a bill in Wilkes Barre I sent my Ithaca check down to a dealer in Wilkes Barre. He would deposit that check in his bank and that bank would send it to Philadelphia. That Philadelphia bank possibly would send it direct to Ithaca, or perhaps to Ithaca through Syracuse.

Moreover, I understand that the custom is—I am not speaking of the Ithaca bank specially, but of any local bank—a common custom is to have an arrangement made with the Philadelphia bank, so that when the Philadelphia bank sent that check in for collection they would charge the Philadelphia bank with 2 or 3 cents of the 10 cents, we will say. They insist that if it comes in in that way they will make a charge, and they do get some part of their profits out of that. Moreover, I am told it is usual in a small town, where there are only two or three national banks and trust companies, for the banks to combine and agree that none of them will do that work short of a similar charge, and the charge is high enough to give them a profit. I think this bill should stop that kind of thing. I think it is perfectly proper, as provided in this bill, that the actual expenses of collection should be covered. Beyond that I do not think they ought to be allowed to make profits on the checks on their own banks.

Senator Crawford. Let me break in there to say that in the Pujo committee they made a special investigation of the matter of charging on out-of-town checks, and it amounted to a great deal of money and became the subject of more or less abuse, and it is one of the things regarding which the Pujo committee makes a specific report. We ought to keep that in mind in dealing with the question here.

Senator O'Gorman. I think it is said that $6,000,000 is charged on the commerce of the country.

The Chairman. That is not really true, however.

Prof. Jenks. May I make another suggestion? I think this bill as it is, providing that the regional reserve bank shall act as a clearing house under this law, will, to a very great extent, lessen the actual expenses, as I intimated before.

Senator O'Gorman. I know; but it will diminish the opportunity of the small bank to increase its earnings.

Prof. Jenks. Exactly; but it seems to me that while that is true, so far as the small bank's profit is dependent upon collecting checks drawn upon itself, it ought not to have that profit. It does, however, under the present circumstances.

Senator Hitchcock. Let me put another suggestion to you right there. Suppose there are 1,500 towns in the United States, and I believe there are many more, where a bank of $10,000 capital could not exist by the simple process of loaning 80 or 85 per cent of its deposits to the borrowers in the community, and if it were compelled to confine itself to the interest on 85 per cent of its deposits it would go out of existence and the community would be thereby deprived of a place to deposit its little savings and would have to go back to stockings and hiding places under carpets, in bedticks, etc., and lose that little public utility. What will that bank do if it be not permitted to eke out an existence by this method of charging just enough, as the evidence shows it does, to pay the reasonable salaries of a couple of officers and a very moderate income on the capital invested?

Prof. JENKS. I think I would answer that question by asking another. Is it not entirely possible, and in fact probable, that in those cases where a bank needs some extra advantage in order that it may carry on its business it can get it in some other way than by interfering with the course of commerce along those lines?

Senator HITCHCOCK. It is absolutely not——

Prof. JENKS (interposing). Just one moment. If we go back into commercial history a little, we shall find that there are a good many cases where the banks actually charged for the receipt of deposits. I may say, along that line, that if it became a case of necessity it might be better that that town should pay enough for the privilege of making deposits and the other work the bank did, and pay for the transmission of drafts and services of that kind than to interfere with the general commerce of the country by this roundabout system of collections you have now.

Senator HITCHCOCK. Of course, that is a very good theory, Prof. Jenks, but the fact is the people would not do it. The people of that community would not pay for that, and it is only by this indirect way that it is possible to build that bank up. Those little banks eke out an existence by doing a little collecting, by writing insurance, by one of the officers acting as notary, and in that way they furnish a very valuable little utility. The great difference between one of our western towns of a few thousand population and a town of Europe of a few thousand population is that ours is a little town and there it is a village, because they have not this facility which we have in the United States.

