system could have been answered, "Why, they have them in every city." I want to know if there is not some way that that influence, not only in the stock exchange; I am not saying it is worse than the others, but all that illegitimate speculation, gambling pure and simple, can be stopped and business reduced to a legitimate level. There ought to be some means to do this.

Mr. GILBERT. I will say this: Since the report of the Hughes commission, five years ago, which grew out of the conditions of 1907,

strenuous efforts have been made. It was admitted at that time that there were evils existing in the New York Stock Exchange which ought to be corrected, and strenuous efforts have been made to correct them, and there is less to complain of in the New York Stock Exchange in that respect now than there ever has been before. I think there have been a great many reforms instigated, and they have gone about as far as they can go at the present time to reform it.

But it is only necessary to go back a few years to a time when the same agitation prevailed in Germany, and they actually passed laws there to prohibit this marginal speculation on the stock exchange. And after a year or two they repealed the law, because they found it was really injurious to the country. They repealed the law.

Senator REED. Yes; I know that that fact has been stated, although I have never understood the particular reason for it.

Mr. GILBERT. And in every country, and in this country particularly, where fortunes are so easily made that men always have money, there is a disposition to speculate in something; and the easiest thing to speculate in is stocks and bonds, and one of the legitimate results of that speculation is the maintaining of prices at which these securities can always be sold. You can always find a place to sell them.

And if it was not for the fact that those prices are maintained through the daily operation of these exchanges men would be reluctant to invest in railroad securities. They would say, "I do not want to buy a railroad security, because I can not dispose of it when I want to; I do not know, I might want to convert it and get my money back, and there is no regular market or opportunity for doing that."

But the daily operations of the stock exchange make it not only the quickest market in the world for the disposal of those securities, but make it a market that maintains the prices of securities. And it is the same with wheat and grain and tobacco and corn.

Senator REED. I believe that is rather aside from the purposes of this bill, but it dovetails in along the line of the effort to control the call loans.

Mr. GILBERT. But it is interesting as a side issue.

Senator REED. Yes. Now, is there anything further to be asked of Mr. Gilbert?

Mr. GILBERT. Am I excused, Mr. Chairman?

Senator REED. Yes; we are very greatly obliged to you, and appreciate your having given us your views.

Senator NELSON. Yes; we are very much obliged to you.

Mr. GILBERT. I am very glad to have been with you, gentlemen; and if I can render any further assistance I will be very glad to render it.

Senator REED. If you will agree to revise your opinion of the public men of Washington, we will agree to look as charitably as possible upon the bankers of New York.

Mr. GILBERT. I want to say this, gentlemen, that I will go away entertaining a very much higher respect for our public men than I had when I came here.

Senator NELSON. You have come to the conclusion that we are, after all, searchers after truth, have you?

Mr. GILBERT. I have come to the conclusion that you know more about this banking business—

Senator NELSON (interposing). Than you thought we did?

Mr. GILBERT. Yes.

(The newspaper article referred to by Mr. Gilbert follows:)

[From the Boston (Mass.) Transcript, Saturday, Mar. 1, 1913.]

A TALE OF TWO BANKS.

SOME NEW LIGHT ON MONEY-TRUST INVESTIGATION—MR. UNTERMYER HAS SOUGHT TO CREATE PREJUDICE AGAINST THE CLEARING HOUSE ASSOCIATION; BUT THE WHOLE STORY HAS NOT BEEN TOLD—A QUESTION OF COLLATERAL—SOME DETAILS OF THE AFFAIRS OF THE ORIENTAL OF BROOKLYN AND THE MECHANICS & TRADERS' OF NEW YORK—MONEY PLENTIFUL AT THE TIME OF THE DOWNFALL.

[Regular correspondence of the Transcript.]

WASHINGTON, February 28.

In the attack of the Pujo committee upon the New York Clearing House Association and some of its practices, much stress has been laid by Attorney Untermeyer upon the cases involving the Oriental Bank of Brooklyn and the Mechanics & Traders' Bank of New York. Mr. Untermeyer in fact has sought to create a general prejudice against the Clearing House Association by allegations, repeatedly hammered in at the hearings, that these two banks were closed by the action of the committee in refusing them credit during the panic of 1907-8, and an attempt has been made to show that this refusal proceeded from a desire to stifle competition.

The whole story of the events which led to the suspension of these banks was not told to the Pujo committee nor does the committee report set forth the facts in the two cases. On the contrary, this alleged abuse of the power of credit by the New York Clearing House has been worked for all it is worth to prejudice the country against certain of the New York financiers and to indicate to Congress that drastic legislation directed against the New York Clearing House is necessary.

CASE OF THE MECHANICS & TRADERS' BANK.

The facts are that between October 18 and October 25, 1907, the banks of the clearing house made cash loans to the Mechanics & Traders' Bank of \$2,220,000. This was converted into clearing house loan certificates October 26, 1907. These loans were made on the assurances of Chief Examiner M. W. Hutchins, of the State banking department, that the bank was solvent. The aggregate issue amounted to \$4,520,000. Certificates of the Mechanics & Traders' were outstanding 137 days.

January 30, 1908, this bank was placed in the hands of the superintendent of the State banking department. The charge was made and was reiterated before the Pujo committee that had the clearing-house loan committee extended credit the bank would have been saved. The inference intended was, of course, that credit could and should have been extended, and that if it was not, the reason was that two representatives of the Corn Exchange Bank, who also were members of the clearing-house committee, had used their influence to put a competitor out of business.

BETTER COLLATERAL WANTED.

It is true, according to the most trustworthy information, that the clearing-house committee demanded more and a different kind of collateral from the Mechanics & Traders' Bank, and that when this was not forthcoming it refused to extend credit. The collateral back of the loans had a face value of some \$6,373,000; but before the receivers of the Mechanics & Traders' Bank paid off the balance due the clearing house—\$2,100,000—the committee had begun to collect \$3,447,000 of the collateral and had received \$1,000,000 in cash; the balance went to protest. The point is that the result of the attempt to collect on the collateral clearly demonstrated that the loan committee of the clearing house exercised good judgment in confining their advances to the proportion they

did. This bank had from October 26, 1907, to January 30, 1908, to adjust its affairs. It wanted more money, but at no time offered new collateral.

The point was made by Mr. Untermeyer, in questioning witnesses before the Pujo committee, that the Metropolitan Bank of New York had taken over the Mechanics & Traders' and paid off all its depositors in full; thus, according to the intimations of Mr. Untermeyer, confuting the judgment of the clearing-house committee that the bank was in danger when further loans were refused.

THE REMAINDER OF THE FACTS.

But the testimony was not permitted to go far enough to tell all the facts in the case. It is true that the Metropolitan took over the New York branches of the Mechanics & Traders' and paid off the depositors, but it is also true that the bank was allowed to reopen by the State banking department, on the deferred payment plan, under the title of the Union Bank of Brooklyn. This occurred in October, 1908. This Union Bank, successor to the Mechanics & Traders', closed its doors April 4, 1910, and up to date it has not paid one cent to its depositors.

The books showed that a large proportion of the unliquidated assets of the Union Bank were in the Mechanics & Traders' Bank when that bank closed January 30, 1908. In other words, the Union Bank allowed new deposits of money to be used to pay off old deposits. The probabilities are said to be that after a long wait the Union Bank depositors will receive dividends not to exceed 50 per cent. The former president of the Mechanics & Traders', David J. Sullivan, and W. C. Damron, a director of the same bank, are serving terms in the State prison for offenses growing out of the situation described.

ORIENTAL BANK CASE ILLUMINATING.

The case of the Oriental Bank is equally illuminating when reviewed with knowledge of the actual facts. As with the Mechanics & Traders' Bank, its affairs came to a crisis January 30, 1908. It had borrowed several million through the clearing house loan committee and certificates for a part of its borrowings were outstanding. Most of the clearing house certificates in other parts of the country had been retired—those of the Chicago Clearing House were finally cancelled on January 17, the Chicago Clearing House on January 11 having decided that certificates could no longer be used in meeting debit balances.

The New York Clearing House Association became anxious for a return to normal conditions, and on January 25 the clearing-house committee, believing that the emergency which had made the use of loan certificates necessary had passed, sent, through its chairman, a letter to each bank which had not retired its certificates, expressing the desire of the clearing-house committee that all loan certificates be retired on or before February 6. On January 23, two days before this action, the directors of the National Bank of North America (the Morse bank) had requested that the national-bank examiner take charge of their bank because of heavy withdrawals during the previous three weeks and further expected heavy withdrawals. Notwithstanding that the Oriental and the Mechanics & Traders' had had more than three months in which to clean up their affairs, both banks notified the clearing house that they would be unable to retire their certificates. The clearing house, seeking to aid these institutions as far as was deemed prudent, immediately instructed its manager to notify the two banks that the note of the committee expressing the desire that all certificates be retired by February 6 had been recalled and that the two banks would not be pressed to redeem their certificates. This was done by the manager on January 28.

DIRECTORS' REFUSAL TO GUARANTEE.

The story of the Mechanics & Traders' already has been told. The Oriental Bank not only was unable to comply with the request of the clearing house, but it called on the clearing-house committee for a million dollars more. It was notified that it would be accommodated with the loan, provided the directors of the Oriental Bank would guarantee the loan. This evidently they were unwilling or unable to do. The clearing-house committee waited until midnight of January 29 to hear from the directors of the Oriental Bank, and as no word was forthcoming the bank was closed the next day. How the Oriental Bank

could have been treated more considerately, consistently with the principles of safe banking, is not explained in the report of the Pujo committee.

It will be recalled that the downfall of the Oriental Bank was imputed in part to the machinations of two directors of the Corn Exchange Bank, of whom one was Walter E. Frew, now president of the bank, and one of the most interesting witnesses before the Pujo committee. Another witness was R. W. Jones, jr., former president of the Oriental Bank, whose reflections upon the New York Clearing House were made part of the Untermeyer ammunition.

MR. JONES WRITES MR. FREW.

How Mr. Jones reconciles his testimony before the Pujo committee with the following letter written by him to Mr. Frew, under date of January 17, 1911, is another of the mysteries unexplained in the Untermeyer report:

NEW YORK, *January 17, 1911.*

MY DEAR MR. FREW: I have been endeavoring for the past two or three days to call upon you personally and express the pleasure which I have had at the announcement of your election as president of the Corn Exchange Bank. While it has not been my pleasure to know you intimately, I want to avail myself of this opportunity especially to express to you the appreciation which I have always felt of the attitude taken by you at the time of the panic of 1907, in connection with the situation which surrounded the Oriental Bank at that time; and while your efforts to protect us did not succeed, they were none the less appreciated by both Mr. Hugh Kelly and myself.

I extend to you my very best wishes in your new official connection, and you may be assured that if an opportunity is ever presented to serve you it will afford me a great deal of pleasure to avail myself of it.

Yours, very truly,

R. W. JONES, Jr.

It is cited as interesting in connection with the period of the downfall of the Oriental and the Mechanics & Traders' Banks that at that time the call rate of interest was only 2 per cent, which shows that money was plentiful. The surplus cash reserve of the members of the New York Clearing House Association was \$40,526,000. Loans on proper security or good paper were easily obtainable at that time. It is asserted by gentlemen with authority to speak that if the Mechanics & Traders' Bank had been able to offer proper security the same accommodation would have been offered to them as was offered to the Oriental Bank on January 30.

W. E. B.

Senator REED. There is a gentleman in Greensboro, Pa., who wrote me. His name is Motsinger, and he wrote me on the letter-head of the Rotary Engine Co. He would like to appear before the committee. He says that he has studied this bill, and he thinks there are many objections to it which ought to be considered. And I take it, from the general tone of his letter, that he does not mean he is against the system, but he thinks the system needs amendment. I think it is rather an antibank man; that he thinks that the banks have too much power.

Senator NELSON. Yes.

Senator REED. I know nothing about him, except the letters he has written, which are intelligent; and I want to submit to the committee whether we can hear him. He writes:

I feel that I can be of service to your committee and will gladly sacrifice my private duties for greater public ones.

If a date for Friday of this week were arranged, or better still, for Saturday, it would please me.

What will the committee do about this?

Senator HOLLIS. Well, on Friday we have the Minnesota country bankers and Mr. H. Parker Willis, and Saturday we have the national-bank examiners. I think we might invite him for Friday.

Senator NELSON. I think we had better invite him Thursday, because I do not know how many of the Minnesota country bankers are coming here.

Senator REED. With the consent of the committee, then, I will notify Mr. Motsinger, by telegraph, that if he is here Thursday the committee will try to hear him.

Then there is another communication that has reached me. I presume that copies have been sent to the other members of the committee. It is on the letterhead of the First National Bank of Tombstone, Ariz., and seems to be signed by T. R. Brandt, cashier of that bank. It incloses a memorial in the nature of a criticism of certain features of this bill. It seems to have been prepared with some care, and I suggest that it be printed.

Senator NELSON. All right; let it go into the record.

(The memorial referred to will be found at the conclusion of this day's proceedings.)

(Thereupon, at 1 o'clock p. m., the committee took a recess until 2 o'clock p. m.)

AFTER RECESS.

STATEMENT OF RICHARD H. LONG, FRAMINGHAM, MASS., MANUFACTURER OF SHOES AND SHOE MACHINERY AND DEALER IN SHOES AND SHOE MACHINERY.

Senator HOLLIS. Mr. Long, we will hear from you now. Please give your name and address to the stenographer so that we will have it in the record.

Now you may proceed and make your statement in your own way.

Mr. LONG. I appear before the committee as a manufacturer and a merchant, and my reason for coming is that I had not seen any account in the papers that merchants and manufacturers had appeared before the committee to any extent, and I believe the currency bill, if it is enacted, should consider the merchants, manufacturers, and farmers fully as much as any other factors in the country. Under the present conditions of banking as it is in New England I believe the credit that is given by banks goes first to the large industries that are represented in the banks or connected with them, and after that to the men who are engaged in buying and selling stocks, and that the commercial man comes last.

I am in favor of the bill as it is, rather than not have a currency bill enacted. I believe a currency bill should be enacted to bring about more independence in banking circles and to give the trading people of the country, who are engaged in real business rather than speculative business, a better chance than they have to-day.

Senator BRISTOW. Now, if you will pardon me, Mr. Long, wherein do you think this bill would make more independent the banking business of the country?

Mr. LONG. I believe the regional banks—that the individual banking houses would do business with them where now they do it largely with a few banks. I believe it would be distributed better.

Senator BRISTOW. But the regional banks are owned by the bankers; they are run by directors elected by the bankers; it is part of the

banks; and the control is a banker's control and a banker's ownership. Now, wherein you are going to get independence is what struck me.

Mr. LONG. I believe the banking interests now are controlled by a few people. For instance, in New England the banking interests are controlled largely by a few banks in Boston. They have correspondents largely throughout New England.

Senator BRISTOW. You say through correspondents in New England, in your opinion, there are a few banks in Boston that control the credit?

Mr. LONG. That is it.

Senator BRISTOW. Have you any doubt that if the banks which those few banks control are to elect the directors of the regional bank, which they are to do under this bill, there will not be any difficulty in those banks controlling the directors?

Mr. LONG. I do not think the bank ought to elect a majority of the directors. But I think, even if they do, that the control of the regional bank, so far as it goes, from the men appointed by the reserve board, will make those regional banks much more independent than the banks are to-day of banking control.

Senator BRISTOW. Of course you think that. I think there will be less independence myself. I have not any doubt about it. Instead of getting away from the thing you are seeking to get away from, by favoring this bill I think you are simply riveting it by law upon this country. Now, let me suggest to you that those banks—with 1,500, 2,000, or 4,000, I do not know how many banks you have in New England—with this independent arrangement, if they can not get discount at Boston, can go to New York or some place else if they want to. If, with this democracy in the banking business in New England that we have now, these men are able to control and dominate as you suggest, then if they succeed in getting control of the board of directors of the regional banks they have absolutely got it, and you are helpless. You have got to go to that bank then; the banks could not go any place else under the law.

Mr. LONG. I do not understand that the bill would prevent the national banks or those that come into the regional bank—I do not understand it would prevent them from going to any other banks to do business. Is that a part of the bill?

Senator BRISTOW. They can not discount, because they can not keep their reserves except at the regional bank. The country bank discounts its bills now with the city bank, the reserve bank where it keeps its reserve.

Mr. LONG. Yes.

Senator BRISTOW. Now, if it is not satisfied with the reserve bank where it keeps its reserve, it will go to some other bank. It has an opportunity of going to other banks.

Mr. LONG. Doesn't it have the same opportunity under this bill?

Senator BRISTOW. No; the law requires it to carry its reserves in this regional bank, and it can not carry them any place else.

Mr. LONG. Could it not keep a deposit any place else?

Senator BRISTOW. Oh, it can keep a deposit, but it can not keep the reserve. The reserve, under the law, must be in the regional bank.

Mr. LONG. As I understand it, this bill would not affect the banks except those that go into this system. The other banks would be independent.

Senator BRISTOW. They would be just as they are now.

Mr. LONG. And the fact that the manager of the regional bank would be appointed by the Federal reserve board would take away the entire control, as the regional bank would not be so entirely controlled by the banks as the banks are to-day.

Senator BRISTOW. There would be a difference of opinion there. I think it would be more so, but then I am just giving you my views. I do not want to interrupt you any further.

Mr. LONG. I believe, however, that the bank should not control the reserves of the regional bank, and that the capital for those banks should not be required from the national banks. I think it should be subscribed by the public, so that it would make the regional banks entirely independent. In that case it would take away, to a certain extent, the monopoly of credit that is now held by a few people.

Senator BRISTOW. That is, you would have the board of directors of the regional banks appointed by the Government instead of elected by the banks?

Mr. LONG. Yes; if the capital was supplied by the public there would be no reason for the banks appointing the directors.

Senator BRISTOW. No.

Mr. LONG. As I understand, this bill provides they shall elect six directors.

Senator BRISTOW. Yes; they shall elect six directors.

Mr. LONG. I believe that if the banks are to elect directors they should only elect three, and the Government should elect the majority.

Senator BRISTOW. In that event you would not recommend compulsory subscription; that is, you would not advocate the principle of compelling the banks to create this institution and then not allowing them to have the control or a voice in managing a thing which their own money had created? You would advocate that it be a voluntary subscription and independently managed?

Mr. LONG. That is it—voluntary subscription and independent management. And if the 5 per cent dividend was not sufficient to get the capital necessary, I believe it should be increased to 6, so as to allow the stockholders to have a dividend of 6 per cent.

Senator McLEAN. Have you ever had trouble in securing accommodations?

Mr. LONG. Yes, sir; I have had troubles.

Senator McLEAN. Do you have competitors in the shoe-machinery business?

Mr. LONG. Yes, sir; I do not know whether the committee would like to hear it.

Senator HOLLIS. I wish you would give us a short history of your experience.

Senator McLEAN. A year and a half ago, in a hearing before the Committee on Interstate Commerce, Mr. Brandeis, or some one, then testified before the committee of the existence in New England of parties who were very anxious to organize a competing concern to the manufacturers of shoe machinery. As he stated, if I recollect correctly, the project failed because the people interested in this new concern could not get accommodations from the banks, and they could not get it because the banks were in a conspiracy with the old shoe-machinery concern. Perhaps you are the person he referred to.

Mr. LONG. No; I was not the person he referred to, but I did have troubles along that line. If the committee would like to hear them, I can tell them briefly.

Senator HOLLIS. I would like to have a brief statement of that.

Mr. LONG. It was in 1907; I petitioned for a bill in the Massachusetts Legislature to prevent the shoe-machinery company from making certain contracts, and that bill was enacted into law after considerable controversy. At that time I was a shoe manufacturer of this machinery company, and I wanted to be free. During the time that contest was on in our factory we discarded the machines of the machinery company.

Senator HOLLIS. You mean what is known as the United Shoe Machinery Co.?

Mr. LONG. Yes. My company discarded the machines of that company, and a new company was organized to manufacture shoes with machines we bought—secured in different places. Shortly after that the United brought seven or eight suits for infringement against me personally and against the different companies that made the machines and against the new company we organized to carry on the shoe business, and I was informed, soon after that, by the manager of our machinery company, which was a very small company, that if we did not stop trying to do business in competition with the United Co. and give up opposing them, they would see we were put out of business.

Senator McLEAN. Who informed you?

Mr. LONG. The superintendent of our machinery factory. He said he was informed by a machine man, and that the information came from the management of the department of the United Shoe Machinery Co. The information came to me that they had a representative in every bank in the city of Boston, and they would see to it I could not borrow a dollar in Boston of any of the banks with which I was doing business. At that time I had a credit line, when I wanted it, of, perhaps, \$200,000, and soon after that all the banks I did business with told me to pay up, and since that time none of those banks would give me any credit. I was also informed that this machinery company had power to prevent me from getting credit at any bank through New England or even through New York. I had had credit in those cities—New York, Springfield, Worcester, and Albany—and while I applied for it and they gave me to understand it would be granted, it was turned down. I did find one bank in Springfield where one of the directors arranged for a line of \$25,000 credit. I met the credit man of that bank in Framingham on his way to Boston, and I was informed that his Boston correspondent would like to open an account with me and gave me a line of credit, and he took me and introduced me to the vice president of that Boston bank, and the vice president, after the Springfield man went out, said: "You do not suppose, Mr. Long, you are going to get any credit here, do you; don't you know that the president of the United Shoe Machinery Co. and five other directors in that company are directors here and, of course, you can not get any money here? The result was that the Springfield bank turned down the credit.

Senator WEEKS. What bank was that, Mr. Long?

Mr. LONG. That was the First National of Boston.

Senator BRISTOW. Now, you attribute that to the influence of the United Shoe Machinery Co.?

Mr. LONG. I had the information before, and that was the result.

Senator BRISTOW. Was there any legitimate question as to the validity of your solvency; that is, your ability to fulfill your obligations?

Mr. LONG. There should not have been more question than there ever was.

Senator BRISTOW. Before that you had no trouble in getting credit?

Mr. LONG. Before that I had no trouble in getting credit.

Senator McLEAN. How many years have you been in business?

Mr. LONG. Since 1896, the old company. This was in 1908.

Senator McLEAN. Were you asking for a much larger line of credit than usual?

Mr. LONG. No. No; the banks had loaned me \$50,000, or \$75,000, on credit altogether.

Senator McLEAN. You said you wanted \$200,000?

Mr. LONG. No; I said we had lines of credit of about that amount. The local bank of Framingham would always give us credit when we asked it. They would be as well informed as anyone.

Senator McLEAN. What reason did the banks give you for denying your credit?

Mr. LONG. Some of them said I had better get out of the shoe-machinery business. They were afraid of the machinery company, what it would do to us.

Senator BRISTOW. That is, you think that these banks that would have had a disposition to let you have the money were afraid that in competition with the Shoe Machinery Co. you would fail and were afraid you would not be good; or were they afraid that the hostility of the Shoe Machinery Co. to them would make them lose more money than your business was worth to them? Which was it?

Mr. LONG. I think they thought it advisable to be friendly to the Shoe Machinery Co., which had a large amount of money on deposit in Boston in the different banks. And they did have representatives, directly or indirectly, on the boards of most of the banks of Boston, or a large number of the banks.

Senator BRISTOW. Now, the story you tell is very interesting, and of course I think a good deal of that kind of business has been done in this country myself. But the strange thing is that gentlemen like you think this bill would remedy that situation. I think it makes it worse. It seems to me, Mr. Long, you must admit that if the banks that can be influenced by the Shoe Machinery Co. should control the election of the board of directors of the regional bank for New England then they have everything they want, because they control the very source of supply and the banks could not go out and seek independent help, because the reserves are, by law, forced into this bank.

Mr. LONG. That would be true to some extent, but I think even under this present bill the three members of the board of directors who are appointed by the Federal reserve board would help to bring about more independence in banking.

Senator BRISTOW. Suppose they were not unfriendly to the Shoe Machinery Co.; then what would happen?

Mr. LONG. Suppose they were unfriendly?

Senator BRISTOW. Suppose they were not unfriendly.

Mr. LONG. Those three members?

Senator BRISTOW. Yes.

Mr. LONG. I do not see anything in this bill that would make the condition any worse than it is.

Senator BRISTOW. It would not make it any better, would it?

Mr. LONG. I think it would tend to make it better.

Senator BRISTOW. Will you please tell me just how?

Mr. LONG. I believe under the present condition there is a large concentration of credit. I believe that with these regional banks the credit would be distributed.

Senator BRISTOW. What makes you think that when the regional banks are all controlled by the very men that now control the credit?

Mr. LONG. That gets back to the credit, whether the three men appointed by the Federal reserve board would have enough independence to see that those banks would not be influenced.

Senator BRISTOW. They are in the minority, aren't they?

Mr. LONG. Yes; they are in the minority.

Senator BRISTOW. How much influence does a minority stockholder have in the management of those corporations?

Mr. LONG. I understand that the Federal reserve board have the right to remove any of the members of the regional banks, and if those three men were independent and saw the banks were not being carried on independently they could appeal to the Federal reserve board and have those directors removed. But I believe the situation would be much better if the banks did not control these regional banks—if they did not have a majority of the board of directors.

Senator BRISTOW. I agree with you—have the bank as an independent bank, and that the banks do not own it and do not control it. That is an entirely different proposition.

Mr. LONG. I believe it should be that way.

Senator BRISTOW. But I understood you to suggest that you wanted this bill as a remedy, and for my life I can't see it. I think instead of getting a remedy you are fastening your hands with shackles a great deal worse than you are to-day.

Mr. LONG. I am not looking at myself at the present time.

Senator BRISTOW. I was referring to men situated as you have been.

Mr. LONG. Yes; but I think this bill, while it would not be a real remedy, it would to an extent be a remedy, and it would tend toward bringing about more independence in banking. I believe, as I understand, this bill intends to bring about a method where banks can rediscount their paper and have a credit that will be more elastic than the present. I think the principle is a good one.

Senator BRISTOW. Yes, Mr. Long. I am sorry to say that a good many gentlemen have the same impression you have from political stories that have been circulated through the country in order to give favor to this bill. But, for myself, I think it is an erroneous impression; that that does not come from applying your knowledge of practical affairs to the provisions as they are written in the bill.

Mr. LONG. Well, I believe that under this present bill if a person was discriminated against in a line of credit he could go individually to his local bank, and if they did not give him relief there he

could personally go to the Federal reserve board and point out the situation, and it would help to bring about a better condition. But I do not think it is a perfect bill. I think a bill for the purpose of having a better system of credit could be drawn, and I think this bill should be amended, and I think the best way to amend it would be to take away the control from the banks and not require the banks to furnish the capital, except so far as they wished to do it.

Senator BRISTOW. I entirely agree with you on that proposition, and, so far as I am concerned, I am in favor of that kind of a bank. But that is as antagonistic to the provisions of this bill as anything could be.

Mr. LONG. Well, you do not think this bill would make the situation any worse than it is?

Senator BRISTOW. I think it would; yes. I think so. I think it concentrates the credit a good deal more than it is now—makes it possible.

Mr. LONG. Don't you think the publicity that would be brought about in the conduct of the affairs of the regional bank would bring about more independence in banking?

Senator BRISTOW. I do not see any publicity here that is provided for.

Mr. LONG. You do not think the three men appointed by the Federal reserve board would have any influence?

Senator BRISTOW. I do not think they would pay much attention to it. If the board of directors did not pay any attention to this experience of yours—the board of directors was off somewhere; it was the officers of the bank that turned you down. You will have nine on the board of directors, but the officers will run this thing. That the directors will come, and they will be presented with the matter, and they will decide it is a delusion and a snare for men situated as you are, in my opinion. That is the reason I am opposed to it, because I do not think it accomplishes anything at all that gentlemen situated as you are feel the need of. I do not know anything about the facts of your case, but I have no doubt but what certain powerful interests can prevent a man from getting credit, no matter how good he is, because the banks do not want to incur the hostility of those interests; and the men who control those interests have power enough and selfishness enough to want to destroy their competitors and to do it in any way they can, and they will use their power with the banks, and the banks do not want to go up against a dangerous proposition. It may not be because they have any part in the conspiracy in question, but they are prudent business men and do not want to get into a controversy that will be dangerous or detrimental to the interests of the stockholders, and that will stop them.

Mr. LONG. There is one provision of this bill relating to farm loans that I think would be a good thing for all parts of the country, because the farmers could have a way of borrowing money. Even in New England there are a good many small farmers that need money for a few months, who own property that is not mortgaged, and if they could borrow money for a few months from their own bank, dealing with the regional bank, I believe that would be a material help.

Senator BRISTOW. It would be a benefit to the farmers you have in New England?

Mr. LONG. I think so. I think, in my own town of Framingham, there are farmers it would help.

Senator BRISTOW. Can you tell us—a few months would not do us any good out West—the kind of paper that the farmers have?

Mr. LONG. I understand those farm loans would be short-time paper with the property as collateral.

Senator HOLLIS. A mortgage.

Mr. LONG. Yes; a mortgage.

Senator BRISTOW. Would that be of much use to the farmer in New England?

Mr. LONG. I think it would.

Senator BRISTOW. How do they make their loans up there; just as business men do, three months' time?

Mr. LONG. Three or four or six months. As I understand the bill, they could borrow for six months or eight months, and the banks would carry it for a few months and then send it to the regional bank for discount.

Senator BRISTOW. In the farming regions in the West and Central West a 12-months' limitation would destroy the usefulness of that, because their loans practically are all made for five years; and I wondered what conditions in New England would make a 12-months' farm loan of value to you that it would not be to us out West. What crop does the farmer gather that enables him to meet the note?

Mr. LONG. They raise hay and other crops. I think hay is the principal crop. But there are times that the farmer needs money, and I think any help you can give to the farmer might help him to raise larger crops and reduce the high cost of living?

Senator BRISTOW. Well, the high cost of living does not come from the high price the farmer gets for what he raises. It comes from the prices we have to pay after it leaves the farmer. The farmer is not getting any more for his wheat now than he got many, many years ago. A few things are higher but many things are not. The high cost of living has been charged to the farmer, and in making this tariff bill—which ought not to be referred to, I suppose—he has been made the victim. The real evil is the commercial system we have and not the high cost of producing the farm products, in my judgment.

Senator O'GORMAN. Has this witness concluded?

Senator BRISTOW. There is nothing else, unless Mr. Long wishes to add something else to his statement.

Mr. LONG. I think I have said about everything I wanted to say, except to reiterate that I think in this bill, before it is finally enacted, the merchant, the manufacturer, and the farmer should be considered; but even in its present form I think it would be a benefit to them and bring about more independence in banking.

Senator REED. How are we to consider the merchants, the manufacturers, etc., in this bill? How are they to be protected any more definitely than they are by virtue of building up a strong, safe banking system, regulated in its great outlines by the Government?

Mr. LONG. In times of stringency I believe the merchant, the manufacturer, and the farmer is the man that is refused credit first, and I believe this bill, with its rediscount feature, as it is in its present form, with its rediscounting privileges, will make a more elastic system of credit.

Senator NELSON. You know, of course, that the farmers and merchants can not go to these regional banks and get a discount, don't you?

Mr. LONG. But their own banks. A merchant would go to his own bank.

Senator NELSON. They can do that now, can they not?

Mr. LONG. Yes; but the bank in a small town could not loan over a certain amount of money to a manufacturer. If he wanted more money than his bank could loan at the present time, he would be obliged to go elsewhere; but if the bank could rediscount his paper, he could get a larger line of credit.

Senator O'GORMAN. Can not any bank now find adequate opportunity to rediscount its paper when it has to do that?

Mr. LONG. I think under the present condition—at the present time—the leading banks frown on the idea of rediscounting paper. It is not considered to be sound banking.

Senator O'GORMAN. And you think the custom will become legitimate under the proposed plan?

Mr. LONG. I believe under this bill if the banks were required to deposit a certain amount of money with the regional banks it would bring about a practice of rediscounting paper.

Senator NELSON. Do you believe that the banks are the creators of wealth, or any banking system? Does that create wealth or credit of itself?

Mr. LONG. I think a banking system may limit credit or enlarge credit. I do not think they create credit.

Senator NELSON. Does not the credit and currency of the country hinge upon the prosperity of the country?

Mr. LONG. Yes.

Senator NELSON. And the volume of production—what the farmers produce and the manufacturers manufacture, and the merchants handle?

Mr. LONG. Yes, sir.

Senator NELSON. Is not that what makes business? Is not that what builds the credit?

Mr. LONG. That is.

Senator NELSON. And the banks do not do it. They are simply the vehicle; the instrumentality?

Mr. LONG. Yes.

Senator O'GORMAN. Does any other Senator desire to ask a question?

Senator REED. I did not hear this gentleman's testimony. I have been told you say you were engaged in the manufacturing business and could not get money?

Mr. LONG. Yes, sir; I was manufacturing shoes and shoe machinery.

Senator REED. Where?

Mr. LONG. Framingham, Mass. I introduced a petition for a bill in the Massachusetts Legislature in 1907 that became a law after quite a contest, and at that time I was using machines from that company under contracts of lease, and while the legislation was going through the house and senate we discarded the machinery from that company, and our old company that was under contract went out of

business and a new company was organized to manufacture shoes with machinery that we bought. Soon after that the superintendent of a branch of our business that was looking after the machinery informed me that through another machinery man, a representative of the United Shoe Machinery Co., word had come along to me that if I did not stop opposing them they would see I would not be able to borrow any money in Boston from the banks I was doing business with. At that time I had lines of credit in Boston of about \$200,000. That credit was taken away, and since that time I have not received any discounts from those banks.

Senator O'GORMAN. Was any reason given by the banks for taking that away from you?

Mr. LONG. They said that I had better go out of the machinery business and stop opposing the United Shoe Machinery Co.

Senator WEEKS. What banks were you borrowing from?

Mr. LONG. I was borrowing from the Commonwealth Trust Co., of Boston.

Senator WEEKS. How much credit did you have?

Mr. LONG. I had a line of \$100,000. I owed them \$50,000, and I was promised \$50,000 more. The Atlantic National Bank, of Boston, I had a line of credit there up to about \$75,000. I was offered a line of credit by the New England National Bank of \$50,000.

Senator REED. You did not go out of business, did you?

Mr. LONG. No, sir.

Senator REED. Where did you get your money?

Mr. LONG. I was obliged to limit my business, to sell through retail stores that I owned, and be slow in paying my bills until we made money enough to be more independent.

Senator REED. Are you running now?

Mr. LONG. Yes, sir.

Senator REED. Has your business been prosperous since?

Mr. LONG. Not anywhere near as prosperous as before, because I was limited for a time in credit.

Senator REED. But you have not had any failure?

Mr. LONG. No, sir.

Senator REED. You have been doing a paying business all the time?

Mr. LONG. We conducted business all the time.

Senator REED. What I am trying to get at is whether there was any such condition in your business, at the time you say those credits were refused, to have led a conservative banker to have refused you credit because your business was not in a good condition?

Mr. LONG. I do not think there was. We paid the notes, and the different banks refused to make further discounts.

Senator O'GORMAN. Did the bank have reason to fear that your competition with these other large interests might so involve you as to impair your ability to meet your obligations?

Mr. LONG. I do not think so. I owned real estate, free and clear of encumbrance, that cost me nearly \$500,000.

Senator NELSON. Were you an incorporated company?

Mr. LONG. Yes, sir.

Senator NELSON. You succeeded another company, as I understand it?

Mr. LONG. Yes; the Framingham Shoe Co. is the company that succeeded the old company.

Senator NELSON. The old company succeeded that?

Mr. LONG. The Framingham Shoe Co. is the present company. The old company was the R. H. Long Shoe Manufacturing Co.

Senator NELSON. Did you buy out the old company when you formed the new company?

Mr. LONG. I owned the old company. I owned all the stock.

Senator NELSON. And you changed into a new company. What did you make the change for?

Mr. LONG. I did not change into the new company. The old company went out of business. It had contracts with the United that it could not use any other machinery, and that company went out of business.

Senator NELSON. That was your company, too?

Mr. LONG. Yes, sir.

Senator NELSON. And then you formed a new company?

Mr. LONG. Yes, sir.

Senator NELSON. How much stock and bonds did it have?

Mr. LONG. The new company has a capital of \$225,000.

Senator NELSON. In stock?

Mr. LONG. Yes.

Senator NELSON. And how many bonds outstanding?

Mr. LONG. No bonds.

Senator NELSON. No mortgage?

Mr. LONG. No, sir.

Senator NELSON. And who held the stock?

Mr. LONG. I held the stock, all but a few shares.

Senator NELSON. All but 2 shares?

Mr. LONG. All but a few shares—maybe 8 or 10 shares.

Senator NELSON. So it was really a one-man company?

Mr. LONG. Yes, sir. The notes I offered to the banks were the notes of the Framingham Shoe Co., payable to me, with my indorsement.

Senator O'GORMAN. With your indorsement?

Mr. LONG. With my indorsement; and I at that time owned real estate in Framingham that cost me about \$500,000.

Senator REED. Now, you are bucking, as the term goes, this United Shoe Machinery Co., consisting in refusing their machines and no other?

Mr. LONG. Yes, sir.

Senator REED. And putting in a rival machine?

Mr. LONG. Putting in other machines; yes, sir.

Senator REED. And your old company had had a contract binding it to use the United Shoe Co.'s machines?

Mr. LONG. Yes, sir.

Senator REED. Did you repudiate those contracts—that is, break any contract in any sense—or just refused to keep the machines longer?

Mr. LONG. Yes; we claimed their contracts were illegal.

Senator REED. Had you agreed to use their machines for a given period of years?

Mr. LONG. Yes.

Senator REED. And you repudiated that by means of reorganization?

Mr. LONG. Not exactly that; the old company was a Massachusetts company, which simply went out of business.

Senator REED. It went out of business, and the contract came to an end because you no longer used them?

Mr. LONG. Yes, sir.

Senator REED. Did this contract bind your company to use the machines for a given period of time, or was it terminable when the company ceased to manufacture?

Mr. LONG. Most of the contracts would practically terminate when the factory ceased to do business. There were some which were continuous.

Senator REED. Was there any claim that you had been really guilty of a breach of good faith when you adopted this method of escaping from the contract?

Mr. LONG. There was never a suit or claim brought against the old company on account of the contract. There was some infringement suit against me personally.

Senator NELSON. Were you the principal owner of the old company?

Mr. LONG. Yes, sir.

Senator NELSON. So you simply changed your corporate name?

Mr. LONG. No; the old company went out of business.

Senator NELSON. You went out of business, and then you took on a new name?

Mr. LONG. A new company was organized.

Senator NELSON. A new company was organized?

Mr. LONG. Yes, sir.

Senator O'GORMAN. What did the old company do with its plant?

Mr. LONG. They had a plant which they hired.

Senator NELSON. Did they have any plant which they turned over to the new company?

Mr. LONG. No; the new company bought some merchandise.

Senator NELSON. What did the \$250,000 of stock represent?

Mr. LONG. Investments.

Senator NELSON. In what?

Mr. LONG. Merchandise and cash.

Senator NELSON. Good will?

Mr. LONG. No. There was \$25,000 of good will in the company.

Senator O'GORMAN. You say the plant held by the first company was rented?

Mr. LONG. Yes, sir.

Senator O'GORMAN. From you?

Mr. LONG. No.

Senator O'GORMAN. From whom?

Mr. LONG. From the Coburn Manufacturing Co.

Senator REED. You said there was some infringement suit brought. When was that brought, before or after you changed your company name?

Mr. LONG. They were brought after the new company was organized.

Senator REED. They claimed you were then using a machine which was, in fact, an infringement of other patents?

Mr. LONG. Yes.

Senator REED. Did those suits claim large amounts of money as damages?

Mr. LONG. There was no amount; it was simply a suit with a request for an injunction.

Senator REED. Were those suits for injunction pending at the time the banks said they did not care to let you have any more money?

Mr. LONG. Some of them were.

Senator REED. After the suits had been disposed of, did you ever again apply to these banks for credit?

Mr. LONG. I did.

Senator REED. Was it still refused to you?

Mr. LONG. Yes.

Senator O'GORMAN. How were the suits decided?

Mr. LONG. So far as they went they were decided in my favor.

Senator O'GORMAN. Are you doing business with any of those banks which refused to give you credit then?

Mr. LONG. No, sir.

Senator WEEKS. Did the United Shoe Machinery Co. have an account with the Atlantic National Bank at this time?

Mr. LONG. I do not think so.

Senator WEEKS. You do not know whether it did or not?

Mr. LONG. No; I do not.

Senator WEEKS. Did it have any director on the board of directors of the Atlantic National Bank?

Mr. LONG. I do not know.

Senator WEEKS. Did anybody connected with the United Shoe Machinery Co. own any stock in the Atlantic National Bank?

Mr. LONG. I do not know.

Senator WEEKS. Did the United Shoe Machinery Co. have a deposit in the New England National Bank?

Mr. LONG. I do not know.

Senator WEEKS. Did anybody connected with the United Shoe Machinery Co. belong to the board of directors of the New England National Bank?

Mr. LONG. I think they did.

Senator WEEKS. Who?

Mr. LONG. I do not know, except from what the vice president said to me about the loan.

Senator WEEKS. You do not know who?

Mr. LONG. No.

Senator WEEKS. Did they own any stock of the New England National Bank?

Mr. LONG. I do not know.

Senator WEEKS. Did the United Shoe Machinery Co. keep an account with the Commonwealth Trust Co.?

Mr. LONG. I understand they did.

Senator WEEKS. Do you know whether it did or not?

Mr. LONG. I was told they did.

Senator WEEKS. Did it have any directors on the board of the Commonwealth Trust Co.?

Mr. LONG. I do not know that.

Senator WEEKS. Did they own any stock in the Commonwealth Trust Co.?

Mr. LONG. I do not know.

Senator WEEKS. Before Mr. Long leaves the stand I want to make a brief statement, and I would like to have him make any corrections in regard to it before he leaves, if there are any points he wants to raise.

This is an old story which he has brought to us relating to a controversy between himself and the United Shoe Machinery Co. I know nothing about its merits; neither do I know of any influences brought to bear by any large corporations to prevent their rivals from obtaining accommodations in banks. It is possible that such may have been done in some cases, but I see no evidence of it in the complaint he has made, but in regard to the First National Bank, I want to say the information Mr. Long has given the committee is, in my judgment, not entitled to any credit.

Mr. LONG. If you will allow me to interrupt you.

Senator WEEKS. Let me finish my statement, and then you may make any corrections you desire.

At the time to which he refers I was one of the directors of the First National Bank, and as I was here in Washington I knew nothing personally about this matter. Mr. Long was my opponent in the primaries last fall as a candidate for Congress and made his campaign against me because of my being on a board of directors with certain directors of the United Shoe Machinery Co.

At that time I naturally wanted to find out whether Mr. Long had any real grievance against the First National Bank, of which I was an officer, so I made inquiry, and I learned as a result of my inquiry that Mr. Long did apply for a loan at the bank, but he never had kept an account with it. He asked to open an account at the bank by making a loan. Ordinarily, when a man predicates opening an account by making a loan, there is hesitation on the part of the bank as to proceeding any further with him. In this particular case one of the vice presidents of the bank, Mr. Dimmell, did say to Mr. Long that he did not think his statement warranted the bank's loaning him money under such circumstances, and later on, after he had investigated Mr. Long and obtained a report upon his commercial rating, he was confirmed in that opinion, so that at another time when Mr. Long called at the bank and saw the president and asked to open an account and make a loan, the same reply was made to him, and that reply was made because, in the first place, Mr. Long had been engaged in business in Belchertown, Mass., and had made a pretty bad failure in his business, and, in the second place, he not only was manufacturing shoes and shoe machinery but he maintained a considerable number of stores. He manufactures and sells the Waldorf shoe. It constitutes a business with a good many strings to it, and it has not been the policy of the bank to loan money under those circumstances to any borrower.

But these replies made by the president and vice president of the bank were made without any consultation with any director connected with the United Shoe Machinery Co. or any other director. They were based entirely, in my judgment, on the merits of the case, and had no other motive whatever.

Mr. LONG. I would like to correct one statement made by Senator Weeks in regard to a failure in Belchertown. I did not make any

failure. The same company was in business in Framingham that was in business in Belchertown.

Senator WEEKS. I have always been told—I do not want to do you any injustice—that there were a number of people in Belchertown who lost money through your manufacturing industry there.

Mr. LONG. That was a political story.

Senator WEEKS. If so, I apologize, and would strike that from the record.

Mr. LONG. I did not come here to refer to my own troubles with banks. I came before this committee to say that in framing the bill the manufacturers and merchants should be considered in the framing of the bill that is to be enacted into law—manufacturers, merchants, and farmers. I think they need additional credit facilities more than the big industrial corporations and people connected with the stock exchange, who, in my opinion, have the first call on the money in the banks.

Senator WEEKS. That is a general opinion, I think.

Senator O'GORMAN. Are there any further questions? If not, Mr. Long, we will excuse you.

We will now hear from Mr. Vinson.

STATEMENT OF TAYLOR VINSON, ESQ., OF HUNTINGTON, W. VA.

Senator O'GORMAN. Mr. Vinson, state your full name, your residence, and business activities for the record.

Mr. VINSON. My name is Taylor Vinson; my residence is Huntington, W. Va.; I am a lawyer and interested in the coal business.

Mr. Chairman and gentlemen of the committee, I want to apologize for the presumption I have in appearing before your committee. There are some phases of this bill which is now under consideration which I have looked at from the practical point of view of the man who has most business with banks as a borrower, as it affects his own personal affairs. I think, in that respect I represent one of a very large and numerous class of business men.

I am encouraged to proceed with this statement I am going to make by reason of statements I have heard since I have been here, coming from different members of the committee. They foreshadowed what I have to recommend, and I would not be here, in view of the very great and continued criticism coming from such high and respectable sources against this bill if I did not have something, which, in my judgment, is better to offer as a substitute. I hope that will be a sufficient apology, Mr. Chairman, for taking up your time for a few moments.

In my study of the principles of legislation, which I had to do as a student of law, there are two or three fundamental precepts which, if followed, ought not to lead any legislative body very far astray. There are one or two also which I would like to read, and which I think are axiomatic.

One is that the supply of currency is a governmental function and not a private function. I lay that down as a principle which I will elaborate a little later. The exercise of a governmental function should never be committed to private persons having personal interests to serve. In other words, no judge should decide a case in which he is personally interested.

The central-bank plan, known as the Aldrich plan, and the regional-bank plan which is outlined in the bill before this committee are the same as far as this principle is concerned, and both these plans violate this principle. That is, the regional banks and the central bank are owned and controlled by private persons representing private rights and yet exercising the most sacred governmental functions.

Criticisms that have been directed toward the central-bank plan, as originated by ex-Senator Aldrich, so far as its being a private institution, governed and controlled by private individuals representing private stockholders, as being a most dangerous exercise of power over the supply of currency that is to be issued and controlled by a purely private institution—I say the argument is just as strong, if not more so, against the principle that a regional bank as provided for in this bill.

Those are two precepts, and I have another on the question of reserves. The necessity for reserves is to create primarily in the mind of the depositor the implicit confidence in the ability of his bank to return his money whenever he calls for it. To divert the bank reserves into the purchase of bills and notes by the reserve agent weakens and impairs that confidence and produces fears and apprehensions that, at times, necessarily lead to panics.

In other words, reserve money if diverted and spent for other purposes, however redeemed, ceases to be reserve.

Along that line and carrying out that idea, Mr. Chairman, I have prepared a bill which, if I had the honor of being a member of this committee, when the committee got into executive session, I would move to substitute for the bill now before you.

I will state the principle of this bill very briefly. It is to create a currency department of the Treasury of the United States. That currency department would be, for the sake of convenience, called a Treasury bank. I used that term because I did not think of anything more appropriate. That Treasury bank would be governed and controlled entirely by a board of governors composed of seven members. Of course six of these members would be appointed by the President; and the Secretary of the Treasury, by reason of his affiliation with the business, would be *ex officio* a member of the board but not the chairman.

These members would be appointed for periods of 12 years—I mean the 6 members. That is, the first appointment would be two for 4 years, two for 8 years, and two for 12 years, so that no President, even if he might have the mind to do so—which I feel sure he would not—could put in different persons on the board—persons affiliated with any particular political party; he would be unable to do that.

This would be a board of governors, each of whom would have necessarily as a qualification an intimate knowledge of banking conditions, but yet be entirely divorced from banking or any banking interests, whether as a director or stockholder. This board would be as strong and as great in character and in ability to discharge the functions that they would be called upon to discharge as you find in the character and ability of the members of the Supreme Court of the United States to discharge the duties that they are called upon to discharge. It would not be influenced by any personal considera-

tions whatever. In other words, it would have a new form along the very particular lines of an interstate commerce commission, vested, however, with very much greater responsibilities and requiring a more conservative exercise of judgment.

Now, then, if that board were created, and we had this bank, if you please, which is simply another name for that part of the Treasury Department; we will call it a Treasury bank, because under that name this department would exercise its functions. Then, if any bank in the country, whether National or State bank, desired the privilege of rediscounting any of its commercial paper, or I might say short-time paper, it would make its application to this board of governors along the same lines as provided in this bill, the same as would apply to the regional bank. The application would not be made directly to the board of governors, would establish State offices, if you please, in each collection district of the United States, if it was necessary to accommodate the local banks, and they would use the internal-revenue collector for that particular district as their representative and agent, and he would be under their direction. So that when an application came it would go first into his hands, and then, having the supervision of the income tax and the excise tax on all corporations in his territory, he would have practically a credit statement showing the individual credit of most men and most makers and indorsers of paper that would come before him for action.

Senator WEEKS. What you propose is to make a separate bank in the Treasury Department, which shall, essentially, be a central bank under Government control?

Mr. VINSON. Absolutely.

Senator WEEKS. That is your proposition.

Mr. VINSON. That is it.

Senator WEEKS. Without going into details?

Mr. VINSON. Without going into details. It is necessary to go into a few details, so that these details may be contrasted with the provisions of the bill before you.

Senator HITCHCOCK. Where does the bank get the money it is to loan?

Mr. VINSON. The Treasury bank?

Senator HITCHCOCK. Yes.

Mr. VINSON. Well, in the first place, it would be authorized, directly, to issue notes—to issue Treasury bank notes. The bonds that are now held by the Treasury to secure the circulation of the national banks would be reissued and turned over to this Treasury bank as 3 per cent bonds instead of 2 per cent bonds, and then all the national banks, and all other banks having national-bank notes, would simply send those notes to the Treasury bank, and the Treasury bank would issue those notes, and in that way you would have a retirement of your national-bank notes, the payment of which is secured by the \$725,000,000 of bonds, 3 per cent bonds instead of 2 per cents, with the right of the Treasury bank to pledge these bonds at any time the gold reserve might run low.

Senator HITCHCOCK. The \$700,000,000 of national-bank notes would be supplanted by \$740,000,000 of Treasury notes to begin with—United States notes?

Mr. VINSON. Yes, sir. Back of those Treasury notes would be the same amount of United States 3 per cent bonds.

Senator HITCHCOCK. They would all be outstanding?

Mr. VINSON. They would all be outstanding.

Senator HITCHCOCK. As the bonds came in, where would the Treasury bank get the additional funds to lend?

Mr. VINSON. Well, I have not yet reached that point. I wanted to explain how the bill will mathematically retire all bank notes, and silver certificates and gold certificates, so that the whole country will have but one character of paper money.

Senator O'GORMAN. Do you provide for the retirement of the greenbacks?

Mr. VINSON. Yes, sir.

Senator WEEKS. Before you go on with that, I want to come back to your original premise. On what do you base your statement that it is a Government function to issue circulation?

Mr. VINSON. I base it upon the criticisms that were offered by the friends of the present measure against what we call the central-bank idea of the Aldrich measure.

Senator WEEKS. Is there anything in the Constitution or in the practice of nations which warrants any such conclusion?

Mr. VINSON. I do not know that it would be a constitutional requirement.

Senator WEEKS. But it is a constitutional requirement for the Government to coin money.

Mr. VINSON. I mean that would oblige the Government to keep to itself the sole power of regulating the currency.

Senator WEEKS. Is there anything in the practice of other Governments which warrants the conclusion that it is a governmental function to issue circulation?

Mr. VINSON. I think the practice of other Governments is directly to the contrary.

Senator WEEKS. You want to throw away the experience of the world and adopt something new?

Mr. VINSON. I would like to throw away the experience that would not be applicable to our own country. A great deal of stress has been laid by the friends of the Aldrich plan upon the fact that the banks of England, Germany, and France have been controlled along parallel lines to the proposed Aldrich bank so successfully for such a long period. That is the precedent which the lawyer would call it, that he sites in support of his proposition. But the conditions are so very different there from what they are here that the precedent ceases to be a precedent upon analysis.

Now, I have no doubt that the people of England and the Governments of these various countries feel that the Government, as such, must retain every particle of the credit that it has, so that it may, on extremely short notice, be able to use all that credit and raise a tremendous war fund, and that the people, knowing that fact, have more confidence, in all probability, in the stability of these banks of issue than they would have if the Government stood back of them. That is not our condition.

Senator NELSON. Your idea is to retire the present national bank notes by substituting 3 per cent bonds for the 2 per cent bonds, and having the Government keep those 3 per cent bonds as a basis for this new circulating medium?

Mr. VINSON. As a basis rather of redemption. In other words, the bonds would only be let out whenever the notes which the Government issued to retire the national-bank notes were presented for payment.

Senator NELSON. Would you measure the quantity of the notes by these new 3 per cent bonds?

Mr. VINSON. I think you would measure the quantity the same as now.

Senator NELSON. Would you not still have this bond-secured currency to that extent? You would have a currency based on 3 per cent bonds instead of 2 per cent bonds?

Mr. VINSON. Yes; that would be it, substantially.

Senator WEEKS. How can you redeem a note with a bond?

Mr. VINSON. You would get one with a bond.

Senator WEEKS. How?

Mr. VINSON. By selling it.

Senator WEEKS. To whom are you going to sell them?

Mr. VINSON. I think anybody would buy them.

Senator WEEKS. Any time anybody came with a note to redeem, you would sell the bond?

Mr. VINSON. Certainly not. I take it the governors of the bank always have on hand a sufficient quantity of gold to meet all requirements.

Senator WEEKS. Have you provided for that?

Mr. VINSON. Absolutely. I would give the governors the power to sell the bonds—

Senator NELSON (interposing). You would have the currency redeemable in gold?

Mr. VINSON. Absolutely.

Senator NELSON. And made a legal tender?

Mr. VINSON. Absolutely. My idea is this: That any currency—that is, the currency ought to be just as good as gold, under any and all circumstances. I think the very idea of the expression “lawful money” used in this bill is bad. The idea of having any money that is not lawful money, paying debts with it and using it in our every-day affairs, using money that is not strictly speaking lawful money, is a bad idea.

Senator NELSON. I am asking simply in order to get some light on your proposition. Now, beyond the circulation that would arise from the conversion of the 2 per cent bonds to 3 per cent bonds, what would you base that other extended circulation on, the circulation beyond that?

Mr. VINSON. For the discount of the notes?

Senator NELSON. Well, if you issued more circulating notes than would be covered by these new 3 per cent bonds, what would you base those on?

Mr. VINSON. You would not issue any more than were covered by the 3 per cent bonds and these notes would have back of them precisely the same governmental guarantee which they have now.

Senator NELSON. You would have Government bonds as the basis of that currency?

Mr. VINSON. Oh, to be sure. The faith of the Government would be back of all the note issues.

Senator NELSON. How could you get elasticity in the currency?

Mr. VINSON. Very simple. As a bank would borrow money, or rather, rediscount it at this Treasury bank by the approval of the board, it would take notes that would mature inside of 120 days out of its own portfolio and have them discounted, and when those notes were paid the money arising from the payment of the note would go into the Treasury bank again.

Senator NELSON. Then, unless you provide the Treasury with a special discount fund, the Treasury would simply discount this paper by issuing more currency?

Mr. VINSON. It would.

Senator NELSON. So that really you provide, in addition to this bond-secured currency, more currency, based upon the paper discounted.

Mr. VINSON. Asset currency.

Senator NELSON. Go on and give us the rest of your plan.

Mr. VINSON. That is the plan, in a very few words; so that at no time could any individual or any section, or any bank, have any other feeling, so far as the currency supply is concerned, than a feeling that they had been exactly and justly dealt with.

Senator HITCHCOCK. How much would you allow a bank to rediscount?

Mr. VINSON. Forty per cent.

Senator HITCHCOCK. Of what?

Mr. VINSON. Of their loans and discounts.

Senator HITCHCOCK. How do you arrive at that particular feature?

Mr. VINSON. Forty per cent?

Senator HITCHCOCK. Yes.

Mr. VINSON. Well, I took up the idea and made some little investigation about it and found that, generally speaking, particularly among country banks, they would have 40 per cent of what you might call loans that would certainly be paid upon maturity. I called upon the banks at home in order to get that figure. I do not mean to say that is accurate at all, but in order to prevent an inflation of the currency there should be a limit of the amount of discount that any bank may secure.

Senator HITCHCOCK. Then, of course, the more the bank extended its loans, the greater its ability would be to secure currency from the Treasury?

Mr. VINSON. That would naturally follow, just as in the bill before you the more loans the bank would have the more capacity it would have to secure Treasury notes.

Senator HITCHCOCK. Would it not be safer and more conservative to place a limit on the bank's capital rather than on its action in inflating its loans?

Mr. VINSON. As the loans would mature the primary basis of the money to be secured on them would be better.

Now, then, there is another change which it seems to me is particularly desirable. I would reduce the reserves from the 25 per cent now required, and the 15 per cent now required—reduce them down to 10 per cent; 5 per cent of that reserve would be deposited with the Treasury bank and the other 5 per cent would be required to be kept in the vault of the bank.

Senator HITCHCOCK. Suppose a bank had taken out bills to the full limit, and, in the first place, had loaned out all of its loanable

funds, so that its reserve is down to the danger line, and then it procured 40 per cent additional currency, to extend its outstanding loans, and suppose, when it was unexpected, there would be a run on it; what would you do?

Mr. VINSON. It would be limited to 40 per cent at any one time.

Senator HITCHCOCK. Take a hypothetical case of a bank which has \$100,000 capital and a million dollars of loans. That is possible; they sometimes run as strong as that. Suppose such a bank, having loaned to its limit, should go to the Treasury and secure \$400,000 of currency and loan that out, so that it would have \$1,400,000 of loans outstanding, and then suppose its depositors began a run on it so that it was pretty well extended. What would that bank do to protect itself?

Mr. VINSON. In the first place, it would have its reserve to start on, in the Treasury bank.

Senator HITCHCOCK. Of course, but you say it would be only 15 per cent. It would still have 85 per cent of its depositors to pay, if they all came in at the same time.

Mr. VINSON. Where there is a threatened run on a bank it can use all of its other assets to borrow additional money in order to stop that run if in the judgment of the governors it is entitled to it.

Senator HITCHCOCK. It has exhausted its resources and the Treasury would extend its loans?

Mr. VINSON. Yes, sir.

Senator HITCHCOCK. Suppose it finds itself in a weak position, and its depositors get into a panic. Having exhausted its resources, how can it protect itself from its depositors?

Mr. VINSON. It has the other 60 per cent, together with this 10 per cent of reserves.

Senator HITCHCOCK. It can not discount those.

Mr. VINSON. I know. I have a section covering that, so that when a bank run is threatened or started upon a bank the Treasury board—I mean the board of governors of the Treasury bank—may come to its rescue, if in their judgment it is entitled to the credit.

Senator O'GORMAN. You would call that an emergency fund?

Mr. VINSON. Absolutely for an emergency, and the board of governors would exercise their discretion as to whether it should have aid or not.

Senator O'GORMAN. Do you think it is prudent to allow the privileges of rediscount in order to enable a member bank to extend its line of loans, or should the advantages of rediscount be restricted only to the procuring of money with which to pay depositors?

Mr. VINSON. Senator, I think that, to a certain extent, and I might say a limited extent, the bank ought to have the power to get additional money, provided always that it has paper—I mean bills and notes—in its vaults that have maturities running from 20 to 30 to 40 or 60 days up to 4 months that will surely be paid at maturity.

Senator O'GORMAN. Is that not always subject to the danger of inflation?

Mr. VINSON. It can only be an inflation for 4 months at the outside, and the inflation settles itself. It redeems itself.

Senator O'GORMAN. Going back for a moment, you suggested substituting 3 per cent bonds without the circulating privilege?

Mr. VINSON. No circulation would be required.

Senator O'GORMAN. It would simply be a 3 per cent investment?

Mr. VINSON. That is it.

Senator O'GORMAN. Do you think that is a sufficient rate of interest in these times, even for a Government security—3 per cent?

Mr. VINSON. Of course those bonds and the interest arising from the bonds would be nontaxable, nor would the interest on the bond itself be subject to the income or inheritance tax; but I think bonds of that kind would command a premium.

Senator O'GORMAN. Do you really think so?

Mr. VINSON. Yes; I do. They are practically commanding a premium now.

Senator O'GORMAN. The 3 per cent bonds?

Mr. VINSON. I think so.

Senator HITCHCOCK. They are about par.

Mr. VINSON. About par? I think I saw them quoted at 101.

Senator McLEAN. I think they have been quoted at 99.

Mr. VINSON. The last quotation I saw was 101.

Senator O'GORMAN. Do you not think the normal trend in the future for the interest rate will be upward rather than downward?

Mr. VINSON. That depends on the supply of money.

Senator O'GORMAN. Having in mind our experience in recent years, the trend has been upward?

Mr. VINSON. That is because the business has grown faster than the money, and, of course, as greater capital demands are made, naturally that increases the rate which business has to pay for its capital. You take the best railroads in the country to-day, and it is very hard for them to get money under 7 or 8 per cent. Four or five years ago, until this tremendous capitalistic demand was created by the growing business of the country, they could get money for 4½ or 5 per cent.

Senator O'GORMAN. Yes; and some of the best city bonds are now being sold at 4½ per cent?

Mr. VINSON. Yes.

Senator O'GORMAN. But nevertheless you feel confident that the 3 per cent bond would maintain its value at par?

Mr. VINSON. I think so, judging from past experience, Senator. I do not believe there would be any doubt about it.

Senator HITCHCOCK. Returning now to this incident of a bank with a million dollars of loans, which, on the strength of its loans has secured \$400,000 of currency, or 40 per cent from the Treasury; then its loans amount to \$1,400,000. Now, then, would it be entitled to an additional 40 per cent on the \$400,000?

Mr. VINSON. Certainly not. It would not be entitled to any more loans until those loans had been paid off and the money arising from them was all sent back to the Treasury Department. You would have a continuing redemption.

Senator HITCHCOCK. You would just allow it to make one loan?

Mr. VINSON. No; I would give it credit for 40 per cent.

Senator HITCHCOCK. This additional \$400,000 would entitle it to an additional credit of \$160,000?

Mr. VINSON. Not at all.

Senator HITCHCOCK. It is commercial paper.

Mr. VINSON. But you would base that on its deposits out, and it may be when it was running up to its full limit; then all that would have to be retired and paid before it would be eligible for another loan.

Senator HITCHCOCK. Just allow it one loan?

Mr. VINSON. Just allow it one loan up to 40 per cent.

Senator O'GORMAN. You would give it 40 per cent practically all the time?

Mr. VINSON. Yes; 40 per cent practically all the time, at the time when they required it.

Now, if the paper which was pledged or sold to secure that credit was all paid, there is no reason why, if it has sufficient satisfactory paper in its vaults, that another 40 per cent credit might be added to it at the time the loan was paid back.

Senator HITCHCOCK. Let us make it specific. On January 1 the bank has a million dollars of commercial paper. It applies to the Federal Treasury and gets \$400,000 of currency and that exhausts what it is entitled to on its commercial paper?

Mr. VINSON. Yes, sir.

Senator HITCHCOCK. Five days after that it comes to the Treasury, and as I have here \$400,000—I have now \$400,000 of commercial paper.

Mr. VINSON. Yes.

Senator HITCHCOCK. No; at that time it would have——

Mr. VINSON. It would not have that \$400,000.

Senator HITCHCOCK. Well, I will restate that. On the 1st of January it has \$1,000,000 of loans and applies to the Treasury and secures \$400,000 of currency. As security for that currency it puts up \$400,000 of commercial paper, leaving \$600,000 of commercial paper in its vaults, but exhausting its right.

Mr. VINSON. Yes.

Senator HITCHCOCK. It thereupon loans out this \$400,000 of currency and secures \$400,000 more of commercial paper, bringing its commercial paper up to \$1,000,000 again. Would not it then be entitled to another \$400,000 of currency?

Mr. VINSON. I do not think so, Senator, under the plan.

Senator HITCHCOCK. Well, you have to guard against that.

Mr. VINSON. They would hold the securities, I think, in there. I think it would be limited to the 40 per cent.

Senator O'GORMAN. Have you prepared a bill?

Mr. VINSON. Yes, sir; I have prepared a bill to that effect.

Senator HITCHCOCK. There is something in your suggestion; but I think the standard has got to be the capital of the bank.

Mr. VINSON. Well, I figured the other way—on the loans and discounts.

Senator HITCHCOCK. You would put a premium upon risky banking. The conservative way to figure it would be upon the actual cash capital of the bank, and not upon the paper the bank is manufacturing.

Mr. VINSON. That may be a good way to do. I had running in mind, however, the loans and discounts.

And on the matter of reserves, a great deal has been said about reserves; and going back to my primary principle, if you please, a reserve that is used for other purposes than a reserve ceases to be a reserve. That follows necessarily. Just as to-day the reserves that

the country banks send to their New York reserve banks under the existing system, those banks are practically compelled to use those reserves and not keep them there.

Senator HITCHCOCK. Five per cent of them.

Mr. VINSON. Yes. I say that it is a business necessity that they must be used. And the very minute they lend that money out, whether it is on a stock-exchange collateral, or on time paper, or whatever they do with it, it then ceases to be a reserve. And it is that fact, if you please, Senator, that creates in the minds of most bankers that apprehension, that dread, that fear that—

some time in the next month, or two or three months, we will have a money squeeze, and if we do, I had better be looking out about my reserves, because I know to-day that they are not in existence.

Now, it seems to me that that is one fault, if not the great and chiefest fault, of our existing system.

Senator HITCHCOCK. You do not mean to have the bank keep them all in cash, do you?

Mr. VINSON. I would keep it in cash; one-half of it in the bank itself for its daily uses. I would have it keep that much more over its daily uses. Of course, it would have to deposit a lot of other cash in its correspondents, to take care of its business. And yet I would keep in the Treasury always a 5 per cent reserve, available any minute.

Senator HITCHCOCK. What would the Treasury do with it?

Mr. VINSON. They would simply hold it as a basis of its own circulation, if you please. I would have that paid in 1 per cent a month, for 18 or 20 months; have it paid in there as a permanent reserve fund.

Senator HITCHCOCK. You mean as a basis for circulation?

Mr. VINSON. I mean as a basis for the notes it issued to the banks that applied for them.

Senator HITCHCOCK. You mean in case they are presented for payment?

Mr. VINSON. Yes; in case they are presented for payment. A portion of that reserve, or a small portion of that reserve, might be used.

Senator HITCHCOCK. Would not the Treasury be doing exactly what you object to the New York banks doing, using the reserves of those banks?

Mr. VINSON. That is true; but it will be limited to using a very small portion of the reserves. The very fact, however, that the gold is there will create in the minds of the people into whose hands the notes go a confidence and a belief that they are safe.

Senator HITCHCOCK. What portion of it would you allow the Treasury to use?

Mr. VINSON. From 1 to 2 per cent of it. The very fact that it is there, however, and available for the use of the bank is a creator of the confidence that is necessary in the conducting of the banking business.

So, I think, that our experience along that line should justify a position that would be against the diversion of reserves by the banks as they exist—and also the same practice that is now proposed to be perpetuated in the bill that is now pending.

In other words, the regional banks will lend out the banks' reserves for the district in which it is located.

Senator HITCHCOCK. Only two-thirds of it.

Mr. VINSON. Two-thirds of the reserves?

Senator HITCHCOCK. Yes.

Mr. VINSON. Well, that would be subject to control, would it not?

Senator HITCHCOCK. No; the banks are required to keep a reserve themselves of $33\frac{1}{3}$ per cent, which means that they are permitted to lend out a maximum of $66\frac{2}{3}$ per cent of their reserves.

Mr. VINSON. Of their reserves? That is what I thought. They would lend out two-thirds of the reserves that are put in there, and upon which the banks would have to depend to be used in a case of emergency.

Now, I want to point out, or make some contrast—

Senator HITCHCOCK (interposing). Well, of course, in case of emergency, those individual banks can always apply to the reserve bank, and the reserve bank can procure currency to meet an emergency.

Mr. VINSON. Yes; if it has got the gold.

Senator HITCHCOCK. Yes.

Mr. VINSON. If it has not got the gold it can not.

Senator O'GORMAN. Do you think an internal-revenue collector could as intelligently pass upon applications for rediscount as the officers of a regional bank, as provided for in this bill?

Mr. VINSON. I think, Senator, very much more so.

Senator O'GORMAN. Do you not think the average collector, under the new income-tax law, will have all he can attend to in performing the ordinary duties of his office, without imposing this additional burden upon him?

Mr. VINSON. I would think there should be; and my bill provides for an increase of his force, so that he would be at the head of the business that he has now to attend to.

Senator O'GORMAN. Your plan, then, would really impose upon an internal-revenue collector a substantial part of the banking system of the country, would it not?

Mr. VINSON. Only in getting information and passing upon the solvency of the paper that the banks have to offer; and also—

Senator O'GORMAN (interposing). Well, that is one of the two most important functions of the proposed bill, is it not?

Mr. VINSON. That is one of the functions that he would have to exercise, and he would have most of the information right in his office, by reason of his other duties.

Senator O'GORMAN. You, of course, recognize that the abilities that might qualify a man for internal-revenue collector might not furnish the necessary equipment for performing the duty that you would now assign to him?

Mr. VINSON. That may be very true. I say that might be very true, but the machinery to get at the information concerning the solvency and the desirability of the paper which the banks would offer for rediscount could be ascertained very much quicker by him.

Senator O'GORMAN. Do you not think that could be used to very much better advantage—and I can see that it could be used to advantage—by putting that information that an internal-revenue collector may have at the service of a regional bank, for instance, or the officers of a regional bank? They would be at liberty, under the law, to

make an examination of any returns that may be lodged in the office of the collector of the district.

Mr. VINSON. I can readily understand that, if the regional bank would establish in each State or in each collection district an agency for securing this information—

Senator O'GORMAN (interposing). For credit information?

Mr. VINSON. Yes; for credit information. Why, doubtless it could be done as well. It would have to be done, though, in connection with the internal-revenue collector's office; that is, to make it accurate.

Senator O'GORMAN. Yes.

Mr. VINSON. Now, it could be done, I think, very much more effectively if it was done under his direction, because he has already got most of the information in his office.

Senator O'GORMAN. You see, there is a sentiment prevailing in this committee largely, if not entirely, at the present time that the provision in the original bill making certain Cabinet officers members of the reserve board is unwise and will probably be rejected by this committee—if I may venture to say that much now—because of the belief that a Cabinet officer has all that he can attend to in looking after the business of his department, just as an internal-revenue collector has probably all he can attend to in looking after the affairs of his office. And men charged with the great responsibility—none greater, perhaps, under our system—of looking after the banking facilities of this country as contemplated by this bill or any similar bills will be required to be capable and big men, giving all their time—

Mr. VINSON (interposing). That is true.

Senator O'GORMAN (continuing). To those duties and to no other duties.

Mr. VINSON. I say that is true. The idea I had in making the Secretary of the Treasury a member of this board was not so much to exercise the same kind and character of functions as the other members of the board—I mean the same time and duty—but to have him be in touch with it.

Senator O'GORMAN. Yes.

Mr. VINSON. So that one could be interdependent upon the other.

Senator O'GORMAN. If you have your bill ready, we will have the stenographer insert it in the record.

Mr. VINSON. Thank you. Yes; it is ready.

(The proposed bill referred to will be found at the conclusion of Mr. Vinson's remarks.)

Senator NELSON. Let me ask you a question in that connection. In your system what change, if any, do you make in bank reserves?

Mr. VINSON. I reduce them; I reduce them from 25 to 10 per cent.

Senator NELSON. Yes; you reduce them. But would you still allow the reserves to be kept in reserve cities or central reserve cities, or would you have the reserves kept in the Treasury Department?

Mr. VINSON. Kept right in the bank.

Senator NELSON. You would reduce the reserves and have them all kept in the Treasury?

Mr. VINSON. I mean one-half of them.

Senator NELSON. And the other half in the vaults of the bank?

Mr. VINSON. Yes; the other half in the vaults of the bank.

Senator NELSON. Would you do away with reserve cities and central reserve cities?

Mr. VINSON. Absolutely.

Senator O'GORMAN. That would be your method of mobilizing and concentrating reserves?

Mr. VINSON. Absolutely. My own idea is that a reserve should be a real and an actual reserve.

Senator NELSON. And a protection for the depositors?

Mr. VINSON. And a protection for the depositors, and not a reserve that is represented only by a credit on some bank's books.

Senator O'GORMAN. Yes.

Senator NELSON. Loans and discounts?

Mr. VINSON. Yes; loans and discounts.

Senator NELSON. I see.

Mr. VINSON. Now, I want to contrast some of the provisions I have outlined with the provisions of the present bill.

Senator NELSON. Yes; I would be glad to hear you do that.

Mr. VINSON. I want to take up the difference between the board of governors that I have outlined and the board of directors of the regional banks, and let us see which one would probably, if not necessarily, do the simplest and fairest justice to all the banking interests and the industrial and commercial interests.

I will first take up the regional directors. There are six of these directors and that is a majority of—

Senator NELSON (interposing). Of two-thirds.

Mr. VINSON. Of two-thirds that will have the control of this bank. Now, to illustrate the criticism that I have to offer on the bill as now drawn—

Senator O'GORMAN (interposing). Is that not a modified control? It is all subject to the final supervision and control of the Federal reserve board here at Washington, is it not?

Mr. VINSON. I do not understand that the reserve board at Washington would pass, or assume to pass, on the judgment exercised by the board of directors of the regional bank on questions of discount, I mean on questions of rediscounting paper; I do not think they have any power to do that under the present bill.

Senator NELSON. Well, they would if it was the purpose to obtain currency. If the rediscount was for the purpose of obtaining currency by the regional bank, then the board would have a voice in the matter.

Mr. VINSON. I do not understand, Senator, that the reserve board would ever pass on the application of any bank for rediscount to the regional banks. I understand that that would be determined entirely by the board of directors of the regional bank. I mean—

Senator NELSON (interposing). You mean to the member banks?

Mr. VINSON. To the member banks, yes; that is what I am speaking of.

Senator NELSON. Well, the member banks can not draw currency except indirectly.

Mr. VINSON. Well, they can get credit, which is the same thing.

Senator NELSON. They have to apply to the regional bank for the currency.

Mr. VINSON. I understand. That is what I say, that the directors of the regional bank will pass upon whether it will allow me, as a banker, to get currency and rediscount my paper there or not.

Senator NELSON. Yes; you are right about that.

Mr. VINSON. And the reserve board will have nothing to do with that, except, of course, to furnish a general supply of currency that goes into the regional banks. But how that supply shall be distributed to the different banks in the different sections of that particular region is left exclusively to the board of directors of that bank.

Senator NELSON. Of the regional bank?

Mr. VINSON. Yes; of the regional bank, I mean.

Now, let me illustrate by what probably would be a fair example in the event that this bill becomes a law as it is now written.

The States of West Virginia, Virginia, Kentucky, Tennessee, Alabama, and Georgia would, in all probability, go into one region. Then in the organization of that regional bank there are six directors to be elected by the banks—in three groups. The three largest cities in that group would be Richmond, Va.; Atlanta, Ga.; and Louisville, Ky.

Each one of these groups would elect two directors. One would be a director of one of the banks and the other would be a friend.

The larger cities, controlling the money centers and having their correspondents all over the States, particularly that in which they are located, can concentrate the vote upon the man they would recommend, whereas in a State like Tennessee or West Virginia, that has no large city, the banks there would not know the people who had been offered or nominated by these large banks. And in that way each of these three large centers, if you please, both commercial and industrial and banking centers, would dominate necessarily the selection of these directors.

Senator NELSON. That might be possible as to six of them, but three of them—

Mr. VINSON (interposing). I am speaking of the six now, Senator, and I will come to the three a little later on.

Senator NELSON. Yes.

Mr. VINSON. Now, what is the result of all of that? Take, for instance, the group of the banks in Louisville, Ky., to illustrate the point I want to make. They select from among their number a director of one of their banks for class A. Then they select some friend, who is supposed to represent the industrial and commercial interests, under class B.

Now, of course, that will be a personal friend, necessarily, of that particular group of banks that will get together and combine their efforts, and they will secure the greatest number of votes in the district—I mean in that particular group in that district—just exactly as it will occur in Richmond, Va., and will occur in Atlanta, Ga.

In other words, with the influence of the large centers, why, they can say and will say, "We want our directors to be elected here, because we want men that we know ourselves." In other words, they will proceed upon the theory that "we want our friends in court," and it is perfectly natural that they should do that. Then, when they get their friends—

Senator O'GORMAN (interposing). If they can.

Mr. VINSON. Well, they can do it, because they have got more power, and they can concentrate.

Senator O'GORMAN. How will they have more power?

Mr. VINSON. They will have more power in this way: Take the banks in and around the larger cities and the small towns; they do their business in these large cities, and frequently the same parties that get a control of the larger banks in the city have shares of stock in a small way in a country bank, so as to tie the two together, rather, in a system and work in harmony. That is a characteristic all over that section of the country. You will find that the representatives—the cashiers and presidents, or some large stockholder—in a large bank will have his friends and his interests with the small banks, in order to get their business. It is rather a close corporation. It is a usual practice, and is a benefit to both of them.

Senator HITCHCOCK. Suppose they get the directions they want, what can they do with them?

Mr. VINSON. Well, let us see. Then the directors are installed. There are two there representing the interests of the bankers in Richmond, Va. There are two representing the interests of the bankers in Louisville, Ky. There are two representing the interests of bankers in Atlanta, Ga. There are none there to represent the interests of local banks, outside of a minority that would be appointed by this Federal reserve board.

Senator HITCHCOCK. Now, assuming that, what can they do?

Mr. VINSON. Let us see: The first thing they will do is to sit down and appoint a discount committee, composed, perhaps, of three members.

Now, that discount committee is the real governor of that bank; and, of course, they will appoint that committee out of their own number. Naturally, they will have the power to do it and will exercise that power. Every piece of paper that comes up there from any bank in those five or six States must meet the approval of this discount committee.

It must be remembered and kept in mind that each member of this discount committee—or, rather, one member of it, surely—is a director of a bank of his own, and the other two are so tied up with the banking interests, either as borrowers or as friends of the bank—they may be railroad presidents, for that matter, or they may be the heads of the largest manufacturing establishments of the country—yet they are great borrowers of large sums of money. In other words, those banks select their friends.

Then the question comes up of segregating and determining who shall have discounts at the bank and who shall receive favors, if they are not in a position to grant favors all around; and it is more than human nature could be expected to do, I think, to expect that those men will not grant their favors to their own cities.

Senator BRISTOW. There is no doubt about it.

Mr. VINSON. Do you think there is any doubt about that, Senator?

Senator BRISTOW. Not a bit.

Senator HITCHCOCK. What would you think of a provision that a member bank is as a matter of right entitled to discount to the extent of its capital stock, and no member bank shall have the right to discounts exceeding twice the amount of its capital stock, so as to limit the power of this board of directors?

Mr. VINSON. Senator, there is not any question in the world that it does and can mean nothing else. I know that there has been a lot of fear expressed by well-meaning people that the Federal reserve board and also the local board, although selected by banks, would be subject to political manipulation. I have no fear of that. But, Senator, the thing that I do fear is that they will be subject to and interested in business manipulation.

Senator O'GORMAN. What is your answer to Senator Hitchcock's question?

Mr. VINSON. I beg your pardon. Will you please ask the question again? I did not get it.

Senator HITCHCOCK. I say, what would you say to the proposition that the discretionary power of the board of directors should be so limited that any bank, being a member of the system, should be entitled to discount to the extent of its capital stock at any time on the presentation of paper that comes within the terms of the bill, and that no member bank should receive discounts in excess of twice its capital stock?

Mr. VINSON. Senator, if you are going to pass this bill along the lines on which it is drawn, it seems to me that your suggestion will be an absolute necessity.

Senator HITCHCOCK. Would you allow the board of directors some discretionary power?

Mr. VINSON. Naturally, I would allow them the discretion of saying what paper is good and what paper is not good. Of course they could use that discretion to the very great detriment of a section or a lot of banks which they do not want to favor.

Senator O'GORMAN. Would not Senator Hitchcock's suggestion be also valuable in minimizing the dangers incident to inflation and overexpansion, which might exist if there was substantially no limit upon the activities of the regional bank in extending credits?

Mr. VINSON. I think undoubtedly that it would be a most dangerous thing to do to leave the bill in the form in which it is now, which is that a bank may get a discount to an unlimited extent upon the paper which it has.

Senator HITCHCOCK. Now, another question. What would you think of having one rate of discount on paper up to the extent of the capital stock of a bank and a higher rate of discount if it goes above that in its discounts?

Mr. VINSON. I think that the rate of discount should be variable, so that if a bank had a disposition to extend to too great an extent its discounts it could be discouraged.

Senator NELSON. And check by a higher rate?

Mr. VINSON. Yes; checked by the higher rate.

Senator NELSON. Yes.

Mr. VINSON. In the bill I have prepared I provide that the board of governors shall regulate the rate, not less than 2 per cent and not more than 6 per cent.

Senator HITCHCOCK. Well, I think the rates ought to be the same to every member bank; and I am inclined to think that when a bank passes a certain amount in its discounts and still requires more, it ought to pay a higher rate for those discounts.

Senator NELSON. You will find in practice—as to having one uniform rate, if you had a dozen regional banks, or six or eight, you would find that it would not work in practice.

Senator HITCHCOCK. I mean to say that every regional bank must have the same rates for its member banks.

Senator NELSON. Yes; but we could not have the same rate for the several regional banks over the country.

Senator HITCHCOCK. Well, I want to approximate that at least by providing that the currency furnished the regional banks shall be furnished on the same terms to each of them.

Senator NELSON. Yes; that is right.

Senator O'GORMAN. Have you concluded your observations, Mr. Vinson?

Mr. VINSON. I simply wanted to point out, in a brief way, some other objections to the present bill.

One objection, and I think it is a very serious one, is that it will withdraw, by reason of the requirements under the bill that the bank shall pay 20 per cent of their capital into the regional banks—10 per cent at all events and probably 20—and in addition to that an average of about 8 per cent on all deposits—

Senator O'GORMAN (interposing). Five per cent.

Mr. VINSON. That is, in the—

Senator NELSON (interposing). Country banks.

Mr. VINSON. Yes; in the country banks. Nine per cent in the large banks, Senator, I think it is.

Senator NELSON. It will probably average about 8 per cent.

Mr. VINSON. I think it will average about 8 per cent.

Senator NELSON. That is after three years.

Mr. VINSON. Yes; I mean when the bank is really in running order.

Senator NELSON. Yes.

Mr. VINSON. Now, let us see just what that really means. That really means that, in round numbers, there would be something over \$100,000,000 on a 10 per cent basis, or \$200,000,000 on a 20 per cent basis; and for the sake of the power vested there, we will say the \$200,000,000 is withdrawn from the banking power of the country by reason of the assessments on their capital.

Now, in addition to that, there is withdrawn an average of 8 per cent on all deposits, which, in round figures, would be \$480,000,000 more.

Senator O'GORMAN. Of course, you think that would all possibly cause a contraction in the credit?

Mr. VINSON. Naturally.

Senator O'GORMAN. Yes. Now, suppose the contributions were not made until the time had arrived—or it was close to the time when the banks could begin the rediscount features of the bill, so that the two things would be simultaneously—the money paid in and the right to withdraw it?

Mr. VINSON. That was the very point I was coming to. I think (and I believe I have very good grounds for thinking) that the banks would be very reluctant to go into the discounting at all, and would only do so under compulsion.

Senator O'GORMAN. What would you think of a proposition requiring the national banks to contribute only 5 per cent of their capital, and allowing them to pay that 5 per cent in five payments?

Senator NELSON. Monthly payments—what would you say to that?

Senator O'GORMAN. Monthly, or perhaps a longer period, extending to a year or 18 months. Would not the withdrawals be so gradual that they would not perceptibly interfere with the credit of the country?

Mr. VINSON. If you would limit it to 5 per cent, I think that would be true. But when you are holding over these banks—every one of them—the prospect, and you might say the expectation, of a call for 10 per cent more—

Senator O'GORMAN (interposing). No; I say suppose the law provided for only 5 per cent?

Mr. VINSON. I mean, if you limit it to 5 per cent—that is, the amount of capital to be taken by the banks—and then do run it over a period of 18 to 24 months of course it would be withdrawn so gradually that it would not be the same shock to the business community.

Senator O'GORMAN. Would you say that that would create a sufficient fund for the regional banks to do business with?

Mr. VINSON. I think so.

Senator NELSON. What have you to say as to the number of regional banks?

Mr. VINSON. I do not know, Senator. If you are going to have regional banks at all, I do not see any objection to having four or five.

Senator NELSON. What about a dozen?

Mr. VINSON. Or a dozen.

Senator O'GORMAN. What about two dozen?

Mr. VINSON. Well, of course, you limit the power of the regional banks to do good by increasing the number. But you do more than that. There is an advantage to it, because you bring it down closer to the banks that need it; and these local banks will exercise more influence and be more independent the greater the number of regional banks.

Senator O'GORMAN. Well, if you had but four or five regional banks, each regional bank would have branches and agencies within its region.

Mr. VINSON. Yes; that is, I mean if you have competitive agencies located in the different localities, then I think two or three regional banks will be sufficient.

Senator O'GORMAN. Yes.

Mr. VINSON. They would have to do all their work through their local agencies everywhere and simply sit up there and pass upon those things.

Now, there is one other matter I want to call the attention of the committee to, and that is the character of the paper that is eligible for rediscount. I am constrained to believe that the authors of the bill allowed this provision to go in through oversight—that is, the kind of notes that are to be eligible for rediscount in the regional reserve banks.

According to this, and the definition is not clear, it says:

Upon the indorsement of any member bank any Federal reserve bank may discount notes and bills of exchange arising out of commercial transactions.

And then the bill undertakes to define what the term "commercial transactions" means.

That is, notes and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used or may be used for such purposes.

And then it limits definition as follows:

But such definition shall not include notes or bills issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities.

Now, I can not quite believe that the committee that prepared the bill really meant just what they have said in there, because if they did, it means that most of the transactions in the country—I mean the business transactions and the paper growing out of them, however solvent and safe it may be—are blacklisted; they are outlawed.

In other words, if I own stock in the bank and I want to sell that stock to some person, no matter how good their credit may be, he may say, "I will give you my note for it due in 90 days," and I am more than willing to do it.

The man who gives the note, the maker of the note, there is no question of his responsibility. I take that note to my bank and I want to get the currency to get it discounted. My banker looks at it and says, "You secured this note by selling your stock to Mr. Smith." I say, "Yes." He says, "Then I can not take it."

Senator O'GORMAN. I do not think it is necessary to dwell on that, because it was obvious that it was the design of the authors to confine the restriction to purely speculative transactions.

Mr. VINSON. Yes.

Senator O'GORMAN. And the committee, if I mistake not, will see that the verbiage of that provision is substantially changed, so that it will not operate to your prejudice in a case such as you now suggest.

Mr. VINSON. Yes. Well, I am very glad of that.

Senator BRISTOW. I unfortunately had to leave during a part of your statement, Mr. Vinson, but, as I understand it, you propose a Treasury bank, in substance?

Mr. VINSON. Yes, sir.

Senator BRISTOW. That shall exercise these functions of rediscount, and so forth?

Mr. VINSON. Yes, sir.

Senator BRISTOW. And that the evil that you think is incident to this bill in the organization of the boards of directors of the regional banks, and I agree fully with your ideas, would be entirely eliminated, because this Treasury bank, as you call it, would be governed by a board appointed by the President?

Mr. VINSON. Yes, sir.

Senator BRISTOW. And it would be a bank of rediscount?

Senator O'GORMAN. And of reserve.

Senator BRISTOW. And a bank of issue and a bank of reserve?

Mr. VINSON. Yes, sir.

Senator BRISTOW. And as a practical man you have no doubt but that the control, the vital control, of the regional banks will be by the big banks that have the largest number of country correspondents in the region?

Mr. VINSON. I think it is absolutely inevitable.

Senator BRISTOW. And any practical man can not have any other view about it, it seems to me.

Mr. VINSON. I do not think they could.

Senator O'GORMAN. Are there any other questions?

Senator NELSON. You had better leave your bill with the committee, Mr. Vinson. And I ask, Mr. Chairman, that the bill be printed in the record.

Senator O'GORMAN. Yes; it will be printed in the record.

Mr. VINSON. I want to extend my thanks for your courtesy, gentlemen.

Senator O'GORMAN. We are very much instructed by your suggestions.

(The bill referred to is as follows:)

AN ACT To create a Treasury bank, to provide an elastic currency, to afford means of selling or rediscounting commercial paper to provide 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 "Treasury bank act."

Sec. 2. There is hereby created an additional department of the Treasury of the United States, to be known as the United States Treasury bank, to be organized and vested with the powers and duties as hereinafter prescribed. It shall continue in existence until such time as Congress may determine by subsequent legislation. Under the name of "Treasury bank" it may bring and prosecute any suit in equity or action at law in any court of the United States within whose territorial jurisdiction any one of the defendants may reside, regardless of the amount in controversy, for the purpose of enforcing any claim it may have growing out of the provisions of this act. It shall be located in the city of Washington, D. C.

Sec. 3. The Treasury bank shall be under the control and direction of a board of governors composed of seven members. The Secretary of the Treasury shall be ex officio member of the board. The other six members shall be appointed by the President, by and with the advice and consent of the Senate. Two members of the board shall be appointed for the term of 4 years and two for the term of 8 years and two for the term of 12 years, and thereafter all appointments of members of the board shall be for a period of 12 years, except appointments to fill vacancies shall be for the unexpired term only. Not more than three of the board to be appointed by the President shall at any time during their term be members of the same political party. The appointed members of the board shall receive a salary of \$12,000 per annum, and the Secretary of the Treasury shall receive a salary of \$4,000 per year for acting as member of the board. From among their number the board shall from time to time select a chairman. The board is hereby authorized and directed to appoint a secretary and such agents, representatives, and employees as may be necessary in executing the provisions of this act. The board shall prescribe the duties and fix the compensation for all persons appointed or employed by it. All appointees and employees of the board shall hold their positions only during the pleasure of the board. The board is hereby empowered to establish all rules, regulations, and conditions for the purposes of carrying out and enforcing the provisions of this act. The members of the board appointed by the President shall devote all their time to the duties herein imposed and shall have no pecuniary interest in any banking institution subject to this act during the time they are acting as such members. At least three members of the board shall have had a banking experience prior to their appointment. The board shall cause to be kept a record and books of account of all their transactions and proceedings. The board shall provide suitable offices in the Treasury Building if practicable, and if there should not be accommodations in that building then as near thereto as may be. Any member of the board may be impeached for incompetence, neglect of duty, drunkenness, or gross partiality

in favor of or against any bank or group of banks, or locality, in the administration of this act. Such impeachment proceedings shall be the same as proceedings for the impeachment of Federal judges, and during the time the impeachment is pending such member of the board shall be suspended and prohibited from acting as a member of the board.

SEC. 4. The Treasury bank shall be the custodian and depository of all Government moneys and funds, which shall be drawn upon by check or draft to meet governmental expenses and appropriations, under rules and regulations to be prescribed by the Secretary of the Treasury: *Provided, however,* That all Government deposits in national banks at the time this act goes into effect may remain with such banks until such time as the Secretary of the Treasury may determine. Government revenues as collected may be deposited with the Treasury bank at its State offices, under rules and regulations to be prescribed by the board. The board is hereby empowered to use the office of the collector of internal revenue for each district as a State or local agency, and the collector of each district shall be under the control and direction of the board, in aid of executing this act. The board shall prescribe the compensation to be paid the collector.

REDEMPTION OF EXISTING NOTES.

SEC. 5. All national banks shall, as soon as practicable after this act takes effect, transmit to the Treasury bank all the notes of national banks and all the notes and certificates issued by the United States, except gold certificates, which they may have or thereafter acquire, and shall receive therefor an equal amount of the notes of the Treasury bank in such denominations as the national banks may designate.

SEC. 6. The Treasurer of the United States shall turn over to the Treasury bank all the bonds deposited by national banks to secure circulation, and thereupon the obligation of national banks to redeem their outstanding notes in specie shall cease and determine, but said banks may redeem their outstanding notes in Treasury bank notes. The Treasury bank shall redeem all national-bank notes on demand either in gold or with its own notes at the election of the holder of the national-bank notes. Upon application of the board the Secretary of the Treasury shall issue 3 per cent bonds of the United States in exchange for 2 per cent bonds at par. The interest on the bonds to be issued shall be payable semiannually and the principal in 25 years, both principal and interest payable in gold. The bonds so issued shall become the property of the Treasury bank and may be pledged or sold from time to time to provide specie when required for redemption purposes. The Treasurer of the United States shall determine the premium on bonds deposited to secure circulation, based on the average market value of such bonds for the year 1912, and shall pay such premium to the banks depositing the bonds, and shall also refund to the national banks the 5 per cent heretofore retained to cover expenses of redemption.

SEC. 7. Any holder of notes or certificates heretofore issued by the United States in any form or denomination, or of gold coin or gold bullion, may deposit the same with the Treasury bank and receive therefor the notes of the Treasury bank in like value and amount. All notes and certificates heretofore issued by the United States coming into the Treasury bank shall be redeemed by the Treasury of the United States by paying to the Treasury bank the specie therefor according to the tenor thereof and in compliance with existing law for such redemptions. The notes and certificates redeemed as in this section provided shall be canceled or destroyed.

SEC. 8. After this act becomes operative no notes shall be issued by national banks, nor shall the United States Treasury Department issue any notes or certificates to be used as a circulating medium. Any notes issued by State banks, trust companies, or State banking institutions, intended as a circulating medium, shall pay an annual tax of 10 per cent on the par value thereof to the United States. The issue of notes or certificates intended as a circulating medium shall hereafter be limited to the Treasury bank. And all notes issued by the Treasury bank shall be redeemed in gold, on demand, either by the Treasury bank or the United States Treasury at the election of the holder thereof.

SEC. 9. The United States Treasurer shall pay to the Treasury bank in gold the principal and interest of the bonds delivered to the Treasury bank as the same become due and payable, after deducting any sums which the treasurer may have paid in redemption of national-bank notes.

PURCHASE OF SECURITIES FROM BANKS.

Sec. 10. It shall be the duty of the Treasury bank to purchase negotiable notes, acceptances, and bills of exchange from national banks and pay therefor its own notes issued for that purpose upon the following terms and conditions, viz:

(a) The amount of such securities which may be purchased from any national bank shall not at any one time exceed 40 per cent of the loans and discounts of the bank selling the same; and

(b) The maturity of the securities purchased under this section shall not be for a longer period of time than 120 days from the dates of their purchase; and

(c) All such securities shall be approved by a majority of the board of governors of the Treasury bank. The board may for any reason reject any security so offered for sale; and

(d) All securities purchased hereunder shall be indorsed by the bank offering the same, authorized and directed by resolution of the board of directors of said bank. Such indorsement shall constitute a first lien upon all the assets of the bank as a security for the payment of the paper so indorsed at its maturity; and

(e) Upon default in the payment of the purchased security when it is due and payable, the governors of the Treasury bank may direct the Comptroller of the Currency to take possession of said bank and all its assets, and forthwith collect therefrom a sufficient sum to pay any such defaulted paper, unless the indorsing bank shall pay the same to the Treasury bank in the same manner as if there had been no default; and

(f) Upon all securities purchased the Treasury Bank shall charge a discount fee of not less than 2 per cent nor more than 6 per cent per annum of the principal and accrued interest, to be deducted from the proceeds arising from said sale, the residue of such proceeds to be transmitted to the order of the selling bank in the notes of the Treasury Bank; and

(g) The funds arising from the payment of the securities purchased shall be forthwith returned in currency to the Treasury Bank, which when done shall release the indorsing bank of its obligations assumed by virtue of its indorsement; and

(h) The board of governors of the Treasury Bank shall cause such independent examinations to be made of the national banks and the securities offered and owned by them from time to time, as in their judgment may seem expedient.

STATE BANKS AND TRUST COMPANIES.

Sec. 11. Any trust company or banking institution organized under the laws of any State or Territory of the United States, having a paid up and unimpaired capital of not less than \$25,000, may avail itself of the provisions of section 10 of this act and sell to the Treasury Bank negotiable notes, acceptances, and bills of exchange owned by it upon the same terms and conditions applicable to national banks.

Sec. 12. From the sums arising from the bond-interest payments provided for in section — and the discount on purchased notes provided for in sections 10 and 11, and interest paid on deposits in banks, section —, the board of governors shall pay the cost and expense of executing the provisions of this act, and the interest on sums deposited with it as reserves, as required in section —, and the residue of its income shall be credited to the United States at annual periods.

Sec. 13. Each national bank shall keep an available cash reserve of not less than 5 per cent of its deposits in its bank and not less than 5 per cent of its deposits with the Treasury Bank. Deposits of reserves with the Treasury Bank shall be in gold and may be made in five equal instalments of four months each after this act takes effect. Reserves required by the law now in force shall not be reduced below 15 per cent until the full 5 per cent has been deposited with the Treasury banks. The reserve shall only be used in emergencies to meet the demand of depositors, and shall be subject to call by the bank owning the reserves with the approval of the board of governors of the Treasury Bank.

Sec. 14. The board of governors of the Treasury Bank may, in their discretion, advance notes of the Treasury Bank to any national bank or trust company or State banking institution in an amount sufficient to meet a run upon said banks

or trust companies by its depositors, whenever in the judgment of said board such bank or trust company is perfectly solvent. But the board of governors shall only issue such Treasury Bank notes upon ample and easily convertible security to be approved by the board.

SEC. 15. The board of governors may authorize the Treasury bank to deposit with national banks, State banks, or trust companies any Government funds not required to meet current demands. Such deposits shall be secured by bonds of the United States, or State or municipal bonds, delivered to the Treasury bank for that purpose. Not more than 75 per cent of the par value of State or municipal bonds so delivered shall be deposited with the applicant where such bonds are offered as security. Such deposits may be withdrawn at any time by the Treasury bank upon giving 20 days' notice of its intention so to do. The board of governors in determining the banks to receive such deposits shall be governed as far as practicable by the currency requirements in the different sections of the country. The bank receiving such deposits shall pay to the Treasury bank interest at the rate of 3 per cent per annum. As additional security for the repayment of such deposits, the Treasury bank shall have a first lien upon all the assets of said banks.

SEC. 16. The board of governors may establish branch offices of the Treasury bank in each of the States and Territories of the United States where the conveniences of the banks located in that State or Territory may require, and prescribe rules and regulations for the management of said offices.

SEC. 17. Banks and trust companies desiring to sell securities to the Treasury bank, as provided in section 10, shall make application therefor upon blanks to be furnished by the board of governors, specifying in detail the kind of security with names of makers and indorsers and date of maturity, and upon receiving such application the board shall send a representative forthwith to examine said bank and the securities offered, who shall report to the governors. For the purpose of making the investigation the board may designate any regular bank examiner who is available. The Treasury bank may keep at any branch office a sufficient amount of its own notes or Government funds to facilitate the delivery of proceeds of purchased securities to the bank selling the same.

SEC. 18. The governors shall publish a weekly statement of the transactions and condition of the Treasury bank, and make a report to the Senate and House of Representatives every six months, and at such other times as either may request.

SEC. 19. The board of governors may authorize national banks to establish branch banks in foreign countries, under such requirements, rules, and regulations as the board may prescribe.

SEC. 20. The board of governors shall prescribe the form, size, and denomination of all Treasury bank notes to be issued hereunder, and may exchange new notes for notes that are mutilated or soiled. All notes issued by the Treasury bank shall be a legal tender, and accepted in payment of all debts, dues, and obligations, public and private.

SEC. 21. The board shall prescribe rules and regulations whereby national banks will be permitted to make loans on real estate security: *Provided, however,* That loans upon real-estate security shall at no time exceed 20 per cent of their paid-up and unimpaired capital.

SEC. 22. All notes issued by the Treasury Bank under the provisions of this act shall become obligations of the United States, payable in gold on demand, at the office of the Treasurer of the United States, and the Secretary of the Treasury is hereby empowered to issue and sell, or pledge the bonds of the United States for the purpose of providing gold necessary to redeem the notes issued by the Treasury Bank as the same may be required. The bonds authorized to be issued under this section shall be 40-year bonds from the date of issue, bearing 3 per cent per annum, payable semiannually, both principal and interest payable in gold. Neither principal nor interest of such bonds and those mentioned in section — shall be subject to any tax or levy by the United States, or any State or municipality thereof, nor shall the same be subject to any income or inheritance tax imposed by the United States, or any State or municipality.

SEC. 23. All acts and parts of acts, inconsistent with the provisions of this act, are hereby repealed.

STATEMENT OF F. J. SYME, OF NEW YORK, N. Y.

Senator O'GORMAN. You are the publisher of The Shareholder, Mr. Syme?

Mr. SYME. Yes, sir.

Senator O'GORMAN. What is The Shareholder?

Mr. SYME. It is a regular Wall Street paper; strictly a Wall Street paper.

Senator O'GORMAN. What do you mean by that?

Mr. SYME. I mean that the news it contains is almost exclusively relating to Wall Street affairs.

Senator O'GORMAN. It is a financial paper, is it?

Mr. SYME. It is a financial paper; yes, sir.

Senator O'GORMAN. You have been conducting it for how many years?

Mr. SYME. For 17 years.

Senator O'GORMAN. You are the editor of it?

Mr. SYME. Yes, sir.

Senator O'GORMAN. What were your business activities before you became the editor of this paper?

Mr. SYME. For a time I was interested in the selling of municipal bonds. Previous to that, however, I was located in New Orleans, La., and was largely in the rice-milling business.

Senator O'GORMAN. And then for the last 17 years you have been a student of finance, have you?

Mr. SYME. A student of finance, yes.

Senator O'GORMAN. And you have been familiar with the financial conditions in the country?

Mr. SYME. Yes, for the last 25 years.

Senator O'GORMAN. You have read the pending bill, have you?

Mr. SYME. I have; yes, sir.

Senator O'GORMAN. Will you state to the committee what comment you have to make upon it?

Mr. SYME. Well, gentlemen, one of the objections to that bill, as I see it, is the fact that it takes from Congress the right to designate what securities shall be taken to the Treasury Department and currency given for them. That has always been a right of Congress. Congress has always exercised that peculiar right. It was congressional legislation that stated that gold could be deposited with the Treasury Department and Treasury notes given out for the gold. It was also under a law of Congress that Government bonds could be taken to the Treasury Department in the same way and currency issued for those Government bonds.

At a later period the question came up whether silver could be taken to the Treasury Department and the holder receive currency for it; but Congress balked at silver and said "no."

Now, these were all congressional functions, the functions of Congress. At the present time it is proposed that a different class of securities shall be taken to the Treasury Department and currency issued for them; but the bill does not say that Congress shall say what those securities shall be. It does not state, for instance, that Congress shall say that such and such a security can be taken to the Treasury Department—

Senator NELSON (interposing). But can Congress do any more than lay down general rules? How can Congress take up each piece of paper in detail and examine it and say whether it may be used?

Mr. SYME. Very easily, Senator; that is done every day.

Senator NELSON. How could we pass on the paper here in Washington?

Mr. SYME. I will tell you how it is done. Take the stock exchange of New York, for instance. It designates certain stocks and bonds which shall be listed.

Senator NELSON. Yes.

Mr. SYME. Our various State legislatures also designate what bonds shall be safely invested in by the savings banks. That question of designating is not near as difficult as you would suppose. It is very easy, in fact.

Senator O'GORMAN. What change would you suggest in the language used in the act?

Mr. SYME. On that particular point?

Senator O'GORMAN. Yes.

Mr. SYME. I would suggest, for instance, that all this designating be done by Congress.

Senator O'GORMAN. Congress will designate in this act, if it is enacted.

Mr. SYME. No; I do not understand it so. Your act says that the regional bank shall do the designating—start the thing. It is their volition that starts the whole proceeding.

Senator NELSON. No; we lay down the rule in the bill. We describe the class of paper.

Mr. SYME. You describe the class?

Senator NELSON. Yes; in the bill.

Mr. SYME. You do not designate the particular thing. You do not say, for instance, that the bonds of the New York Central Railroad Co. can be taken to the Treasury Department.

Senator NELSON. We do not want them.

Mr. SYME. Well, I took that stock as a case in point. There are lots of other things you do want. For instance, what you want—

Senator NELSON (interposing). What we want is commercial paper.

Mr. SYME. That is not the whole object of the bill. All right, then, state your man. You pass a law that the notes of John D. Rockefeller shall be received at the Treasury Department and Treasury notes be issued for them. State your man. If you want a certain man, state your man.

Senator NELSON. We have got to have a census of the country on that. [Laughter.]

Mr. SYME. I say I rather object to this bill on account of its change of the whole tendency of the country on that particular point, as to the designation of what shall be used and what shall not be used.

Senator NELSON. We would have to have a census of all possible borrowers in the country in order to put them in an act of Congress.

Mr. SYME. I do not think that is the case. Of course that is a matter of opinion. But I do not think that is so. I think, in other words, that Congress can, in a very short time, pick out a billion or two of dollars of stock throughout the country, or, if you choose,

commercial paper throughout the country, and that when this is presented to the Treasury Department currency shall be issued for it. Now, there is a whole lot of trouble that has grown out of the fact that Congress proposes to give up that right to designate. That right to designate, I do not think for the best interest of the country or Congress itself, for that matter, it should give it up. I think it is one of the perquisites of Congress, and it should be held onto.

Senator NELSON. Well, we are glad to get everything we can. [Laughter.]

Mr. SYME. You just take and see where all that leads to. You take, for instance, a case where Congress does not do that. These regional reserves do do it. The result of it all is that instead of looking at the thing, which Congress would look at, these regional reserves look at the man, and all the modern finance is directed toward looking at the thing. For instance, a man comes to that bank and wants to get a discount, say, of \$100,000, or \$200,000, or, if you choose, \$1,000. The bank president considers the man more than he does the actual thing.

Senator NELSON. What is the actual thing in that case?

Mr. SYME. In that case it would probably be the man's general reputation. He was known as a man of good repute, and because he is known as a man of good repute the discount is allowed. As to what he brings there, it is not of near as much value as his general repute. In other words, the banking system of the country gradually gets down to the point where good repute is everything and the thing on which the loan is to be made is nothing. Good repute is at a premium. The actual thing itself is at a discount. Now, I can illustrate that, perhaps, very well by a little incident that occurred in my own affairs only two or three days ago. I went to a certain gentleman from whom I had been accustomed to borrow for the last 10 years. I, of course, do not owe anything at the present time. He was a private banker. I wanted to get a loan on some presses, some newspaper presses. We happened to need a little money. I suggested to him that he make me a loan on the two presses we had. He would not do it. The thing was not the right thing. There was a case where the man was a sensible man.

Senator NELSON. Did you offer a mortgage?

Mr. SYME. Oh, yes. That part would have all been fixed up, but he objected. The thing was not right; the security I offered him was not right. My general repute was all right, of course, and also the party who was interested with me, but that man, of course—he was a wealthy man—took the right view of the case. He wanted the thing to be right, and not the man. Now, this law will reverse all that. It will make the man everything and the thing nothing. Most of the loans that will come into the Federal Treasury under those circumstances will be based not upon the thing but upon the general reputation of the man, and I regard that as slightly objectionable. I think, in other words, that the Government, in loaning its money out, ought to stick to the general idea of regarding the security more than regarding the individual that brings it there; and the whole tendency of this law, so far as I can see, is to exalt the man above the thing that he offers as his security.

Well, now, there is another feature of the case. It is proposed, under this bill, as far as I can make it out, that Government notes

up to about seven or eight billion of dollars will be issued, and it is doing it on pieces of paper that I do not think are legally drawn for any such purpose as that. I have my doubts as to whether there is any paper in existence, to any such amount as that at all events, which the Government can, with safety, take and issue any such large amount of governmental certificates for. In other words, I think before any such extensive amount of loaning out is gone into we ought to have a system of national incorporation under which of course there would be governmental supervision over a great many of our corporations. And under those circumstances the loans of such companies, I think, would be correct for this particular purpose. I have my doubts as to whether a single piece of paper exists in the country to-day on which the best results would be received by the Government for the issuance of this very large amount of credit.

There is another decided objection to this plan, and that is the permanency connected with it. Under this plan these regional banks can take a piece of paper to-day and pass it through and get the money for it. To-morrow they probably would not do the same thing. So there is no permanency connected with this peculiar thing. I do not think, in other words, that the bill as it stands would improve the general condition of the country a bit. I think it would raise a number of general conditions which would be unfavorable. I am satisfied that what some of these gentlemen have said here to-day is true. I am satisfied there would be a very large amount of favoritism growing out of it. Certain regional banks would make up their minds to favor certain institutions, certain manufacturing establishments. Take a case, for instance, where a regional bank was located in Louisville, if you choose. That particular bank would want to build up the interests of Louisville.

Senator REED. Oh, we can not assume any such thing as that, when this bank at Louisville will not be officered by Louisville bankers and when the whole thing is under command of the general board. Is there any other criticism you have of this particular bill?

Mr. SYME. I rather think that it is a bad bill. I have nothing in particular to say of the bill.

Senator REED. It is just a general idea?

Mr. SYME. Yes.

Senator REED. Is there any other gentleman here waiting to be heard?

Mr. PECK. I would like to be heard for a few moments.

STATEMENT OF L. T. PECK, CASHIER OF THE FIRST NATIONAL BANK OF HAWAII, HONOLULU.

Senator REED. Proceed, sir.

Mr. PECK. I would like the privilege of calling to the attention of the committee, Mr. Chairman [Senator Reed], that the act provides for the entry into a new system of national banks located in the continental United States. That, in itself, eliminates the insular United States—the organized Territory of Hawaii. I have no objections to make to that. The bill, as it has come to the Senate, I am making no objection to that part of it, but there are provisions in this bill

which seemingly apply to all existing national banks, whether continental or insular.

There are five national banks in the island of Hawaii, one in the island of Oahu, of which I am cashier, and four in the island of Maui. Now, on the island of Oahu is stationed at present a large military force, and large revenues are collected from public dues, and large disbursements are made, relatively speaking. The pay of the troops alone is something in the neighborhood of three and a half millions a year. The disbursements, probably, will be upward of five millions a year.

Senator REED. What are the average deposits of that bank?

Mr. PECK. The deposits of our bank at present, exclusive of the Government deposits, are about one and a quarter millions. The capital is \$500,000; the surplus and profits about \$230,000 more.

Senator REED. What other national banks are there on that island?

Mr. PECK. None, sir.

Senator REED. Any other banks of any character?

Mr. PECK. Yes, sir; there are. The capital, surplus, and profits of the four leading banks in Honolulu alone are something like three and a half million dollars—the commercial banks. Then there are trust companies, savings banks, and private banks which bring the total capital and surplus up to about four and one half millions.

Senator REED. How many national banks are there in the islands, speaking of all of them?

Mr. PECK. Five.

Senator REED. Now, what you want this committee to do is to consider those islands and the advisability of taking the banks of those islands into the bill?

Mr. PECK. Not exactly, Senator. I said I had no criticisms to offer as to the action of the House in excluding Hawaii from the benefits or provisions of the bill.

Senator NELSON. You are willing to be excluded?

Mr. PECK. I beg your pardon?

Senator NELSON. You are willing to be excluded from the system?

Mr. PECK. We are not anxious to be excluded. We do not pretend to come up from out little island Territory and suggest to the Congress of the United States just how they shall legislate for this Nation.

Senator REED. But do you want to be taken into this general plan or do you want to be left out of it?

Mr. PECK. Speaking for myself and for my own bank, the First National Bank, which is the largest national bank there, I would say that up to this time we have never felt the need of a rediscount market. I do not think our bank has ever rediscounted a dollar of its paper, and the banks in the Territory have taken care, very readily, of the commercial needs of the Territory thus far. I came here to suggest that in passing this bill the existing rights of the national banks in Hawaii be not unduly affected, because there are provisions in this bill which seemingly provide for partial annulment of portions of the national-bank act that would apply to us. For instance, it says in this bill that the section referring to the counting of 5 per cent redemption money lodged by any national bank in the Treasury shall no longer be allowed to any national bank. That, of course, includes the five banks in Hawaii; and it

also provides in section 16, and this is the important part of it, which I especially wish to bring to the attention of the committee, that all moneys now held in the general fund, etc., shall be deposited in Federal reserve banks, etc., and thereafter the revenues of the Government shall be regularly deposited in such banks, and disbursements shall be made by agents, drawn against such deposits. I should like to suggest that provision be made that that does not affect the Government depository or such depositories as may hereafter be established in Hawaii. There is now a depository there—our own bank is a depository—with a maximum balance of \$500,000, and upon it is placed the responsibility of making all of the disbursements and financing all of the cash needs of the Army, the Navy, and the other bureaus of the United States Government stationed in Hawaii.

Senator REED. Under a special act?

Mr. PECK. Under the general banking act we have been designated as a depository by the Secretary of the Treasury and deposit United States bonds and Territorial bonds to secure that.

Senator REED. When you say "responsibility placed upon you" you mean—

Mr. PECK (interposing). As a depository.

Senator REED. You mean as to the matter of paying those bills?

Mr. PECK. As a fiscal agent of the United States.

Senator HITCHCOCK. The Government is really under compulsion to use your bank there, if it uses any bank. It could not use a reserve bank in the United States to make payments in Hawaii?

Mr. PECK. No, sir.

Senator HITCHCOCK. At least, I suppose you have to cash the Government checks there?

Mr. PECK. All of the disbursing accounts, 39 of them, are kept with the depository itself and not in the Treasury of the United States. That was for the convenience of the Government.

Senator NELSON. Does the Government remit the cash to you or how do you get it there?

Mr. PECK. I think it has only remitted once, in any actual currency.

Senator HITCHCOCK. What is the method of paying those bills?

Mr. PECK. They are paid in gold coin and silver.

Senator HITCHCOCK. Where does the Government get the gold from?

Mr. PECK. From the public revenues, the import duties, customs, and internal-revenue receipts, and also placing the main-land credits to the credit of the depository when there are not sufficient local receipts to meet the disbursements.

Senator HITCHCOCK. That is, the customs and internal revenues are paid into your bank by the Government officers, and then taken out by the officer who makes the disbursements?

Mr. PECK. Yes.

Senator HITCHCOCK. The Government does not ship gold to make payments there?

Mr. PECK. Exactly.

Senator HITCHCOCK. But it pays out of your bank because it has a credit in your bank from the receipt of revenues?

Mr. PECK. Yes, sir; revenues.

Senator NELSON. That belongs to the Territory?

Mr. PECK. They belong to the United States Government.

Senator NELSON. They do not exceed the customs duties and internal revenues?

Mr. PECK. And surplus moneys and funds are deposited elsewhere.

Senator NELSON. I suppose you get exchange from the Pacific coast—from San Francisco—do you not?

Mr. PECK. We utilize the exchange conditions between the islands and the mainland, and do this free of cost to the Government.

Senator NELSON. Instead of shipping the currency there you exchange your credits?

Mr. PECK. Exchange them, as far as we are able. Occasionally, actual shipments are made, and whenever the revenues between steamers exceed the disbursements between steamers, we remit the excess deposits to the United States Treasury.

Senator NELSON. Do the revenues of the Government that are collected by the Government there equal the disbursements of the Government in your islands?

Mr. PECK. Not at present.

Senator NELSON. So there is a small balance that has to be sent there in some way?

Mr. PECK. Quite a balance at the present time, Senator.

Senator REED. The question I want to get at is this, whether the banks out there want to come into this system or whether they want to be excepted from the bill and under some special provision?

Mr. PECK. Well, Senator, we are the only national banks in Honolulu, and on the island of Hawaii there are other banks of lesser size.

Senator REED. There are other banks on the island of Hawaii?

Mr. PECK. I said of lesser size. There are four banks on the island of Maui.

Senator REED. National banks?

Mr. PECK. National banks, country banks, located right out in small villages.

Senator NELSON. There are four right outside of this bank of yours, as I understand it?

Mr. PECK. Yes, Senator.

Senator NELSON. National banks. Now, what he wants—I can see what he wants—he wants the Bank of Hawaii treated just like these regional banks are to be treated in respect to Government funds; that is, it is to be made the depository of Government funds there for disbursement. That is what you desire, is it not, without coming into the system?

Mr. PECK. I am afraid I have not made myself clear. I will state it again. In legislating for the national banks in the continental United States I would suggest that you see to it that the legislation in no particular unwittingly affects the present status of the insular national banks in Hawaii. That is the proposition.

Senator NELSON. Where do you keep your reserves at present?

Mr. PECK. And let me add, also, Senator, that that has nothing to do with the question of whether or not we come into the system. I would answer that on its merits—that question. We keep our reserve in designated reserve agents with San Francisco and New York.

Senator NELSON. That is, except what you have to keep in your own vaults?

Mr. PECK. Yes. We are supposed to keep in our own vaults, by law, 6 per cent reserve; but on account of our isolated position, being six days removed by sail from San Francisco, we actually have to keep in our vaults, at present and have for some time past, something approaching 50 per cent of our demand liabilities, in order to be able to furnish the cash on the checks of the Government disbursing officers, in order to supply the coin for the pay of the troops, etc., and other disbursements of the Government. I simply want that the status shall not be unwittingly affected by the passage of this bill.

Senator NELSON. I would like to suggest that you prepare such amendments as you think would fit your case.

Mr. PECK. I have just drawn up a few lines here, Senator. As I am a layman, they very likely would have to be altered, but the sense is in them. It would be, perhaps, to take the place of section 29:

Each and every provision of this act relating to national and other banks, banking associations, and trust companies shall apply only to those located in the continental United States.

And I would also suggest that the committee make provision for the proper collection and depositing of public revenues in all places where there are collecting offices of the Government and no reserve bank provided for at that point, or no agency of a reserve bank, because if neither a reserve bank nor a branch be established where the revenues originate, there will be no place for the revenues provided for in the bill to be deposited at all; because they must be deposited, apparently as collected, in those reserve banks.

Senator NELSON. I can see it would be a great outrage to your Territory to take the revenues away from your bank and put them into the continental United States. That would be a great mistake.

Mr. PECK. It would be an embarrassment to the Government which would be severe.

Senator NELSON. The Government would have to transmit the funds there to pay its bills?

Mr. PECK. It would. And as everything there is paid in coin, and if they should keep transporting the funds from month to month eventually, perhaps, they would have a good share of the gold reserve of the mainland in that island.

Senator REED. Are you inclined to come into this system?

Mr. PECK. I would like to ask if the committee thinks it is practicable to take us in, being practically 2,000 miles away, and, for all commercial purposes being, as it were, like a foreign country. I would like to discuss that with the committee, if it desires.

Senator REED. I expect we ought to hear about it, ought we not?

Mr. PECK. It is not provided in the bill now. It says the continental United States shall be divided into districts.

Senator BRISTOW. Would it be practicable for you, 2,000 miles away from the United States, to be able to be a part of this system?

Mr. PECK. If we needed discounts in a hurry we could send word by mail—six days to San Francisco, wait three or four or five days for a return steamer—and six days later we would get our reply. And in the meantime we might either be out of commission or not need the relief.

Senator REED. Do you consider, then, you ought to be required to carry a larger reserve by law than you are now, if you are allowed to keep there, in this isolated position, an isolated banking system?

Mr. PECK. We do that there now. We carry, instead of 6 per cent, the minimum required by law, a minimum of probably 40 per cent. And, in ordinary requirements, they practically balance each other in one island, where the whole thing, as it were, is a wash between debits and credits, and we provide for the coin requirements of the United States Government for the pay of its troops, who are paid in actual gold coin, and the naval expenditures—everything is paid in gold coin.

Senator REED. Why could not they be paid in ordinary national-bank notes?

Mr. PECK. Because of the habits of the people.

Senator REED. It is just a matter of habit, is it?

Mr. PECK. Yes, sir; from time immemorial. Originally in these islands they had moneys from all parts of the world. In 1873 they had a Hawaiian coinage minted in the United States.

Senator NELSON. Do you have currency circulating in the shape of gold certificates?

Mr. PECK. No, sir; we have gold coin. The people do not care to carry paper money. There is no paper money in circulation to speak of.

Senator BRISTOW. None in circulation?

Mr. PECK. Not to speak of. As fast as it accumulates from the tourists it is gathered together and held for the accommodation of returning tourists and the unused portion is shipped back by express or registered mail, insured, to the mainland.

Senator BRISTOW. California uses a great deal of gold coin. I suppose there is more down there than in all the rest of the United States, and it is used even to a greater extent in the Hawaiian Islands, is it?

Mr. PECK. It is universal.

Senator BRISTOW. It seems to me to be a great waste to be using gold coin and wearing it out when it could be in the vault of a bank and its representative in the form of a gold certificate could be carried around.

Mr. PECK. Some people think that coin is more sanitary.

Senator REED. What about your own bank circulation? You have a national-bank circulation?

Mr. PECK. We have \$250,000 bank circulation.

Senator REED. What do you do with it?

Mr. PECK. It is paid out and distributed through the agency of the bank in Washington, as is the case with many other national banks.

Senator NELSON. Do not your notes circulate among the people there?

Mr. PECK. No paper money circulates there. We take that out for the convenience of the currency system of the United States Government.

Senator NELSON. You have to take out a given amount?

Senator REED. What do you do with it? You say you have \$250,000 and that it was paid out through a bank in Washington?

Mr. PECK. Yes; through our agency here.

Senator REED. What do they do; get you gold?

Mr. PECK. Where it was originally—all they pay out now from day to day is the redemptions which take place.

Senator REED. I want to get this in my mind. You have \$250,000 from the Federal Government of bank bills which you never put back in circulation. What do you do with it?

Mr. PECK. We put it in circulation through our agency here.

Senator REED. You have a bank here with which you do business and you put this money in that bank, and then that bank, I suppose, handles your bills of exchange and everything of that sort for you in this country or part of it?

Mr. PECK. Only in a very small way. As national-bank notes are as good as any other form of money they are exchanged into eastern credits, and those eastern credits we transmute to local credits through the instrumentality of the exchange at Honolulu.

Senator REED. And in that way you get gold?

Mr. PECK. Yes, sir.

Senator REED. Transmit them into gold. I see the point. Then, if I get you right, what you want is an amendment to this bill providing that nothing in this bill shall impair the rights or the privileges of the banks situated outside the continental United States which are now national banks. You have no further suggestion than that to make at this time?

Mr. PECK. Except, if the committee had a notion that it might alter, fundamentally, this provision and include insular territory as well as continental territory and attach, as it were, our distant islands to the Federal reserve districts in which California would be included, for instance, I would like to discuss that point; but if it has no such notion I would leave the whole matter without discussing it.

Senator REED. I do not know what the committee will do.

Senator O'GORMAN. I do not think it was intended to extend beyond this continent.

Senator NELSON. We could amend this section 16, which says:

That all moneys now held in the general fund of the Treasury shall, upon the direction of the Secretary of the Treasury, within 12 months after the passage of this act, be deposited in Federal reserve banks, which banks shall act as fiscal agents of the United States; and thereafter the revenues of the Government shall be regularly deposited in such banks, and disbursements shall be made by checks drawn against such deposits.

We could except Hawaii from that so that the revenues of the Government collected in Hawaii need not be deposited in these regional banks.

Senator O'GORMAN. Do you think it was ever designed that this was to be extended to Hawaii, Porto Rico, or the Philippines?

Senator NELSON. I do not know that they have any national banks there.

Senator O'GORMAN. It should be confined to this continent; in my judgment that was the intention of the framers of the bill.

Senator REED. We would have to go a little further than Senator Nelson's suggestion, because my attention has been called by Mr. Peck to the fact that there is some other language in the bill which repeals certain privileges of the national-banking act.

Senator NELSON. We would have to amend it. This relates to Government deposits only. He has suggested an amendment to the other

provision of the bill. I do not know whether we have any national banks in Porto Rico.

Mr. PECK. There are none there.

Senator NELSON. And none in the Philippine Islands?

Mr. PECK. None there.

Senator NELSON. I think Hawaii is the only place.

Mr. PECK. Alaska—if Alaska be a part of the continental United States, then this bill must give Alaska representation in this scheme.

Senator NELSON. I suppose it is in the continent of North America, and it would be a part of the continental United States; but, of course, that would not apply to your islands or to Porto Rico. But we can put a provision in the bill including Alaska in order to save any question about it, if it is necessary.

Senator REED. I suggest that you file with the committee your suggestions as to what ought to be done, provided the system was extended to Honolulu, and your objections to its being extended there at all, if you have objections. I suggest that you file that with the committee in the form of a brief, so that we may save a little time and get through with the rest of the witnesses who are here to-day.

Mr. PECK. I do not feel that I am empowered to speak for the other financial institutions of the islands.

Senator O'GORMAN. How many banking institutions are there there?

Mr. PECK. With the branches, about 15 or 20.

Senator O'GORMAN. How many American?

Mr. PECK. Everything is American there, with the exception of the branch bank of the Yokohama Specie Bank of Japan.

Senator O'GORMAN. Is that a large bank?

Mr. PECK. It has the finest banking house in Honolulu.

Senator REED. What is its capital?

Mr. PECK. I do not know. It is a bank with world branches. Their headquarters are in Japan. It is a very powerful institution.

Senator NELSON. The bank which is in Hawaii is simply a branch of this Japanese bank?

Mr. PECK. That is it, Senator.

I would like to call the attention of the committee to this phrase, one page 14, line 9, of the bill: "Any national banking association now organized." The word "continental" is not used there. It says—

any national banking association now organized which shall not within one year after the passage of this act become a national banking association under the provisions hereinbefore stated, or which shall fail to comply with any of the provisions of this act applicable thereto, shall be dissolved.

We want to feel sure that we will not be dissolved.

Senator O'GORMAN. You will not be dissolved. How many national banks are there in the island of Hawaii?

Mr. PECK. Five.

Senator NELSON. Those are small banks?

Mr. PECK. Four on the island of Maui; two have \$25,000 capital, and two have \$50,000, and they are comparatively new, and the surplus is not large. But on the island of Hawaii the banking operations are in rather large figures. The exports every year amount to about \$55,000,000.

Senator REED. If you care to express it, what is your opinion of permitting foreign banks to maintain branches in those islands?

Mr. PECK. There are a great many Japanese aliens and Chinese aliens in those islands who can not become American citizens. All Japanese born there can become citizens. Eventually those that are born there will outnumber the Americans considerably. They will, of course, control the electorate of the islands.

Senator O'GORMAN. When will that condition arise?

Mr. PECK. I think it has been estimated, but I could not tell, Senator. There is a very high birth rate there.

Senator NELSON. Probably within 25 years?

Mr. PECK. It might be within 25 years. It may be sooner. There are a number of oriental voters there now.

Senator O'GORMAN. How long have you been in the islands?

Mr. PECK. About 13 years; Brooklyn is my birthplace.

Senator REED. Then we are in danger of having a dependency of the United States controlled from Japan, are we not?

Mr. PECK. That is a pretty large political question, not a banking question, and, of course, I could answer questions as a banker better, perhaps, along these latter lines, but at the same time the Congress of the United States controls the status of the Territory of Hawaii. What it made it can unmake. It has the power.

Senator O'GORMAN. There is no doubt about that. What is your suggestion in that respect, if you have any to make?

Mr. PECK. There is no danger whatsoever at the present time, and I hope there will be none in times to come. I hope that we will Americanize those Japanese who are born there and who are going to live amongst us and who are very worthy people, indeed. There is no prejudice in Hawaii against the Japanese. Sometimes some concern is felt as to the possible attitude of the Japanese Government toward America, as such concern is felt on the mainland; but, so far as the denizens in Hawaii are concerned, they mingle with us, they do business with us, and comport themselves with dignity and industry, and I can not say anything but well of them.

Senator REED. You did not answer my question as to what you thought of a foreign bank maintaining a branch in Hawaii. Do you think it ought to be permitted to continue?

Mr. PECK. I think so, sir.

Senator HOLLIS. What amount of your bank notes are redeemed in Washington now?

Mr. PECK. I presume about the same proportion as that of other banks.

Senator HOLLIS. You do not know exactly?

Mr. PECK. I could make up that statement and have it sent to you.

Senator HOLLIS. I wish you would.

(The memorial introduced by Senator Reed is as follows:)

TOMBSTONE, ARIZ., *October 17, 1913.*

The SENATE COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

GENTLEMEN: Before the "steam roller" is invoked to pass the Glass bill, I desire to invite the attention of its sponsors to a point that appears to have escaped their attention.

During the debate on the bill upon the floor of the House it was sought to learn to what extent it would be necessary for member banks to rediscount

with the Federal reserve banks in order to inaugurate the system and how long it would be necessary to renew such rediscounts.

Mr. BULKLEY, of Ohio, who is Mr. Glass's right-hand man, had the floor. I quote from the Congressional Record of September 12, page 5152:

"Mr. SMITH of Minnesota. Have you made any computation as to just when the central reserve banks will be able to pay off that \$162,000,000 that they rediscount, or is it a sort of an endless chain, whereby they will have to keep redepositing continuously?"

"Mr. BULKLEY. I think they may have to carry this for some time. I would not be able to say exactly how rapidly these banks will be able to readjust their circumstances; but certainly they are enormously in debt now because of deposits which have been made with them by country and outside banks, and in course of time they will have to liquidate that debt. This table only shows that there will be no embarrassment about their liquidating it. How long it will take to work it off I could not say.

"Mr. MADDEN. Did I understand the gentleman to say that there would be rediscounts amounting to about \$300,000,000 altogether?"

"Mr. BULKLEY. The rediscounts will be about \$266,000,000.

"Mr. MADDEN. In order to make the payments required with the central reserve bank?"

"Mr. BULKLEY. With the regional reserve banks.

"Mr. MADDEN. With the different banks that are to go into it?"

"Mr. BULKLEY. Yes; that is correct.

"Mr. MADDEN. That means that they do not have any money with which to make the payment, does it not?"

"Mr. BULKLEY. It means that they are about that much short of having enough.

"Mr. MADDEN. That if the cash was required to organize the Federal reserve banks, they could be organized under this system?"

"Mr. BULKLEY. Yes; that is true.

"Mr. MADDEN. When you rediscount the \$266,000,000 in order to make payments for which you have no money, will not this rediscounted paper have to be renewed at the end of the term for which it is rediscounted?"

"Mr. BULKLEY. To the extent that it can not be paid, which would be to a large extent, I think."

The inference to be gathered from the foregoing is that perhaps the larger part of this paper would have to be renewed and so carried for some time, but there was no hint or suggestion given of the wild inflation that lies just ahead.

Here I desire to advert to the "report" of the committee when reporting the bill to the House. I quote from item 12, on page 66:

"If it be asserted that this process will lead to inflation the answer to be made is that whether it will or not is a matter in the hands of the reserve banks which will have it in their power, by fixing their rate of discount suitably to prevent the banks from creating with them by rediscounting reserve balances in excess of the required 5 per cent."

The 5 per cent referred to is the 5 per cent of the deposits of banks which it is proposed shall be paid over to the Federal reserve banks to inaugurate the system.

So, Mr. BULKLEY states that it will be necessary for the banks to rediscount 266 millions of their paper in order to complete their payments of 5 per cent of deposits, and that such portion of it as can not be paid at maturity will have to be renewed.

The committee's report states that when the payment of 5 per cent of deposits is complete that from this point forward inflation will be within the control of the Federal reserve banks through fixing the rate of discount.

Now I will call attention that the bill provides for the retirement of the national-bank notes through a period of 20 years, amounting to 725 millions of dollars, and their replacement by Federal reserve Treasury notes. The Federal reserve Treasury notes must be based upon rediscounts taken over from the banks.

To start the system the banks must rediscount 266 million, and at the end of 20 years must have contributed further rediscounts of 725 millions, making a round billion dollars of rediscounted paper that must be furnished by the member banks to cover these two items alone, and which must be furnished without reference whatever to a discount rate. They are absolute requirements forced by the transposition of the currency.

It should be noted and understood that the transposition of the currency will require 725 millions of rediscounts in addition to the 266 millions of rediscounts first mentioned, the situation being this: Holding the 266 millions of rediscounts, the Federal reserve banks could take out a like amount of currency, but not having any demand liabilities they can not pay it out except in the purchase of additional assets (presumably further rediscounts). Thus, when they had paid it all out they would then have 266 millions of rediscounts in addition to the first 266 millions of rediscounts.

Therefore the minimum requirement to inaugurate the system and transpose the currency will be a billion dollars of rediscounts forced over from the member banks.

Furthermore, the natural growth, population, and business of the country will call for additional currency, which likewise must be based upon further rediscounts.

It is fair to estimate this increase for the coming 20 years at perhaps 500 millions, which, if correct, will swell the volume of rediscounts to a billion and one-half.

Lastly, we come to the rediscounting for purely credit purposes, and which item is properly controlled by the discount rate.

From what has been said of the bill we have been led to believe that everybody and your Uncle could borrow all kinds of money under this bill, and renew about as you please. Banks are invited to loan without limit.

What will be the aggregate of rediscounts held by the Federal reserve banks at the end of 20 years?

Will the proponents of this bill answer the question?

Let us be conservative and guess the amount of rediscounts held at 1,500 millions.

If this amount of the choicest paper in the banks be taken over, where will the banks get paper from to replace it with, and what will be the quality of said last paper?

Do the makers of this measure think that sound loans founded upon matured business grow on bushes over night?

What new path do you seek to lead us in?

The question, which will this bill produce, inflation or contraction, is no longer a matter of doubt. The facts as set forth and taken from the bill itself prove to a certainty that it is the wildest scheme of inflation set up within an age. Forced inflation at that.

Again, at the same time, we could easily experience drastic contraction in the attempt to install this system; causes by the banks declining to rediscount as it is intended they shall, but instead, exercise their right to call in their loans resulting in a panic in credit.

This bill is loaded at both ends.

Let us look at the earnings of the Federal reserve banks a moment; 1,500 million of rediscounts at 5 per cent brings 75 millions of dollars a year—quite a chunk of interest and should leave very handsome earnings to be divided 60 per cent to the Government and 40 per cent to the banks; but we are not quite sure of the 40, for the Federal reserve board might (will) take a notion to raise the interest rate on currency from the minimum of one-half to possibly $3\frac{1}{2}$ and in this way take over practically all the profits before division time comes.

Coming back to Mr. Smith's question of, when will the banks become able to free themselves from liability on rediscount?

The answer is absolutely plain; never under the sun. It goes the other way.

The banks are to be permanently yoked to that burden and our system of individual and independent banks blotted out.

A continued and swelling line of rediscounts must be furnished by them forevermore.

Why was it that when this information was asked for on the floor of the House that it was withheld?

What was the object?

Why did not Mr. Bulkley inform the gentleman that this 266 millions was only an entering wedge, and that the amount was to be augmented by a forced increase multiplied many times over within the next 20 years?

Why this deception? What? Ye gods, is it possible that Mr. Bulkley himself did not know any different?

If this be true, then, what of the high company he has been associated with in the preparation of this most wonderful mistake?

Did they not know different? If they did, why then did they not disclose the facts in their report?

Which conclusion shall we arrive at?

There are other weighty objections to this bill, which are under current discussion, but the defect herein pointed out is fundamental and vital.

The bill must be reframed entirely. Therefore I suggest, gentlemen, to lock your steamroller up and go home and lets think it over a while longer.

We are not in the least danger from a currency panic and will not be as long as we have the Vreeland law (which can be extended), and as for the credit situation, we are now suffering from inflation and a moderate restraint upon credit for some little time to come will be all for our own best good.

Study the subject; we can learn much yet; we have just commenced.

Make haste slowly.

Very truly,

T. R. BRANDT.

(Thereupon, at 5 o'clock p m., the committee went into executive session, and afterwards adjourned to meet at 10.30 o'clock a. m., to-morrow, Thursday, October 23, 1913.)

THURSDAY, OCTOBER 23, 1913.

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

The committee met at 10.55 o'clock a. m.

Present: Senators O'Gorman (presiding), Hitchcock, Reed, Pomereene, Shafroth, Hollis, Nelson, Bristow, McLean, and Weeks.

Senator O'GORMAN. Mr. Crozier, we will now hear you. Will you kindly give your full name, address, and business activities to the stenographer?

STATEMENT OF ALFRED OWEN CROZIER, OF COLLEGE HILL,
CINCINNATI, OHIO.

Senator O'GORMAN. What is your business?

Mr. CROZIER. Lawyer and author of two financial books—The Magnet, and United States Money v. Corporation Currency.

Senator O'GORMAN. Mr. Crozier, I think I have been reading, with great interest, one of your productions during the last few days.

Mr. CROZIER. With my sympathy if you have, Mr. Chairman.

Senator O'GORMAN. No; it is adding to whatever information I may have on the subject. You are not a banker yourself?

Mr. CROZIER. No, sir.

Senator O'GORMAN. You have a brother who is a banker?

Mr. CROZIER. I have; yes, sir.

Senator O'GORMAN. You have written on the subject of banking and currency?

Mr. CROZIER. Yes, sir.

Senator O'GORMAN. You have spoken and lectured at times?

Mr. CROZIER. Yes, sir.

Senator O'GORMAN. You say you are a lawyer?

Mr. CROZIER. I am; yes, sir.

Senator O'GORMAN. You have no banking affiliations?

Mr. CROZIER. None whatever.

Senator O'GORMAN. You have read this bill?

Mr. CROZIER. Yes, sir.

Senator O'GORMAN. Now, you may state your views of this bill.

Mr. CROZIER. Before discussing the subject more generally, if instead of adopting a complete ideal banking and currency plan it is decided to merely prop up the present system by enacting the measure recently passed by the House, I respectfully suggest the following modifications:

First. Make cash reserves of each bank 15 per cent, of which 5 per cent shall be kept in the bank's vaults, 5 per cent in the regional reserve bank, and 5 per cent in any banks in that system, the amount so deposited in any bank shall not exceed 10 per cent of the capital stock of the depositing bank, or of the bank receiving such reserve deposits.

Senator BRISTOW. Just give me that again; I did not catch that fully.

Senator NELSON. Read the whole paragraph.

Mr. CROZIER. First, make cash reserves of each bank 15 per cent, of which 5 per cent shall be kept in the bank's vaults, 5 per cent in the regional reserve bank, and 5 per cent in any banks in the system.

Senator NELSON. Any other banks?

Mr. CROZIER. Any other banks in system. The amounts so deposited in any bank shall not exceed 10 per cent of the capital stock of the depositing bank or of the bank receiving such reserve deposit.

Senator HOLLIS. That would cut it up very badly in the case of most banks that would have a fairly small capital and very large deposits. You have that in mind, and that is your idea?

Mr. CROZIER. Precisely. Let me finish the paragraph, and then I would be glad to make any further explanation. If all State and national banks join, this plan would centralize about \$500,000,000 of reserves for the purposes of protection and rediscount; leave \$500,000,000 in the banks' vaults and decentralize and scatter in small amounts for safety the other \$500,000,000, instead of centralizing same in a few large cities. If the reserves had been scattered in 1907 there would not have been a general panic and suspension of cash payments by the banks.

Senator O'GORMAN. Mr. Crozier, let me ask you here: You appeared before the House committee last year, did you not?

Mr. CROZIER. In 1908.

Senator O'GORMAN. As far back as that?

Mr. CROZIER. Yes.

Senator O'GORMAN. You appeared before the so-called Glass committee a year ago, did you not?

Mr. CROZIER. I did, by invitation of the committee, but it was submitted in printed form, rather than in person.

Senator O'GORMAN. You presented then the same views you are presenting here now?

Mr. CROZIER. No, sir; an entirely different side. You will find, Mr. Chairman (I will say right here, in this connection) that through your courtesy you have already included in the report of your hearings an entire complete substitute bill and an analysis of the various systems, which I submitted through a Senator, a friend of mine, and that will be found in part 18 of your printed hearings.

Senator O'GORMAN. So that what you have to say to-day will be supplemental to that?

Mr. CROZIER. Supplemental to that, but largely on a different subject than there discussed.

The purpose of this, gentlemen, is to scatter, to concentrate a portion of the reserves for protection and rediscount and scatter the rest for the safety of the banks, and to also do justice to all parts of the country in giving a large part of the country an opportunity to have for local use a portion of the bank reserves. I do not believe it is fair or right or wise or safe to continue the present reserve system which compels by law the taking away of vast sums of money from every section of the United States and concentrating it in a few large so-called reserve cities for the exclusive benefit and use of those reserve cities. Now, if this change is made in your law, which you can do here, it will mean that the large banks in the cities will scatter their reserves. Why? Because outlying sections, the country banks in outlying sections, can afford to pay 3 per cent and sometimes 4 per cent for use of those reserves.

Senator NELSON. Is not that a danger, to allow them to pay interest on it?

Mr. CROZIER. I think not. I think that the demand for money, Senator, should regulate largely the interest rate.

Senator NELSON. No; but I mean on these reserves. Would not that be a temptation for banks to send it to remote corners where they could get an extraordinary high rate of interest?

Mr. CROZIER. I think there is no element of danger in that, Senator, provided the deposit in any given bank is restricted to 10 per cent of the capital stock of either bank.

Senator NELSON. Suppose you had 10 or 20 banks to make deposits in one bank to that extent? You see what an enormous amount of bankers' deposits they would have?

Mr. CROZIER. But the concentration would not be anything like as great, Senator, as it is under the present system where New York gets in the neighborhood of a third of all the reserve money in the United States. And the present system has operated to make a rate of interest of from 1 to 2 per cent in one financial center where most of the reserve money is used for stock speculation, and while money for those purposes is loaned for those rates, commercial business of all sections of the country is compelled to pay 5 and 6 per cent for the use of money for their business. This would tend to equalize the interest rate for the benefit of all sections of the country, and would not impair the safety of the reserve system.

Second. Make more clear the power of the Federal reserve board to remove class B bank directors for any act it deems not to be in the interest of agricultural, commercial, or industrial interests of the district, or for the welfare of the general public. That will make the Federal board a real power, instead of largely an ornamental figurehead. As now written, the Federal reserve board's right of removal is only if it thinks those men have ceased to be representative of that class. In other words, ceased to be agricultural, commercial, or industrial people. Now, the board should have the power of removal if those men, by their official acts fail to represent the agri-

cultural, commercial, or industrial interests of the general public, because the Federal board represents the general public.

Third. Empower the Federal reserve board to fix from day to day for Federal banks the general discount rate charged local member banks which shall be uniform throughout the United States. Remember, gentlemen, it is chiefly the public currency and revenues—the property of the people—that is being loaned by the Federal banks. When a system is created by an act of the General Government to dispose of the public currency and public revenues belonging to all of the people there is no justification in morals and should not be in law for discriminating in the interest rate charged for public currency between sections of the same country. There is a further reason, gentlemen, a scientific reason: If you would give to the Federal reserve board the absolute power possessed by the Bank of England to fix and change from day to day the interest rate, the discount rate, you will have created one of the most useful powers in the hands of an agency of the General Government of all the people by which it can intelligently and effectively check improper general speculation and encourage the development of prosperity. In other words, as you know and have been told by distinguished financial men who have been here, an increase in the general discount rate always tends to check speculative operation and activities throughout the country. On the other hand, a decrease of the general discount rate tends instantly to release money and thereby a tenfold volume of bankers' credit based on that money that the banks at once seek to find profitable outlets for, and business is artificially stimulated throughout the country. So that the mere raising and lowering of the general discount rate, if it is exercised wisely and intelligently by a central patriotic authority, can be made a tonic and means a governor by which automatically, to a measurable extent, the prosperity and business conditions of the country can be regulated. Therefore a power so enormous should not, in my judgment, be delegated to any private corporation or dozen private corporations to be used for private profit, because those corporations naturally would use it to increase the interest rate and thereby increase the profit of such banks as own the corporations.

Fourth. Prohibit discrimination and favoritism by Federal banks as between member banks in the matter of service or interest rates. Now, gentlemen, while these regional banks are to be private corporations this bill gives them very large special privileges and powers.

Senator O'GORMAN. Gives to whom?

Mr. CROZIER. This bill gives to the Federal banks and regional banks very large powers and very large and rich and valuable special privileges. The system of control of these Federal banks is private.

Senator O'GORMAN. Why private? There are three members appointed by the reserve board strictly governmental officials. Of course the six others are selected by the various member banks.

Mr. CROZIER. Precisely; and that is why it is private instead of public in the control and management of the banks.

Senator O'GORMAN. You say the three officers named by the reserve board are private officials?

Mr. CROZIER. No, sir. No; you do not understand me. I said the control and management of the regional bank is a private control and not a public control and management.

Senator O'GORMAN. I can not agree with you. The regional banks, even under the pending bill, are ultimately controlled by a public governmental board residing here in Washington. I can appreciate the observation you made a moment ago, that perhaps sufficient powers have not been conferred on the reserve board to give it effectual control over the several regional banks.

Mr. CROZIER. Yes.

Senator O'GORMAN. That is a matter that can be easily corrected.

Mr. CROZIER. Yes; but I am taking the present bill as it stands now, Senator. The House has already passed it, and I must necessarily discuss the bill in the legal form of its present structure.

Those are private corporations, they are privately owned and privately managed in law. Now, it is true that the Government board has very large moral influence there, and that that moral influence would be very beneficial and useful, I grant. But speaking legally, the banks and not the Government choose six of the nine directors, and therefore it is private control and management as the bill now reads.

For that reason, it seems to me, as you are to take away from the Government and turn over to 12 private corporations formed by the banks an entire exclusive monopoly of every dollar of the public currency of the United States and every dollar of the public revenues of the United States, and turn them over to these private central banks, if you please, for the profit of those private corporations, it seems to me it is the duty of Congress to absolutely insure in the bill that these public funds will be administered by those private banks, private corporations, without discrimination or partiality. For the same reasons that the Interstate Commerce Commission is authorized—

(At this point there was a call for a quorum of the Senate.)

Senator O'GORMAN. Gentlemen, we will now adjourn to the committee room of the Judiciary Committee on the ground floor of the Senate wing of the Capitol, as it is necessary for us to answer the roll calls.

(Thereupon, at 11.15 o'clock a. m., the committee adjourned to the Judiciary Committee room in the Capitol.)

Senator O'GORMAN. You may proceed, Mr. Crozier.

Mr. CROZIER. The matters of prohibiting discrimination by Federal reserve banks, as between local member banks, is a matter that is equally justifiable with the law prohibiting discrimination by railroads between customers in the matter of railroad rates and service, in my judgment.

And it is in some respects more important, because it is not inconceivable that, in some instances, a clique may obtain control of the regional banks; and unless there is this safeguard provided there may be favors extended to one local bank and denied to others, and there should be nothing of that kind; every bank, especially if they come in under compulsion, should have the protection of an affirmative prohibition in this law.

Senator NELSON. Now, how would you put that into the bill? What rule could you lay down in the bill—putting it into words?

Mr. CROZIER. I would empower the Federal board to remove any and all directors of Federal banks that participate or permit discrimination by Federal banks in the administration of their powers.

Senator NELSON. But that would not be laying down a rule of guidance for the regional banks. I mean, what rule would you lay down for the guidance of the regional banks to prevent discrimination?

Mr. CROZIER. The granting, for instance, of rediscounts to one bank and refusing them to another bank on precisely the same class of paper.

Senator HITCHCOCK. What would you think of providing that every member bank, as a matter of right, should be entitled to rediscounts to the extent of the capital stock, and that no member bank should be permitted to have discounts in excess of twice its capital stock, except in case of an emergency, and then only upon reference to the Federal reserve board?

Mr. CROZIER. That, Senator, is an absolutely essential provision if the law of supply and demand instead of the arbitrary will of the directors of a private regional corporation is to govern in the world of finance and banking.

Senator HITCHCOCK. Then, what would you think of this further provision, that the rate of discount should be the same to all member banks, and should be higher when the member bank is accorded discounts exceeding the amount of its capital stock?

Mr. CROZIER. I have already stated—I think you were not present at the time—that I favor a uniform rate of discount throughout the United States.

Senator NELSON. On the part of the regional banks. Mr. Crozier took that stand.

Mr. CROZIER. Yes; on the part of the regional banks, and fixed by the Government board, and changed from day to day or from week to week. And I would say, further, that for extra loans granted as a mere emergency I would make a special rate. I would provide in the rules put out by the Government board a special higher rate that would operate, when that emergency was over, to bring back the emergency currency into the general pile.

Senator HITCHCOCK. That is, you would allow a bank, up to the amount of its capital stock, for instance, to have the lowest rate?

Mr. CROZIER. The minimum—the maximum, rather.

Senator HITCHCOCK. Well, the minimum rate.

Mr. CROZIER. The minimum and the maximum are the same.

Senator HITCHCOCK. And then if it required discounts in excess of its capital stock it should pay a higher rate?

Mr. CROZIER. Yes, sir.

Senator HITCHCOCK. But the rate in all cases to be the same to the member banks?

Mr. CROZIER. Yes. I stated before that in morals, and I thought in law, there was no justification for granting by law to private regional corporations the power to discriminate between localities of the same kind in the price of interest for public currency and public revenues distributed through those private corporations for the public use.

Fifth. Prohibit any bank in the system charging more than 7 per cent for either time or demand loans, or discrimination between customers in the rates paid for deposits or charged for loans under similar conditions. This refers, of course, to local banks.

Senator NELSON. Member banks.

Mr. CROZIER. Yes; member banks. You are all familiar with the fact that the practice in New York has grown up on the stock exchange of bidding the price of call loans to 10, 20, 30, and 50 per cent, and sometimes 100, 200, and 300 per cent—during the Northern Pacific corner.

Now, that increased interest rate automatically acts as a magnet and entices the money all over the United States away from local business, local industry, and local banks into that one center, to be used chiefly for speculative purposes. It is a scandal; it is a wrong on the whole country; it is a thing that ought to have been abolished years ago.

Senator O'GORMAN. What should be abolished?

Mr. CROZIER. The charging of more than 7 per cent for either time or call loans.

Senator O'GORMAN. You mean it should be prohibited?

Mr. CROZIER. Prohibited; yes; because it is a fraud on the whole country. It is a thing that creates tensions, and it has done more than any other one thing, gentlemen, to bring on panics in this country.

Are the 48 States utterly helpless to change a condition in one city of one State that repeatedly operates to demoralize the financial and banking conditions of the whole country? Are we helpless? I think we are not helpless, gentlemen, provided in this very measure you gentlemen take the initiative and try to correct that wrong.

It is well known—it has been brought out in the investigations which have been conducted by authority of Congress—that banks incorporated under national law repeatedly participated in the scheme of inflating call rates, and over and over have called loans at one end of the bank for the sole purpose of forcing their customers to go to the other end of the same bank and submit to a usurious interest rate; and all this under charters granted and existing by Federal laws. The system is wrong; it is a scandal.

Sixth. Prohibit the granting or calling of loans for the purpose of influencing the quotation prices of securities and the contracting of loans or increasing of interest rates in concert or cooperation by the banks to influence public opinion or the action of any legislative body or the political action of bank customers.

Senator NELSON. Will you please repeat that? I did not get it.

Mr. CROZIER. Six, prohibit the granting or calling in of loans for the purpose of influencing quotation prices of securities and the contracting of loans or increasing of interest rates in concert or cooperation by the banks to influence public opinion or the action of any legislative body or the political action of bank customers.

Senator NELSON. How could that be put in practical operation? In what way would you do it?

Mr. CROZIER. If you will make a declaration, a prohibition in your law, a specific prohibition in this law, prohibiting that practice, even if you put no penalty behind it, the statutes of the United States will furnish a penalty of three years' imprisonment or not to exceed \$10,000 fine under the conspiracy act.

Senator HITCHCOCK. You would have to prove a motive?

Mr. CROZIER. Yes; you would have to prove it. All criminal matters are subject to proof. If the proof can not be provided, then there is no injury to the banks. But I remember—and you gentlemen

remember—within recent months the distinguished Secretary of the Treasury of the United States was reported in the open press notices as specifically charging that there was a conspiracy, or words to that effect, among certain of the large banking interests to put a contraction upon the currency and to raise interest rates for the sake of forcing public opinion—to force Congress into passing currency legislation desired by those institutions. I say that is not a proper business for banks to engage in chartered under Federal authority. And this is the place to correct that evil, if it is ever to be corrected.

Senator NELSON. Did the Secretary of the Treasury furnish any proof of that fact?

Mr. CROZIER. I can not say that he did. He referred——

Senator O'GORMAN (interposing). Do you personally know of anything that justified that suspicion or fear on his part?

Mr. CROZIER. No; not on his part. No; I am not in the confidence of the Secretary of the Treasury.

Senator SHAFROTH. Well, on your own part, do you know of any combination? Have you any proof of any combination?

Mr. CROZIER. I am a lawyer, and a number of these gentlemen are lawyers. We know that circumstantial evidence sometimes is the most valuable.

Senator SHAFROTH. Certainly.

Mr. CROZIER. And six or seven months ago the condition of business in this country never had been as healthy as at that time.

Senator HITCHCOCK. Well, I do not know about that. In March, when the bank statements were made, the reserves were at their lowest ebb, and the banks have been struggling ever since that time to strengthen them.

Mr. CROZIER. Senator, that has been, over and over, put up as an unhealthy—or as an evidence of lack of prosperity in the country.

Senator HITCHCOCK. No; it shows a strained condition of the banking resources.

Mr. CROZIER. On the part of the banks.

Senator HITCHCOCK. But it does not show—and at once, when it was revealed, the banks went to work to try to fortify themselves, which they should have done.

Mr. CROZIER. Yes; but not in the fire-alarm way in which it was done. An official of the National City Bank of New York, which bank is the leader, has always been the leader in taking away from the Government and the people of the United States the control of their public currency and putting it into the hands of a private corporation—in other words, the leader in the movement for the Aldrich central-bank plan—an official of that bank went out to Detroit in the spring, and in a public address rang the fire alarm that naturally would set every bank in the United States into calling its loans and strengthening its reserves.

Senator HITCHCOCK. Can you put into the record what he said?

Mr. CROZIER. I have not it with me.

Senator HITCHCOCK. Can you procure it?

Mr. CROZIER. I think I could.

Senator HITCHCOCK. I ask that that be done. I would like to know what this was—what specific thing was done; what specific thing was said.

Mr. CROZIER. I will try to find that, because at the time I know I was sure that started a movement for the contraction of the currency—for the contraction of bank loans that would be nation-wide before it got through.

Senator NELSON. But do you not think the condition of the banks, as revealed by the statement that Senator Hitchcock referred to—do you not think that that justified—

Mr. CROZIER (interposing). It justified the banks, Senator, in strengthening their reserves privately; but it did not justify the publication in the public press of the whole country of an alarming condition and the publication of it in the face of the announcement from the President that an effort was to be made to put over currency legislation at this session of Congress. Now, it is impossible—

Senator HITCHCOCK (interposing). I think you are getting your dates mixed, Mr. Crozier. The President did not take that position until later. It was midsummer before the President took that position.

Senator SHAFROTH. It was the 24th of June.

Senator HITCHCOCK. Yes; and the condition of the banks of the United States, as I remember, was revealed in their March statements.

Mr. CROZIER. I think you are correct as to the formal announcement of the President; but shortly after the President's inauguration, if my memory serves me correctly, it was pretty generally published throughout the United States that currency and tariff were both to be considered, at least, at this session of Congress. I do not think that the formal statement of the President that they must be completed during this session was made until the time you speak of, but it was generally understood by the banks and by everybody that currency would come up at this special session, at least for discussion; and those people, the interests back of the Aldrich plan, have been busy night and day for the last six years.

Senator O'GORMAN. Have you any other views bearing on the provisions of this bill, Mr. Crozier?

Mr. CROZIER. Yes; that is exactly what I am coming to.

Seven. Empower the Federal reserve board to loan currency direct to any local bank in the system, as well as to the regional banks, on the same securities required by Federal banks.

Senator NELSON. Will you repeat that statement and let me see if I understand it?

Mr. CROZIER. Seven. Empower the Federal reserve board to loan currency direct to any local bank in the system, as well as to the regional banks, on the same security required by Federal banks or regional banks, whenever such board deems that the public welfare requires such action.

Senator NELSON. Well, the Federal reserve board would not have anything to loan; the only way they could do it would be to order one regional bank to loan to another.

Mr. CROZIER. No. They have the public currency absolutely under their sole control at the outset.

Senator O'GORMAN. You may proceed, Mr. Crozier.

Mr. CROZIER. That is the only way local banks and the business public can be protected against possible abuse of the currency monopoly by a regional bank; absolutely the only way. You are creating, if you put this bill through, 12 private monopolies—private corporations owned by the banks, to which private corporations you are delegating by act of Congress an absolute monopoly of every dollar of the public currency of the United States and every dollar of the public revenues of the United States.

Senator HITCHCOCK. Well, that is the way the bill is now. It will not be that way when it comes out of this committee.

Mr. CROZIER. I hope not. But I have no way of seeing into the minds of this committee.

You are doing that, gentlemen; more than that. You are putting into the hands of those regional reserve banks exclusively, and not in the hands of the Government board, the exercise of the power of elasticity that we all desire to establish.

Eighth. Preferably eliminate the regional-bank feature and merge a reasonable portion of all bank reserves for purposes of protection and rediscount under the control of the Federal board, such board to be increased in size, and have its powers enlarged and properly safeguarded. The number of regional banks should not be reduced if they are to be owned and controlled by private interests instead of the Government.

The object of the big banks in demanding fewer regional banks is to increase their grip on the system and make more easy and certain the monopoly of all money and bank credit, and of private control of the public currency, which this measure openly grants to the powers of privilege.

If the Government is to retain absolute, instead of pretended, control, then one bank or public agency is all that is needed, and will be more simple and scientific than a dozen or any other number of scattered agencies exercising currency powers.

The so-called administration currency bill grants just what Wall Street and the big banks for 25 years have been striving for, namely, private instead of public control of the public currency.

I know that, gentlemen, for on the 17th day of December, 1907, I was in the city of New York at the meeting of the National Civic Federation, when the chairman of the committee, Mr. Seligman, in the presence of the meeting in which the representatives of Wall Street were in the majority, presented their currency resolutions. This was right during the panic—or right after the panic.

I moved as an amendment a proviso to that resolution, and the proviso was this:

Provided, That the power to control the volume of the public currency in circulation among the people shall not be taken from the Government and put into private hands.

I asked Mr. Seligman and the committee in public to accept that amendment, and they refused to do so.

Senator HITCHCOCK. Do you think that the Government now controls the volume of currency?

Mr. CROZIER. It does to a large extent; but it is not elastic.

Senator HITCHCOCK. Will you point out to the committee how the Government controls it?

Mr. CROZIER. It controls it—it issues it and turns it over, of course, on bonds—

Senator HITCHCOCK (interposing). Well, how would the Secretary of the Treasury—you mean by the Government, the Secretary of the Treasury, I suppose—how would he go to work, now, to expand the currency?

Mr. CROZIER. He can not do it under the present law.

Senator HITCHCOCK. Under the present law he can not contract it.

Mr. CROZIER. Under the present law he can not contract it.

Senator HITCHCOCK. Then how do you say it is under the control of the Government?

Mr. CROZIER. I say it should be under the control of the Government. That is the power I want put into the hands of the Federal board or agency, the power of elasticity; and I do not want it taken away from the Federal board or from the Government or from the people and put into the hands of private corporations, to be exercised for private profit and without due regard to the general welfare.

Senator HITCHCOCK. Well, do you know of any country where it is under the control of the Government?

Mr. CROZIER. Well, I can not say I do, in the strictest sense; but I do not know of any other Government where we have the people in control of the Government as we have here—to the same extent.

Senator HITCHCOCK. Let me ask you this question: What would be the effect if it were in the power of the Treasury Department and the Treasury Department should be able to exercise it by greatly expanding the currency? What would be the effect of that?

Mr. CROZIER. I am opposed to doing it in that way. I want created a deliberative, law-controlled agency or, preferably, a department of the Government segregated from the ordinary business of the Government and from the financial affairs of the Government; a United States monetary council; a body just as deliberative and intelligent as the Supreme Court of the United States.

Senator HITCHCOCK. Well, suppose that should be created to your liking, and it should expand the currency, with the power that you have suggested conferred upon it. What would the effect be?

Mr. CROZIER. Increasing the volume of money in circulation would increase the credit tenfold.

Senator HITCHCOCK. What would be the effect upon prices?

Mr. CROZIER. The effect would be to increase them.

Senator HITCHCOCK. Do you think that any body of men ought to have the power to increase prices?

Mr. CROZIER. I think they ought to have the power to increase or decrease them.

Senator HITCHCOCK. Do you think that we ought to empower a commission to raise and lower prices in the United States?

Mr. CROZIER. Yes; I think somebody is going to have that power over the elasticity of the public currency, and I would rather intrust it to an agency of the Government than to intrust it to private corporations that are run for private profit. It is only a choice of evils, if you please.

Senator HITCHCOCK. Would it not be better to have the volume of currency responsive to the needs of business?

Mr. CROZIER. It will be so under an intelligent and wise board. That board will not be arbitrary, if it is intelligent and honest and efficient.

Senator NELSON. But what rule of elasticity would that board follow? What would be the rules that would guide the board?

Mr. CROZIER. The same rules that you have here, except that it would have a better judgment and a more public judgment, because it would have the instrumentality for influencing the thing with due regard, not to locality, but to the whole country and the whole situation.

Now, if we are to assume, gentlemen, that in a republican form of government it is impossible for Congress to create a public body that it is safe to delegate these governmental powers to and that therefore we must take these powers away from the Government and delegate them to some private corporation, run for profit, that is different; I do not agree with you. I believe in the republican form of government and in the ability of that form of government to construct a public agency, a department of government, that will be absolutely free from all political taint or partisan bias and free from control by the influence of Wall Street or anybody else—just the same as the Supreme Court is to-day.

But it should be a separate department of the Government; it should not be intermixed or intermeddled with the Treasury Department work at all.

Senator NELSON. You would have to have a bureau of elasticity then. [Laughter.]

Senator HITCHCOCK. A rubber bureau. [Laughter.]

Senator O'GORMAN. You may proceed, Mr. Crozier, with your remarks.

Mr. CROZIER. If the gentleman will take the trouble and have the patience to read, in part 18 of your published proceedings, you will find a complete bill there.

Senator NELSON. I will try to read it.

Mr. CROZIER. It will give you an idea of the precise machinery that should be used for that purpose.

The so-called administration currency bill grants just what Wall Street and the big banks for 25 years have been striving for, namely, private instead of public control of the public currency. It does this as completely as did the Aldrich bill. Both measures rob the Government and the people of all effective control over the public money supply and vest in the banks exclusively the dangerous power to make money among the people scarce or plenty. The Aldrich bill put this power in one private central bank. The administration bill puts it in 12 regional central banks, all owned exclusively by the identical private interests that would have owned and run the one Aldrich bank.

Mr. CROZIER. There is absolutely no difference between the two measures in legal effect as to the control of the volume of currency in circulation. In one case the Aldrich bank and in the other the 12 regional banks exclusively decide the quantity of public currency that shall be put out among the people through local banks by rediscounting commercial paper, what locality, and which banks shall get it, and the price that must be paid for it. They also exclusively decide the quantity of currency that shall be taken away from the

people by stopping the rediscounting and forcing local banks to gather up the people's cash and hand it to the regional banks to pay maturing rediscounted paper, and they only decide when this shall be done.

Senator HITCHCOCK. None of that would be true if the law were to provide that every bank, as a matter of right, should be entitled to a certain line of discount at any time.

Mr. CROZIER. That would help very much, and if you will increase the powers of the Federal board over those banks; to put the Federal Government in supreme control of the discount rate, so that the law of supply and demand will regulate it, I am in favor of this bill, if we can not get an ideal system.

Senator SHAFROTH. You do not think then the central board itself ought to have the power to increase and decrease?

Mr. CROZIER. I will explain that a little later.

Senator SHAFROTH. All right.

Mr. CROZIER. In other words, the imperial power of elasticity of the public currency and the tenfold volume of bank credit are loans built upon such currency, is wielded exclusively by these central corporations owned by the banks. This is a life and death power over all local banks and all business. It can be used to create or destroy prosperity; to ward off or cause stringencies and panics. By making money artificially scarce interest rates throughout the country can be arbitrarily raised and the bank tax on all business and cost of living increased for the profit of the banks owning these regional central banks, and without the slightest benefit to the people. These 12 corporations together cover the whole country and monopolize and use for private gain every dollar of the public currency, and all public revenues of the United States. Not a dollar can be put into circulation among the people by their Government without the consent of and on terms fixed by these 12 private-money trusts.

The Federal reserve board is utterly powerless. It can print and pledge the credit of the Government to a billion dollars of public currency and turn it over on its terms to the 12 reserve banks. Then its power ends. It can not compel the regional banks to put a dollar into actual circulation through local banks, no matter how badly it is needed by the people as a medium of exchange. It can not prevent the regional banks from suddenly withdrawing the entire billion from circulation, even if that course demoralized all business and wrecked all prices. The power to inflate and contract the volume of the public currency in the hands of the people and banks is vested not in the Federal board, but in the dozen private banking corporations.

Senator REED. Do you think if the regional banks of this country were to do the things you speak of that it would be more than about two days and a half until the directors would be removed under the power of removal?

Mr. CROZIER. There is no power of removal. I have already discussed that. I discussed that before you came in, I think. There is no power of removal of the three class B directors, so long as they are themselves commercial, agricultural, or industrial men. I asked for an amendment along that line before you came in, Senator.

Senator REED. There is a power of removal which is limited to the three?

Mr. CROZIER. Yes.

Senator REED. If we could remove those three and appoint three others, we would be able to run that bank again in a few days?

Mr. CROZIER. Yes; under this bill. I am only discussing the bill which may be evolved.

Senator REED. I am talking about this unbelievable thing.

Senator SHAFROTH. Of course, it is not likely that this will occur.

Mr. CROZIER. Let me say in answer to the Senator, I am not saying, and do not say, and would not say that every bank or any bank now, next week, next month, or next year would do these things to this extreme, but when you gentlemen are making a statute you do not assume that the powers you grant probably will not be abused, but you safeguard the language of the statute so that selfish interests can not abuse those powers, even if they are inclined to do so.

Senator REED. That is all right. I was asking about your claim that we could not control in an extreme case. Undoubtedly the control would be there.

Mr. CROZIER. Yes. There is, under the language of the bill passed by the House, no control or power in the Federal board to remove the directors of Federal banks, so long as these class B directors are themselves commercial, agricultural, or industrial men.

Gentlemen, that is private control of the public currency, the power in private hands to manipulate or arbitrarily raise and lower the prices of all securities, commodities, property, and human labor by simply inflating and contracting at the will of such corporations the outstanding quantity of the public currency of the United States.

Senator REED. What do you say of this section in regard to the powers given to this central board:

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.

That would cover the case you have been discussing.

Mr. CROZIER. I do not think so.

Senator REED. "Dereliction of duty," that would cover it; would it not? "Dereliction of duty, fraud, or deceit, such removal to be subject to approval by the President of the United States."

Senator SHAFROTH. There is another clause in there to the effect that when they shall be satisfied that they do not represent the agricultural or industrial interests they may be removed.

Mr. CROZIER. That means if they stop being agricultural men and become bankers they should be put off the board. What I want in there is a section providing that if they cease, by their official acts, to serve the interests of those particular interests they should have the power of removal.

Senator REED. Section D provides, among the powers of this central board:

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

Read that in connection with paragraph (f), which says:

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.

It seems to me there would be a manifest power there.

Mr. CROZIER. Suppose, Senator, the regional bank directors should say, "Speculation is becoming rife; let us call in 25 per cent of our loans." Now, the Federal reserve board might believe that that was a tremendous burden on business, but it would be only an error of judgment.

Senator REED. But that would be incompetency?

Mr. CROZIER. Yes, sir.

Senator REED. The Federal reserve board undoubtedly would have the power, and there is no court in the country that would interfere with their power.

Mr. CROZIER. I would like to see that clause put in the bill, Senator. I would like to see that specific clause put in the bill, making the Federal reserve board the supreme court on this and all other questions that come up under this bill.

Senator NELSON. Will you repeat that statement you made a while ago?

Mr. CROZIER. That is, private control of the public currency, the power in private hands to manipulate or arbitrarily raise and lower the prices of all securities, commodities, property, and human labor by simply inflating and contracting at the will of such corporations the outstanding quantity of the public currency of the United States. All authorities agree, so far as I know, that an inflation of the money in circulation, the money of the people, tends to automatically increase prices.

Senator NELSON. The banks can not do it. The call for the currency must come from the regional banks. They must put up their commercial paper. The regional bank can not issue, haphazard, currency and scatter it among the people and then bring it back. They can only issue it where there is a call by the member banks.

Mr. CROZIER. That is true.

Senator NELSON. So the demand comes from the consumers in the first instance?

Mr. CROZIER. They have the power to refuse to comply with the demand. If the law of supply and demand of legitimate business—and commercial paper is legitimate business, if it is genuine commercial paper—if that law of supply and demand can be put into your bill, so it will be the Government and not the arbitrary will of the board of directors of the private corporation, you will take out very much of the danger.

Senator HITCHCOCK. That is undoubtedly the purpose of the bill, and the committee will see to it.

Mr. CROZIER. I hope so.

Senator SHAFROTH. You have your amendment all prepared?

Mr. CROZIER. No; I have just suggested it.

Senator NELSON. He has a bill in the record.

Mr. CROZIER. I have a complete bill in the record.

Senator SHAFROTH. You had better put in your amendment just as you want it, so that instead of going to your philosophy we can go to the language used.

Senator O'GORMAN. Let me make this statement for the record. As I understand it, your proposed bill, which has been submitted, really provides for a central bank with branches under Government control?

Mr. CROZIER. It is not a bank in any sense of the word whatever, but a central agency, a monetary council.

Senator O'GORMAN. It is intended to discharge the two main functions sought to be advanced by this bill, providing for the rediscount of commercial paper?

Mr. CROZIER. It is not strictly rediscount.

Senator O'GORMAN. It is an accommodation?

Mr. CROZIER. No; it is loaning on the security of commercial paper instead of bonds; that is all. It is not a rediscount.

Senator O'GORMAN. It also makes provision for the mobilization of reserves?

Mr. CROZIER. It is to form an ideal money and banking system. I am here because of the expression in the newspapers that there was some probability of this bill in its general form going through, and if that is to be, then I wanted it changed in certain particulars, and if it can be made so that it is a patriotic thing, so that the Government is in control, I have no objection to the banks. They should be used. My bill provides that the currency must be put out through the banks. They are natural agencies. They have the situation in hand all over the country, but I want the banks to pay the Government whatever the true value of that currency is, and I do not want it given to them and allow them to make all the profits from the Government. There is no reason why it should not be that way. It is a business matter, pure and simple.

This measure makes it possible for selfish private interests for selfish objects to use the whole public currency to harm or despoil all the people in spite of the Federal board, or all the powers of the Government of the Republic. Is this democracy? It is not rule by the people, but rule of the people by the dozen calculating private corporations.

The business heartbeats of 100,000,000 people can be stopped any time without notice of these corporations to raise interest rates or influence elections or legislation, suddenly obstruct the free play of circulation, the currency, the life fluid of all business, by temporarily stopping the rediscounting for local banks and requiring the payment of maturing short-time rediscounted paper in cash by the banks. We must remember that under our bank reserve system the volume of bank credit loans is ten times the total cash in the reserves. That a currency contraction that withdraws \$500,000,000 from bank reserves will force the banks to instantly require their business customers to pay up \$5,000,000,000 of bank loans. The sudden and unexpected contraction of bank loans five or even one billion dollars means nation-wide stringency, if not panic.

What folly, then, to put this dangerous power over all the people and their business activities into the hands of the very private interests that will profit most by using such power for selfish purposes at the expense of the people. Why not leave it where it now is and has been for 50 years—in the hands of the Government—for the good of all?

By establishing a proper Government agency to hold bank reserves and use the same with the public currency and revenues to protect the banks and put currency into circulation through the banks we can get the desired currency elasticity in practical and scientific form with-

out delegating these sovereign governmental powers to private corporations.

The administration currency bill should be simplified and changed so it will provide genuine public control of the public currency. The regional-bank feature should be eliminated and the Government board enlarged, safeguarded, and given adequate powers. It should not be a bank or do a banking business. It needs no capital stock. The bank reserves, currency, and public revenues will provide ample funds for all purposes. Every dollar should be a real dollar, good to pay a dollar of debt or purchase, full legal tender, redeemable in and secured by an adequate reserve of actual gold. Behind it should be the faith and credit and taxing power of the Federal Government. Such a currency always will be sound and never depreciate. What more do we need? Why should we have less? Congress must answer those questions.

Gentlemen, one of the wickedest things in this bill is the fact that it proposes to create a possible \$1,000,000,000 of optional currency, not one dollar of which can be used to pay any private debt, and the man selling goods to a purchaser may refuse to accept it if it is tendered to him. And yet it is to be an obligation of the Government of the United States and for the banking of the Government of the United States. I say that it is not the province of Congress to authorize the creation and putting into circulation of \$1,000,000,000 of currency that the people think is real money, and when they tender it to redeem some mortgage at the last moment to be told that that is not a legal tender and that they have lost their property.

Senator HITCHCOCK. Do national-bank notes have that effect?

Mr. CROZIER. They have not, and that is why I am opposed to it.

Senator HITCHCOCK. Can you give us any instances of what you refer to?

Mr. CROZIER. I had one gentleman in Denver tell me of a case of a piece of mining property of great value on which there was borrowed in Wall Street about \$150,000. The loan was made, and after they received it they developed the mine to the point where immense ore reserves were shown. These people suddenly foreclosed, and they got the money elsewhere and got together their last dollar to redeem it, and part of that money tendered was bank notes and part of it was gold certificates, and they were refused, because gold certificates are not legal tender, although there is 100 per cent of gold in the Treasury to secure them. They were mere warehouse receipts.

There is nearly 90 per cent of money in actual circulation in this country under the law of Congress which is not worth the paper it is written on, if anybody cares to refuse it, because it is not legal-tender money.

Senator WEEKS. Did you investigate to see whether that story which you have related to us was true or not?

Mr. CROZIER. I did not personally investigate it, but it came from a business man in Denver who, I suppose, knew what he was talking about.

Senator NELSON. Senator Shafroth may know something about that.

Senator SHAFROTH. Not that particular instance, but I remember a time when a man wanted to make a tender of \$3,000, and he laid down \$3,000 in gold, because he felt sure the people with whom he

was making the settlement would not take anything else. I have seen several instances where they have resorted to that.

Mr. CROZIER. Now, gentlemen, I would like to ask some member of this committee to explain why a gold certificate is not a legal tender?

Senator HITCHCOCK. I supposed it was a legal tender.

Mr. CROZIER. It is not.

Senator NELSON. It is not.

Mr. CROZIER. Over \$1,000,000,000 of those certificates are put out by the Government of the United States and they have 100 per cent of gold behind them, and yet they are utterly worthless paper in any business transaction between private individuals if the other party cares to refuse to accept them.

Senator O'GORMAN. Do you know any reason why any currency issued with the authority of the United States Government and with its approval should not be regarded as legal tender for all purposes?

Mr. CROZIER. There is no reason.

Senator O'GORMAN. I am asking if you know any good reason.

Mr. CROZIER. I have asked that question of a great many learned men about this legal-tender money, and the only answer I have ever obtained—I have asked it of college professors of economics, and they are preaching it in the great colleges and universities of this country to young men who are coming up to be the future citizens, as the reason why it should not be the legal tender, and that is if it is made real money some time the Government of the United States may issue too much of it. In other words, they are preaching distrust of republican institutions and the safety of republican governments to those tens of thousands of young men in the educational institutions of the United States.

Senator REED. That is interesting, but we can not undertake to reform the universities of this country.

Mr. CROZIER. But the Senator asked the question. I simply say I have put that question to a good many men.

Senator WEEKS. I do not think it is worth while to indulge in a discussion of that subject at this time, but I think the reasons are ample and conclusive why such a circulation should not be made legal tender.

Mr. CROZIER. I have never yet found any reasons that were advanced, excepting the one I have suggested, that there would be too much of it.

Now, then, my contention is this, that every dollar issued by the authority of Congress should be a full legal tender—should be redeemable in gold and should have behind it a reserve of actual gold.

There can be no question about the soundness of that currency, because the Aldrich bill provided a currency that was to have behind it not the guaranty of the Government, but only $33\frac{1}{3}$ per cent of gold, and not really even that, because under the Aldrich bill silver could have been used exclusively, and not a dollar of gold behind that currency. Greenbacks could have been used exclusively and not a dollar of either gold or silver to secure the Aldrich bill currency. The same is true of your bill.

Senator O'GORMAN. You may proceed with your points, Mr. Crozier.

Mr. CROZIER. The whole power of the Federal Government right now is being exerted to regulate or destroy trusts and combines as unlawful, dangerous, and against the general welfare. How strange that instead of protecting the independent banking system and competition for loans by forbidding banks to confederate to monopolize money and credit and raise interest rates, this pending currency bill would actually force the 25,000 banks to unite for mutual profit and advantage in a dozen corporate combines to which an absolute and binding monopoly of the entire public supply of money and bank credit of the United States is granted by act of Congress. A private monopoly of money and bank credit is the most dangerous and burdensome of all monopolies, because no important business can long thrive or even exist without a reasonable and ready supply of currency and credit available at fair interest rates.

I can not believe that the President and his advisers have as yet considered the question from this angle. It seems impossible that they would knowingly fasten upon the country by law an odious private monopoly of the public supply of money and bank credit, or while publicly proclaiming Government control of the public currency actually seek to put through Congress a measure that in fact and in law establishes absolute private control of the public currency in most complete and dangerous form.

I have no desire to obstruct or unnecessarily delay currency legislation if it is wise, sound, and patriotic. But we must not go faster than we can analyze and understand the important and far-reaching effects of proposed legislation. Although a lifelong Republican until that party, under the lead of Aldrich in 1912, took its official stand for private control of the public currency, my sympathies have since been with the President and his supporters in Congress. But if Democracy, in spite of the teachings of Jefferson and the warnings of Jackson, is now to be also officially committed to private control of the public currency and surrender everything to the big banks for the sake of accomplishing currency legislation quickly instead of more deliberately, the way is likely to be opened for revolutionary political changes in the near future. There is not the slightest doubt that the progressive two-thirds of both parties desire public instead of private control of the public currency. Will not these progressives come together in the Progressive Party or some new party in defense of their birthright and to preserve popular control of the public money supply if both Republican and Democratic Parties yield to the pressure of Wall Street and the big banks and take control of the public currency away from the Government and put it into private hands? What else can they do? Gentlemen, you may be shaping the issues of the next campaign and influencing powerfully the future history of the country in designing this currency legislation. I will gladly go with you in the support of any wise and practicable system that does not surrender to private interests the great sovereign power of issuing and regulating the volume of the public currency in circulation among the people.

Garfield said that whoever controls the supply of currency would, to a large extent, control the business and activities of all the people.

The great and immortal Jefferson declared that a private central bank issuing the public currency was a greater menace to the liberties of the people than a standing army.

Senator O'GORMAN. Did he have in mind a central bank controlled by private interests?

Mr. CROZIER. Exactly that; the same as these regional banks are.

Would not he, if now among us, say the same of a dozen private central banks all owned by the same private interests and possessing an absolute monopoly of putting into circulation every single dollar of the public currency of the United States? Personally I shall continue to follow the wise and patriotic teachings of Jefferson even if all the leaders of modern Democracy choose to follow Aldrich and other strange gods.

It seemed unfair to oppose one plan without at least tentatively suggesting another. Therefore I took the liberty of preparing the plan for an ideal money and banking system found in the bill you so kindly printed in full in part 18 of the published hearings of the Senate Banking and Currency Committee.

I have no prejudices against banks or bankers and want them protected fully as to all their legitimate interests. But they must keep out of the Government's business of issuing and regulating the volume of public currency, and the Government should keep out of the ordinary banking business. There can be no safe or justifiable partnership between the Government of the Republic and any private interests.

Senator O'GORMAN. We thank you for coming before us, Mr. Crozier.

Senator SHAFROTH. Will you formulate those amendments which you suggested and send them to the chairman, and mark them as suggestions made by you for amendments to this bill?

Mr. CROZIER. I will be glad to do so.

Senator O'GORMAN. I have here some suggestions which have come from Mr. Dawson, who appeared before us some days ago, containing proposed amendments to the pending bill, and, if there be no objection, his communication will be printed in the record.

Senator BRISTOW. I desire to say we requested Mr. Dawson to send us suggestions.

Senator O'GORMAN. And in the same way Mr. Vanderlip has been recalled to amplify certain changes in the bill which he suggested when he was here before.

(The communication referred to is as follows:)

FIRST NATIONAL BANK,
Davenport, Iowa, October 18, 1913.

HON. ROBERT L. OWEN,

*Chairman Committee on Banking and Currency,
United States Senate, Washington, D. C.*

MY DEAR MR. CHAIRMAN: In response to the kind invitation of the committee, I herewith present the amendments suggested to the pending currency bill which, in my opinion, will tend to make the measure satisfactory to the 7,000 so-called country national banks.

I am much stronger in the opinions presented to your committee on the 10th instant than I was at that time. Upon my return I addressed a letter to every country national bank in Iowa and to about 60 more in Illinois. In that letter I stated the essential changes which I had recommended to your committee and asked for the opinion of the country banker with respect to the same. Up to this time replies have been received from about 125 banks and these replies are most interesting. I believe the committee will derive much information from them, and so I am forwarding them to you for the record.

You will, I am sure, be impressed with the sincerity and good temper of these letters from men who are conducting the national bank of from \$25,000 to

\$100,000 capital in the average village or town throughout the country. You will note also that hardly a single suggestion is contained in all these letters that was not presented in my testimony to your committee. The most gratifying feature of all, however, is the inevitable conclusion which one reaches after reading these letters that if the essential changes suggested to the bill are made the measure will meet with general approval in the smaller communities and by nearly 90 per cent of existing national banks.

As none of these essential changes go to the underlying principles of the bill, but are merely matters of detail which are relatively unimportant in comparison with the larger aspects of the measure, I am confident that they will appeal strongly to the good judgment of the committee.

The changes which will make the bill satisfactory to the smaller national banks are these:

- (1) Lessen the capital-stock subscription.
- (2) Protection against loss on the 2 per cent bonds.
- (3) Protection against loss in the shifting of reserves.
- (4) Permit the rediscount of a limited amount of six months' paper.
- (5) Equalize the privileges with State banks, with which they are in direct competition.

I am inclosing herewith copy of the letter which I addressed to the bankers in conducting my referendum and seeking to fairly ascertain the sentiment of that large class of the smaller banks. I have endeavored to obtain a fair expression of their views, and this your committee will find in the responses which I am sending for the record. I am sure your committee will appreciate that this is about the only way that a direct expression from banks of this large class can be presented for your consideration.

In forwarding these replies I have prepared them for printing in the hearings, and, having carefully read them all, I am confident that your committee will find them useful to have at hand in convenient form.

In submitting the amendments I have put them down in the order in which they come in the bill. All of the amendments relate to the five changes above enumerated, except, possibly, the one regarding section 11, which pertains to the organization of the Federal reserve board.

Thanking you personally for your many courtesies, and assuring you that the smaller national banks of the country will heartily appreciate the friendly consideration of these suggestions, I am, with high regard,

Very truly, yours,

A. F. DAWSON.

[Inclosure.]

FIRST NATIONAL BANK,
DAVENPORT, IOWA, *October 14, 1913.*

BLANK NATIONAL BANK,
Blanktown, Iowa.

GENTLEMEN: At the conclusion of an extended hearing before the Senate Committee on Banking and Currency last Friday, I was requested by Chairman Owen to prepare and submit such amendments as would tend to make the bill satisfactory to the average national bank. In this hearing we discussed the bill wholly from the standpoint of banks with a capital of \$25,000 to \$100,000, of which there are nearly 7,000 in the United States; arguing that the proposed system could not be a success unless these banks were induced to enter it. I suggested the following changes to make the bill more satisfactory to banks of this class:

- (1) Lessen the capital stock subscription.
- (2) Protection against loss on the 2 per cent bonds.
- (3) Protection against loss in the shifting of reserves.
- (4) Permit the rediscount of a limited quantity of six months' paper.
- (5) Give us equal privileges with the State banks, with which we are in direct competition.

Will you kindly favor me with your opinion of these suggested changes and any other amendments that you think will improve the bill?

This looks like an opportunity to secure legislation that will better enable us to serve the people in our respective communities, as the amendments proposed will have careful consideration by the committee when it comes to put the bill in final shape to be reported to the Senate.

Will you please give me the benefit of your advice and suggestion in this important matter so that the facts may be fairly laid before the committee? As the time for action is very short, I shall hope to have your reply by return mail.

Very truly, yours,

A. F. DAWSON.

AMENDMENTS SUBMITTED BY A. F. DAWSON, OF DAVENPORT, IOWA.

Page 2, line 22, strike out the word "twelve" and insert in lieu thereof the word "five."

Page 3, line 4, strike out the word "required" and insert in lieu thereof the word "permitted."

Page 3, line 5, strike out the word "twenty" and insert in lieu thereof the word "ten."

Page 8, line 10, after the word "districts," strike out all down to and including the word "district" in line 15.

Page 12, amend section 7 so that it will read as follows:

"Sec. 7. That after the payment of all necessary expenses and taxes of a Federal reserve bank, the member banks shall be entitled to receive an annual dividend of five per centum on the paid-in capital stock, which dividend shall be cumulative. One-half of the net earnings, after the aforesaid dividend claims have been fully met, shall be paid into a surplus fund until such fund shall amount to twenty per centum of the paid-in capital stock of such bank, and of the remaining one-half fifty per centum shall be paid to the United States and fifty per centum to the member banks in the ratio of their average balances with the Federal reserve bank for the preceding year. Whenever, and so long as, the surplus fund of a Federal reserve bank amounts to twenty per centum of the paid-in capital stock the member banks shall be entitled to receive an annual dividend of six per centum on the paid-in capital stock. Fifty per centum of the net earnings, after the aforesaid dividend claims have been fully met, shall be paid to the United States and fifty per centum to the member banks in proportion to their annual average balances with such Federal reserve bank; all earnings derived by the United States from Federal reserve banks shall constitute a sinking fund to be held for the reduction of the outstanding bonded indebtedness of the United States, said reduction to be accomplished under regulations to be prescribed by the Secretary of the Treasury."

Reasons for changes suggested: It is a fair, businesslike proposition to pay a reasonable dividend to the stockholder, and then divide equally the balance between the two partners, who supply the deposits. As the Government will supply about one-fourth of the deposits and the member banks about three-fourths a division of the excess profits half and half would seem to be eminently fair to the Government.

Page 16, line 15, strike out the words "the reserve" and insert in lieu thereof the words "all the."

When State banks avail themselves of the privileges of the system they should be subject to the same requirements as national banks.

Page 17, amend the first paragraph of section 11 so that it will read as follows:

"Sec. 11. That there shall be created a Federal reserve board, which shall consist of seven members, and it shall be composed in the following manner:

"First. One ex officio member, namely, the Secretary of the Treasury.

"Second. Two members to be elected by the member banks in the several Federal reserve districts. They shall be elected by ballot, each member bank having one vote. One shall be designated to serve for five and one for seven years, respectively, and thereafter each member so elected shall serve for a term of seven years unless sooner removed for cause by the President. Said first election shall be conducted under rules and regulations prescribed by the reserve bank organization committee. All subsequent elections shall be conducted by the board of directors of the several Federal reserve banks under rules and regulations approved by the Federal reserve board.

"Third. Four members to be 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 the different geographical divisions

of the country. The four members of the Federal reserve board appointed by the President and confirmed as aforesaid, and the two members elected by the member banks shall devote their entire time to the business of the Federal reserve board and shall each receive an annual salary of \$12,000, together with an allowance for actual necessary traveling expenses, and the Comptroller of the Currency shall, in addition to the salary now paid him, receive the sum of \$5,000 annually. 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 them shall be a person experienced in banking. Two shall be designated by the President to serve for three, one for five, and one for seven years, respectively, and thereafter each member so appointed shall serve for a term of seven years unless sooner removed for cause by the President. Of the four persons thus appointed, one shall be designated by the President as manager and one as vice manager of the Federal reserve board. The manager of the Federal reserve board, subject to the supervision of the Secretary of the Treasury and the Federal reserve board, shall be the active executive officer of the Federal reserve board."

This seems to provide a control which will be secure against political control on the one hand or the control of concentrated wealth on the other. This attempts to steer between these two dangers.

Page 22, strike out all of lines 1 and 2.

I do not think the board would ever have occasion to suspend the reserve requirements with reference to Federal reserve notes, but if an emergency arose where such suspension would save the day it should not be prohibited.

Page 23, strike out all of section 13.

The proposed advisory council is unnecessary if member banks are given representation on the Federal reserve board.

Page 25, strike out the third paragraph of section 14 and insert in lieu thereof the following:

"Upon the indorsement of any member bank, if a country bank as defined by existing law, any Federal reserve bank may discount the paper of the classes hereinbefore described having a maturity of more than ninety days and not more than one hundred and eighty days; but not more than fifteen per centum of the total paper of the classes described in this and the preceding paragraph shall have a maturity of more than ninety days."

This permits the rediscount of a limited amount of six months' paper, and I regard this as vital if the benefits of the system are to be conveyed to the smaller national banks. The above might be inserted as a new paragraph, allowing the third paragraph to stand as it now is, if thought preferable.

Page 29, lines 2, 3, and 4, strike out the proviso.

This is a matter which, in my judgment, should be left to the discretion of the directors of the Federal reserve banks and the Federal reserve board. If the new system is not to be conducted as a money-making institution for the Government, some people can not understand why the Federal reserve banks should pay interest on Government deposits and not on other deposits.

Page 29, lines 22 and 23, strike out the words "or lawful money."

These new notes should be redeemable in gold.

Page 23, line 13, strike out all down to and including the word "patrons" in line 23.

This provision is very objectionable to the smaller banks. I am convinced that it would be unwise to enter into this matter of exchange charges between banks further than to provide that drafts drawn on a Federal reserve bank by any member bank should be honored at par by every other member bank. This can easily be arranged by a regulation of the directors of the Federal reserve bank.

Page 30, line 13, strike out all after the word "accredited" down to the end of the paragraph and insert in lieu thereof the following:

"Whenever in the opinion of the Federal reserve board the collateral deposited with the Federal reserve agent shall be less in value than the amount of the notes issued to said Federal reserve bank, it shall require additional collateral, in order that the collateral may always equal the amount of such notes, deducting, however, from the amount of the notes any deposits in lawful money which may have been made with the Government to offset said notes, as hereafter provided."

Page 31, line 6, strike out all after the word "bank" down to and including the word "out," in line 15.

Page 36, line 17, amend paragraph (a) of section 20 so that it will read 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 amount 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, held actually in the bank's own vaults. After sixty days from the date aforesaid and for a period of six months at least one-twelfth within the next succeeding six months at least two-twelfths, and thereafter at least four-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. 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."

This provides a little more gradual process of shifting the reserves of country banks. I believe the shift could be accomplished in this way without material disturbance or inconvenience.

Page 39, after line 4, insert a new paragraph, as follows:

"The board of directors of the Federal reserve bank may in its discretion fix from time to time a rate of interest to be paid on the deposits of member banks, subject to the approval of the Federal reserve board, and such rate shall be uniform throughout the United States, and in no case shall it exceed the rate of interest paid on Government deposits."

I believe this discretion should be included in the bill. We have seen how potential this question of interest has been in centralizing reserves in private hands. One of the main objects of this bill is to mobilize reserves, and should those in control of the system not be given discretion to employ such means as will most successfully and fairly accomplish this result?

Page 39, lines 18 and 19, strike out the words "or lawful money."

I would allow section 26 to remain in the bill as it now stands, so that national banks without a savings department might be permitted to make a limited amount of farm mortgage loans running not to exceed one year.

Page 44, amend section 27 so as to read as follows:

"SAVINGS DEPARTMENT.

"Sec. 27. That any national banking association may make application to the Comptroller of the Currency for permission to open a savings department. In making such application any national banking association may further apply for power to act as trustee for mortgage loans subject to the limitations and conditions herein prescribed. Whenever the Comptroller of the Currency shall have approved any such application he shall so inform the applying bank, and thereafter it shall be authorized to receive savings deposits as so defined, under rules and regulations to be prescribed by the Comptroller of the Currency.

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

"The savings department of each such national bank shall be authorized to accumulate and loan the funds of its depositors, to receive deposits of current funds, to purchase securities authorized by the Federal reserve board, to loan any funds so accumulated upon real estate or other authorized security and to collect the same with interest, and to declare and pay dividends or interest upon its deposits. In making loans secured by improved and unencumbered farm land, no such loan shall be made for a period longer than five years, nor for an amount exceeding fifty per centum of the actual value of the property offered as security, and such property shall be situated within the Federal reserve district in which the bank is located.

"The Federal reserve board is hereby authorized to exempt the savings departments of national banking associations from any and every restriction upon classes or kinds of business laid down in the national banking act, and

it shall be the duty of said board to make and publish at its discretion lists of securities, paper, bonds, and other forms of investment which the savings departments of national banks shall be authorized to buy or loan upon; and said lists need not be uniform throughout the United States, but shall be adapted to the conditions of business in different sections of the country.

"It shall be the duty of every national bank to maintain, with respect to all deposit liabilities of its savings department, a reserve in money which may under existing law be counted as reserve, equal to not less than five per centum of the total deposit liabilities of such department, and every national bank authorized to maintain a savings department is hereby exempted from the reserve requirements of the national banking act and of this act in respect to the said deposit liabilities of its savings department, except as in this section provided. Every regulation made in pursuance of this section shall be duly published, and also posted in every member bank having a savings department."

This change eliminates the segregation of capital, etc., which is impractical and unworkable in the smaller banks. The farm loan provision, to be of any material value in serving the people in this regard, must permit such loans to run for five years. It is generally conceded that the best investments for savings banks are first-mortgage loans secured by improved and unencumbered farms.

All of which is most respectfully submitted.

A. F. DAWSON.

Senator REED. Before Mr. Vanderlip begins, let me make this statement: Mr. Dawson forwarded to the clerk of the committee a large number of letters which he had received from the bankers in his State in response to certain questions which he had propounded to them, and he asked that all these letters be printed in the record. After looking through them in a desultory way and talking with Senator Pomerene, we suggested to the clerk that it would only be necessary to print the letter sent out by Mr. Dawson and the number of replies he had received in the affirmative or negative to each proposition instead of printing the mass of correspondence, which would take up a great many pages. I state that to the committee so they may understand the situation.

Senator SHAFROTH. How many pages will this make now?

Senator O'GORMAN. Oh, not more than about 10 pages.

(The additional statement of Albert F. Dawson, president of the First National Bank, of Davenport, Iowa, follows:)

Mr. DAWSON. Upon my return home after the hearing accorded to me by this committee on the 10th instant I took immediate steps to ascertain the views of the "country" national banks in the Middle West with respect to those amendments to the pending bill which I had suggested with a view to remove the objections made by banks with a capital of from \$25,000 to \$100,000. In order to get a fair expression direct from each bank I sent a letter to each of the 325 "country" national banks in Iowa and about 70 in addition to bankers of the same class in Illinois. This letter was sent out under date of October 14, and following is a copy of it:

DAVENPORT, IOWA, *October 14, 1913.*

MY DEAR SIR: At the conclusion of an extended hearing before the Senate Committee on Banking and Currency last Friday I was requested by Chairman Owen to prepare and submit such amendments as would tend to make the bill satisfactory to the average national bank. In this hearing we discussed the bill wholly from the standpoint of banks with a capital of \$25,000 to \$100,000, of which there are nearly 7,000 in the United States, arguing that the proposed system could not be a success unless these banks were induced to enter it. I suggested the following changes to make the bill more satisfactory to banks of this class:

- (1) Lessen the capital-stock subscription.
- (2) Protection against loss on the 2 per cent bonds.
- (3) Protection against loss in the shifting of reserves.

(4) Permit the rediscount of a limited quantity of six-months' paper.

(5) Give us equal privileges with the State banks with which we are in direct competition.

Will you kindly favor me with your opinion of these suggested changes and any other amendments that you think will improve the bill?

This looks like an opportunity to secure legislation that will better enable us to serve the people in our respective communities, as the amendments proposed will have careful consideration by the committee when it comes to put the bill in final shape to be reported to the Senate.

Will you please give me the benefit of your advice and suggestion in this important matter, so that the facts may be fairly laid before the committee? As the time for action is very short, I shall hope to have your reply by return mail.

Very truly, yours,

A. F. DAWSON.

(Of the 123 answers to the above filed with the committee 122 expressed their approval of the suggested amendments, 1 being opposed thereto.)

Senator O'GORMAN. Mr. Vanderlip, you may proceed. The committee will be glad to receive any further suggestions you may have to offer regarding the pending legislation.

FURTHER STATEMENT OF FRANK A. VANDERLIP, NEW YORK, N. Y.

Mr. VANDERLIP. Following my previous hearing, it was suggested by some of the members of the committee that I engage my mind with the problem of whether or not a bank could be formed which would be entirely under the control of the Government, and which would be a feasible and workable institution. I have been giving my very best attention to that subject. To state the conclusion, rather than the road by which it was reached, I will say that I believe that is possible. I believe you can create an institution every officer of which will be appointed by the Government and the control of which will lie solely with these public officers, an institution in which the banks will have no word of Government whatever, and which still would be satisfactory to the banks and would be a workable plan. I shall be glad to elucidate that plan, if you wish.

Senator O'GORMAN. You may proceed.

Mr. VANDERLIP. I would suggest the granting of a charter to a Federal reserve bank, with \$100,000,000 of capital—a fixed amount of capital, not a variable amount. The head office would be located in Washington, and there would be as many branches as the governors of the bank might see fit to provide, probably starting with 12, the number of regional banks now suggested.

I would adopt the idea of the present bill in regard to the appointment, in the very first instance, of an organization committee. The function of this committee would be to divide the territory of the United States into, we will say, 12 districts, and to select one city in each of those districts which would be the seat of a branch of the Federal reserve bank.

The stock of this bank should be either entirely owned by the Government, the funds for the purpose being secured by the sale of Government bonds at the lowest interest rate at which those bonds would float, or it might be offered to the public generally, and the success of that offering insured by requiring the banks to underwrite a pro rata proportion. There would be no need of any restriction

on the purchase, sale, or accumulation of the stock, because it would have no rights whatever, except a right to receive a specified dividend. The stock would have no voting power, and no right of any character except to receive dividends and, in the event of liquidation, to receive back the amount of money that was paid in, but no accumulation of surplus, should there be any surplus—which there probably would not be—in the event of liquidation.

I would have the Government of this institution absolutely and completely in the hands of a board of seven men appointed by the President of the United States with the advice and consent of the Senate. These men would serve for terms of 14 years, the first board to be classified so that the term of office for one director would expire every second year, and thereafter appointments should be made for 14 years. There should be no *ex officio* appointments, but all members should be selected by the President for these terms, and there should be a clause in the act directive to the President that these appointments shall be made from men qualified for the duties, that the appointments shall in no case be made as political rewards, and that three at least of the seven should be men who have had acknowledged banking and financial experience.

Senator REED. And I suppose, Mr. Vanderlip, you would add that at the time of their appointment and during the holding of that office they should have no banking connections whatever?

Mr. VANDERLIP. Oh, absolutely.

Senator WEEKS. Stockholding or otherwise.

Mr. VANDERLIP. And that would be the case of all appointees of the bank in any official or executive capacity. They should have no relation, either official or financial, with any other existing banking institution.

I would provide that each branch be equipped with an executive committee of seven, to be appointed by the board of the Federal reserve bank, and with the same directive clause that they should be appointed for their qualifications or experience, and that at least three of the seven should have had acknowledged banking and financial experience.

The President would designate one member of the board to act as governor and one as deputy governor; and the governor, or in his absence the deputy governor, would act as chairman of the board and be the chief executive officer of the bank. In the case of the executive committee the board of the Federal reserve bank would designate a chairman and a vice chairman, and the chairman would be chairman of the board, or in his absence the vice chairman would be. The executive committee would elect officers of the branch other than themselves. The titles of the executive officers would not be president, vice president, etc., but their functions would be similar to the functions of such officers in a bank; that is, the chief executive officers.

Senator HITCHCOCK. Who would elect those officers?

Mr. VANDERLIP. The executive committees.

Senator HITCHCOCK. The executive committees of what?

Mr. VANDERLIP. Of each bank; that is, subject to the approval of the board of the Federal reserve bank. Every act of the executive committee would at all times be subject to the approval of the Federal reserve board.

Senator NELSON. Here in Washington?

Mr. VANDERLIP. Here in Washington. That board would be supreme in every particular in the management of this institution.

Senator O'GORMAN. Will you state here, Mr. Vanderlip, why it would be necessary with a branch to have officials other than the seven governors who would be named by the reserve board?

Mr. VANDERLIP. The branches would be the active executive factors of this institution. These branches would have the right to rediscount and would rediscount commercial paper for member banks.

There should be a permanent trained banking staff, who would work under the direction, first, of the executive committee, and, in the last instance, under the board of the Federal reserve bank.

Senator HITCHCOCK. These directors would give their whole time to the service of the branch?

Mr. VANDERLIP. That should be specifically provided, that they should give it their whole time.

I should have said in regard to the stock that I would attach a double liability to it if it is sold to the public.

Senator HITCHCOCK. Would you limit the quantity that individuals might buy?

Mr. VANDERLIP. I would not, because it would not make any difference in the management if one individual owned it all he would have no influence whatever.

Senator O'GORMAN. If this entire system is to become a public utility system and is to be conducted not primarily for the purpose of private gain, and if the return to the holders of stock will be restricted to a fixed dividend rate of perhaps 5 or 6 per cent, would it be well to impose an additional liability on the holders of such stock?

Mr. VANDERLIP. On reflection, perhaps not. I probably was influenced by the present practice.

Senator O'GORMAN. Would not that discourage the public from investing in such stocks?

Mr. VANDERLIP. I think it would, yes; and be such a discouragement as would offset the benefit. I am inclined to think you are right on that.

Senator REED. Besides, Mr. Vanderlip, if this stock were sold, the best holding in the world for it would be a general holding among the people; I should think that would be the most helpful construction. And therefore it might be held in large part by people who invested their savings in it, and a double liability would not amount to much.

Mr. VANDERLIP. I quite agree with you and withdraw that suggestion.

Senator NELSON. What dividend rate would you suggest, Mr. Vanderlip, on that stock?

Mr. VANDERLIP. The lowest rate that will float the stock at par.

Now, there will be some question as to the earning capacity. Of course, the cheapest thing for the Government to do would be to sell its bonds at the lowest possible rate. It could sell \$100,000,000 of bonds at $3\frac{1}{2}$ per cent. I doubt if it could float \$100,000,000 of stock at 5 per cent. My judgment would be, as conditions are now, that about $5\frac{1}{2}$ per cent would be the point at which that stock would float; 6 per cent would be a little too high, and 5 per cent would be distinctly

doubtful. The rate ought to be such that the burden of underwriting the stocks which you impose on the banks would not be a serious one and would not result in the banks getting any great amount of that stock.

Senator HITCHCOCK. Would you think 5 per cent would be too low if it were made a cumulative dividend?

Mr. VANDERLIP. It should be cumulative, undoubtedly.

Senator NELSON. Do you not think a stock of that kind under those conditions would be analogous to a permanent annuity, and would it not be a popular investment for that purpose?

Mr. VANDERLIP. It would after the bank had been running a sufficient length of time to demonstrate its earning capacity, and I think there would be no doubt about its earning capacity.

Senator HITCHCOCK. What would you think of the proposition to have the Government subscribe for a part of this stock and issue bonds to pay for it until a market was found for it?

Mr. VANDERLIP. It might well be provided that the Government instead of the banks underwrite the issue. That is to say, they would offer it to the public and take what the public did not take and later sell it to the public.

Senator McLEAN. How would it do to allot it to the highest bidder?

Mr. VANDERLIP. If you made the rate 6 per cent, I think I should allot it to the highest bidder. I would think well of the plan that was adopted when the Spanish War loan bonds were sold of allotting to the smallest subscribers first, giving as wide a distribution of this stock as you could—give it to the public; give it to the small investor first. If the public won't take it, then the banks must take it. Or we might adopt the suggestion that has been made here, and let the Government itself underwrite it, and not make a forced underwriting on the part of the banks. You must, in some way, if you launch this enterprise, insure its success. You would have to insure its success on the start by raising this money, and either the Government or the banks would have to stand ready to take what the public declined to take.

Senator WEEKS. Let me give you another thought about the double liability. Double liability presupposes the possibility of a failure. I do not think there ought to be such a possibility in this kind of bank.

Mr. VANDERLIP. I quite agree with you. I think the double liability is wrong.

Senator WEEKS. That the organization should be such that there could not be such a thing as a failure of the bank.

Senator O'GORMAN. Mr. Vanderlip, bearing upon your suggestion that the stock be underwritten by the banks, you mean by all the national banks?

Mr. VANDERLIP. By all national banks, pro rata; that is to say, in the proportion that the capital of each bank bears to the total capital of all national banks on a given day.

Senator O'GORMAN. Assuming there would be some national banks—because there would be some—not in favor of this plan, would they not be likely to protest, as they are protesting now, that this additional burden should not be placed upon them?

Mr. VANDERLIP. They would protest exactly as they are protesting now, but with less force, because they would not be obliged to make a permanent investment. They could perfectly well measure their loss, because they could sell the stock the day after they got it.

Senator O'GORMAN. Do you not think this plan would more generally invite public confidence if the banks had nothing to do with the creation of the system, leaving it to the public and the Government?

Mr. VANDERLIP. It would be most desirable if you would be willing to do that. Leave the banks out entirely; the banks will welcome that.

I should have said in regard to the appointment of the board of the Federal reserve bank that the President should distribute them geographically, so as to give due weight to commercial sections of the country; not to geographical extent but to commercial importance, and that the members of this board should be retired automatically at some age; the same age, perhaps, as the Supreme Court judges.

Senator REED. When you say they should be distributed commercially, you mean distributed so that they could meet the present or developing lines of commercial activity?

Mr. VANDERLIP. Yes, sir.

Senator BRISTOW. Mr. Vanderlip, why do you recommend 14 years as the term of service?

Mr. VANDERLIP. I regard long terms as absolutely essential to insure proper character for this board. It is through that point that I am willing to come at all to the thought of an institution entirely controlled by Government appointees. With one member retiring every two years there can then be hardly any question of partisan politics in that board. I think there is the greatest safety not only in the character of appointments, but in the ripe experience which the men would gather and in the thought that it was practically a life appointment of the very highest character that a man in finance or business could attain.

Senator NELSON. And you would get more of a continuity of practice, policy, and administration?

Mr. VANDERLIP. Yes, sir.

Senator BRISTOW. What salary would you recommend?

Mr. VANDERLIP. The very highest you are willing to pay; and any salary that is now paid by the Government to any officers other than the President would seem to me too small. I know you would find it hard to give these men salaries higher than the Supreme Court justices or Cabinet officers. Really, the minimum should be \$15,000, with probably \$17,500 for the governor.

Senator BRISTOW. Why do you suggest seven directors for the branches, the seven to devote their entire time to it, and then, outside of the seven directors, have the officers selected? It seems to me that that is a pretty big organization for a branch.

Mr. VANDERLIP. It will be a pretty big institution. It will be an extremely big institution with a tremendous amount of detail. If this institution is to carry on the exchange business—which means the collection of exchanges—that in itself will require an organization—a genius of management—of the very highest character. It will be a work of detail equal to almost any job you might think of.

Senator O'GORMAN. If I catch your meaning at this point, Mr. Vanderlip, these seven officials managing the branch, appointed by the members of the Federal reserve board, may act relatively as a board of directors does in an ordinary private institution, and they will control the action of the bank?

Mr. VANDERLIP. Yes, sir; but I would presume they would be somewhat closer to the detail work than is an ordinary board of directors. They would be more analogous to the managers of a foreign bank, that is not run by a president, but is run by two or three; or, as in the case of some banks in Germany, five managers, and under them the active executive officers.

Senator NELSON. Would not five be sufficient?

Mr. VANDERLIP. I should see no serious objection to that.

Senator HITCHCOCK. Can you make any guess as to the number of employees such a branch would probably have?

Mr. VANDERLIP. The branches would, of course, be of different sizes. A number of employees are going to be required to handle the collections. That is a tremendously detailed work.

Senator BRISTOW. Why should it handle the collections?

Mr. VANDERLIP. That is absolutely essential, it seems to me, to the working of this plan, or any plan such as you have in mind. One answer would be because it will be a great economy to the commerce of the country, a great saving, a speeding up of the handling of collections, and in every way an economy.

But there is a much more significant reason than that. To handle collections banks have to keep deposits with other banks. That some of them are seeking to avoid, or, at least, seeking to make unnecessary. You will find country bankers objecting—until they come to understand this plan—to the fact that they must keep their reserves without interest in the Federal reserve bank or the regional banks, and they feel they must also keep about the same lines of deposits with their correspondents as they have before, because they do not grasp the significance of the collection feature. If the Federal reserve bank will undertake the collection business and will have the proper rediscount facilities, there is practically no reason for one bank to keep a balance with any other bank. Now, it is important that that should be done, for if you are going to compel the country bank to keep its reserve without interest, and still the exigencies of business compel it to keep a balance with a correspondent practically as large as it is already keeping, it works to the evident disadvantage of the bank.

Senator HITCHCOCK. The branches you provide for would have substantially the same functions as the regional banks under this bill?

Mr. VANDERLIP. Almost precisely.

Senator HITCHCOCK. Are you able to make any estimate of the number of employees such a branch would require?

Mr. VANDERLIP. That would, of course, depend almost entirely upon the size of the branch and the volume of the collections. I should think it would take easily several hundred employees in the larger branches.

Senator O'GORMAN. Assuming, under the pending bill, that New York City were constituted a single regional center, that we had one regional bank for New York City, have you calculated the probable number of employees such a regional bank would require?

Mr. VANDERLIP. I suppose the City Bank employs more than 100 men on that particular branch of business.

Senator O'GORMAN. Looking after collections?

Mr. VANDERLIP. The City Bank has about 14 or 15 per cent of the total deposits of all the clearing-house banks. You can see from that that a rough guess would be 700 men, or something like that. Of course that is a very offhand estimate.

Senator HITCHCOCK. One man handles, I understand, 1,500 or 2,000 checks a day. Is that right?

Mr. VANDERLIP. I am not sufficiently familiar with that detail to answer.

Senator BRISTOW. Why would it not do to let the country banks divide their reserves, and let them keep part of them, say, with the Federal bank—that is, make a smaller reserve requirement, and let them keep their deposits with commercial banks, as they do now, to such extent as they think desirable?

Mr. VANDERLIP. That is feasible, but I have presumed the point was pretty nearly settled that you wanted to take from the central reserve city banks the duplication of deposits which results from their holding the reserves of other banks.

Senator REED. That is the great danger in the present system, is it not?

Mr. VANDERLIP. No, sir; that is not the great danger—

Senator REED (interposing). Or, is it not one great danger?

Mr. VANDERLIP (continuing). I am inclined to think the present system is not as good a system as you would have with all the reserves in the vault or in the Federal reserve bank.

Senator BRISTOW. Now, suppose this were a bank of issue and could issue currency to meet a stringency or demand; could the evil which has resulted from the pyramiding of these reserves result after that system was once established? Could not the banks get the relief they desired so that there would be no trouble in these centers as a result?

Mr. VANDERLIP. I would not quite admit that the evil has come from this system of holding reserves; it has, in a measure. Either system—the one of the Government bank or the one you have been considering that has been passed by the House—will, I believe, obviate the recurrence of any such condition as, for example, in 1907, when it was a physical impossibility to supply the currency that was demanded by 25,000 frightened banks that wanted to build up their own reserves. There is the trouble. It is at the country bank end, not at the city bank end, that our system is defective. Of course, the two ends are related, but the trouble comes from the country bank becoming frightened—and by "country bank" I really mean all banks—and drawing to itself more reserve than it requires. What we want is mobilization of reserves—a reserve reservoir—and we want but one, and you will never get this thing just right until you get but one, either actually or in fact, or by relating the members you do have so they are in effect one.

Senator HITCHCOCK. What reserves would you require this Government bank to hold?

Mr. VANDERLIP. Perhaps it would be better for me to run through the plan and take these questions up in their natural order.

Senator NELSON. I should like to hear your reserve plan and your currency plan.

Senator BRISTOW. That would be better.

Mr. VANDERLIP. The earnings of the bank would—in the case of the Government subscribing to all the stock—first be devoted to an accumulation of a surplus of, let us say, 20 per cent. After that half to the accumulation of a further surplus and half to the Government, until the total surplus equals 50 per cent, after which all earnings would go to the Government. In the case of the public subscribing to the stock, the net earnings would first be devoted to paying the dividend, then to an accumulation of a surplus up to 20 per cent, then half to an accumulation of a further surplus and half to the Government, and after the surplus had reached 50 per cent all the remaining earnings to the Government.

I would devote all the earnings which the Government receives to the cancellation of the public debt, under specific terms which should be in the bill calling for tenders of bonds.

The customers of the bank should be only the Government and qualified member banks. Qualified member banks would include all national banks, and might include State banks and trust companies under proper restrictions of admission.

The Government should deposit all of its general fund with the bank and constitute the bank its fiscal agent.

Senator HITCHCOCK. Is there any objection to leaving that optional with the Secretary of the Treasury?

Mr. VANDERLIP. I should think so. This is a Government institution solely, and the funds of the Government ought to be deposited there. Otherwise a Secretary of the Treasury might withdraw from commerce that entire deposit, which would, of course, be the principal deposit of the bank, and you might have the management of the bank and the management of the Treasury at loggerheads, and the bank could be broken.

Senator HITCHCOCK. What would lead a Secretary of the Treasury to do that thing?

Mr. VANDERLIP. I do not always know what leads Secretaries of the Treasury to do what they do.

Senator SHAFROTH. If these directors were long-time appointees, say 14 years, there might be an entirely different political party, and that might lead to a rupture.

Senator HITCHCOCK. Do you think the withdrawal of Government funds would seriously cripple the bank and possibly lead to its breaking?

Mr. VANDERLIP. I can readily conceive a condition of the bank where if you would draw \$150,000,000 or more of reserve money out of it the reserve would then be away below the legal limit, and this would lead to the bank's serious embarrassment, if not to closing.

Senator HITCHCOCK. Of course, you are providing a power to issue currency and a power to issue Government bonds—

Mr. VANDERLIP (interposing). But the Government bank could not pay its currency to the Government.

Senator HITCHCOCK. I understand you are giving the officers of the Federal board the power to issue Government bonds?

Mr. VANDERLIP. No power to issue bonds; no, sir. I do not understand the question—power to issue bonds?

Senator HITCHCOCK. Let me ask you this: You propose to give the Federal board the power to issue currency?

Mr. VANDERLIP. Certainly.

Senator HITCHCOCK. How do you propose to have that currency secured?

Mr. VANDERLIP. I will come to that in the regular order, if I may.

Senator HITCHCOCK. Would not that involve the power to sell bonds to get gold?

Mr. VANDERLIP. No, sir.

Senator O'GORMAN. The hour for adjournment has arrived, and we will take a recess until 2 o'clock.

(Thereupon, at 1 o'clock p. m., a recess was taken until 2 o'clock p. m.)

AFTER RECESS.

Senator O'GORMAN. I think we may resume, Mr. Vanderlip.

STATEMENT OF FRANK A. VANDERLIP—Resumed.

Mr. VANDERLIP. The reserve requirement for national banks I would have so changed as gradually to transfer the reserves from correspondent banks now acting as reserve agents, so that ultimately all reserves would be in the vaults of the member banks and in the vaults of the Federal reserve bank in the form of balances. The reserve requirement should be the same for all banks, country or city, because no bank would have any reserve responsibility to another bank, and there would be no reason why any one bank should be compelled to keep any larger reserve than any other.

Senator O'GORMAN. Do you suggest what that reserve ought to be?

Mr. VANDERLIP. I am inclined to think that a reserve of 12 per cent for all banks would be sufficient; and, in that connection—I reached that conclusion for this reason—I would recommend that the minimum reserve of the Federal reserve bank be 50 per cent rather than 33 $\frac{1}{3}$ per cent—that it would be 50 per cent for all outstanding demand liabilities, including the notes that it might issue.

Senator WEEKS. The same reserve for notes would apply to all other forms of liabilities?

Mr. VANDERLIP. Yes.

Senator NELSON. Fifty per cent?

Mr. VANDERLIP. Fifty per cent for both notes and deposits. I would permit the board of the Federal reserve bank in an emergency to suspend the reserve requirements for 30 days and to continue such suspension for periods of 15 days. The reserve bank would be empowered to rediscount for member banks paper of a self-liquidating character, to be defined by the act.

Senator NELSON. But there would be no member bank under this system, in the sense we have it in the bill?

Mr. VANDERLIP. No, not exactly in that sense; but there would be member banks. Perhaps a better term would be "depositing banks."

Senator O'GORMAN. Because that would be the only test.

Mr. VANDERLIP. The only test would be, Are bank depositors—are they permitted to deposit? All national banks would be depositors,

and State banks and trust companies might be, and all depositor banks should have the right of rediscount.

Senator POMERENE. You would have no qualification?

Mr. VANDERLIP. I would certainly have a qualification for the State banks. I will come to that in due order.

Senator POMERENE. But not so far as the national banks are concerned?

Mr. VANDERLIP. Every national bank must keep its reserve deposit as this law would indicate.

Senator POMERENE. Of 12 per cent?

Mr. VANDERLIP. Of 12 per cent, a portion in its vault and a portion with the Federal reserve bank. And, by the way, I should permit it to keep any amount which it choose to keep in the Federal reserve bank above the minimum that it must keep there. I would not make it keep in its vault any more than its needs require.

Senator NELSON. Five per cent out of the 12?

Mr. VANDERLIP. I would not have any fixed amount. I would let it keep as little in its vault as it could. For instance, a city bank doing a character of business that required very little currency would keep practically all of its reserve with the Federal reserve bank, knowing it could, at a moment's notice, convert its balance there into currency if it had a demand. Now, I would limit the amount that the depositor bank might rediscount. I think a fair limit would be the amount of its capital and surplus. I would permit the bank to go into the domestic market—

Senator NELSON (interposing). Excuse me, but you say you would limit it to that. You refer to discounts in general or discounts for the sake of obtaining currency?

Mr. VANDERLIP. Discounts in general, made directly on the application of the bank that is rediscounting. I would limit it to the purchase of paper in the open discount market that bore the indorsement of a bank. I would permit the bank to go into the open discount market and buy paper, but only paper that bore the indorsement of a depositor bank. In the foreign market I would permit a bank to go into the discount market and buy prime foreign bills without any regard to an indorsement by a depositing bank. The bank would also have to have the power to deal in gold coin and bullion and in the obligations of the United States Government, and probably of the insular possessions.

Senator HITCHCOCK. Suppose the Government had need of more funds: Would it have the right to borrow of the bank?

Mr. VANDERLIP. I should think it might have the right to borrow from the bank.

Senator NELSON. It ought to have that right?

Mr. VANDERLIP. It probably ought to have that right, but there would be something of a question. The bank is an instrument of the Government. The bank is wholly controlled by Government officers, by public officers. That is a question I would want to reflect on before giving an opinion.

Senator HITCHCOCK. In Germany, as I recall it, the Reichsbank loans to the German Government by buying short-time bills, but those representing the stockholders have the right to put a veto on it so as to limit the amount.

Mr. VANDERLIP. The trouble here would be that there would be no one who could put a veto on it.

Senator O'GORMAN. Why not? Why not have the reserve board exercise that power?

Senator HITCHCOCK. Because they are Government officials and do not represent the stockholders.

Senator O'GORMAN. It is true they represent the Government in the sense that they are Government officials. Yet their principal responsibility lies in a proper administration of this system, and power could very well be confined to them, notwithstanding the fact they are appointees of the President, to use their own judgment as to the extent to which the Government might procure credit in an emergency.

Senator NELSON. At all events, Mr. Vanderlip, excusing me for interrupting you, the loans to the Government should be short-time loans and not permanent investments.

Mr. VANDERLIP. That is exactly what I was about to say. In no event ought the Government to place its obligation with the bank where the maturity was more than a year. It must be banking paper.

Senator O'GORMAN. The Government would at all times possess the power it now has of getting money on its bonds—by issuing and selling bonds in the open market.

Mr. VANDERLIP. Always. Now, I come to a point that I regard as of the greatest importance, and one that has always baffled me heretofore in trying to see how a central bank, officered by public officers, could possibly be made to work. I think the question came up in the hearing I had here before. A central bank covering the whole country must have different rates of discount in different communities, else a community with a high interest rate will borrow all the funds of the bank before the community with the low interest rate reaches the point where it wants to borrow any.

Senator HITCHCOCK. Suppose you limit the amount that can be advanced to any bank.

Mr. VANDERLIP. Senator Hitchcock, you suggested in the hearing this morning a thought which I had never heard before in any discussion, and one that I have embodied in this bill, and which I thought was a new invention. I believe it is the most important thought that we have had on the line of a Government bank. It is this: I would have a uniform minimum rate of discount in every branch and for every bank, but that uniform minimum rate would apply only to a certain percentage of borrowing. If the individual bank is permitted to rediscount up to an amount equal to its capital and surplus, I would say that it may rediscount 30 per cent of that at the minimum rate. Then as it increased its rediscount above that, I would have a progressively increasing rate above the minimum rate. There you get the repressive measure where it belongs—not on the community but on the individual bank. You might have a community in which nearly all the banks were borrowing over the 30 per cent and paying more than the minimum rate, and one bank that had been running conservatively and borrowed nothing. When it came in the market, if the rates were different in the different parts of the country, it would be at a disadvantage. It would have to be penalized because of what its neighbors had been doing. Under