Prof. JENKS. May I make another observation? I happen to have had some experience in the small towns of the Middle West, towns of 1,000 and 2,000 population. My own observation is that the local banks by doing this notary business, and particularly by shaving notes and doing other local business that it has a chance to do along monetary lines, not merely ekes out an existence, but a very good existence. As a rule, they are making very high profits; hardly anybody else in the community is making so good profits. This collection business that you speak of is often done, and may just as well be done by some lawyer or other person who sets up a collection agency. I do not believe there are very many cases in the Middle West in these smaller towns of 1,000 or 1,500 inhabitants where the bank needs this special exchange charge in order to live. I think they will be able to get their living in other ways that are perfectly proper and much easier for the community and that will not interfere with the general course of business.

Senator SHAFROTH. Is not this charge very irksome to the people, and resented by them very largely?

Prof. JENKS. I think it is. Take, for example, my own case. When New York City is charging 10 cents for the collection of out-of-town checks, and I send down to New York for $10 or $15 worth of books and have to write a check for $15.10, I do not like it. It seems to me that the provision to allow them to make a reasonable charge covering their cost is reasonable.

Senator CRAWFORD. The New York Clearing House has a regulation that these banks must make this charge, and if they do not do it they are subject to discipline.

Prof. JENKS. I know that is true, but when this bill is put into effect I think it will not be true.

Senator SHAFROTH. In the Pujo report there was a good deal of criticism on that, too.

Senator CRAWFORD. Oh, it was the subject of special inquiry. Mr. Untermyer claims that the agreement is in restraint of trade and in violation of the antitrust law.

Senator REED. I think Mr. Untermyer claimed a good many things in that hearing.

Senator CRAWFORD. That may be, but I wanted to call attention to it as one of the matters upon which they made a special report.

Senator SHAFROTH. The report, as I remember it, was to the effect that the compensation the bank got by holding the money in the meantime was sufficient to reimburse it for the expense of collection.

Senator O'GORMAN. I should like, Professor, to put another question to you.

Prof. JENKS. Will you pardon me a moment until I answer a question that was put earlier? That was the question raised by Senator Reed with reference to the personal ownership of the capital of the central bank. I agree with the general position that Senator O'Gorman took on that, because I do not see that there is any essential difference between the two, excepting this: I think, if the national banks in New York or any other locality are themselves putting in their capital, and—what is still more important—are themselves selecting the managers of the local Federal reserve banks, they will take an immediate interest in that work and will look after the workings of the Federal reserve bank in a way that will tend to increase very decidedly the security of the whole system as compared with what would be the case if the subscription, as has been suggested, were to come from private individuals all over the country with preference given to smaller contributors.

One word further. I think also that with this added confidence and the added skill we could get in that way, presumably, we should have the confidence of the people throughout the country a great deal more. Now, a good deal has been said—and, I think, with justice in part, but in part only—to the effect that this Federal reserve banking system and the Federal reserve bank ought to be run not simply for profit, but for patriotic reasons—the good of the country. I quite agree with that, and I think we ought to prevent their making too much money; but at the same time we all know, as a matter of fact, that any one of us takes a good deal more interest in any work if we do have some little financial interest there also. We do look after our own money affairs. I think, myself, that on that account it is desirable to have the skilled bankers, as long as they have not the power to harm, given enough interest in this system so they will be watching it carefully all the time.

And it is for that reason also that I favor the proposition that they should have a share in the profits above 5 per cent, because I do not think they can get any exorbitant profits and it will give them the opportunity and put upon them the necessity of watching and seeing how the work is done. I do not think there is any likelihood of abuse under the provisions of the bill, and their interest, I think, is very desirable.

Moreover, I may say another thing with reference to the appointment of the boards of directors of the Federal reserve banks. It is a fact, speaking generally, that if you have a great institution that is a Government institution pure and simple, with the people appointed by the Government to run its business, it is likely to be more expensively run and not to be run so scientifically or carefully as a private institution. I think we ought to guard against any such abuses, and in the system before us, as I think is fully provided in this plan, so far as we can get skilled supervision of a private nature with a small amount of private interest in it we shall get a better system than if we depend entirely upon the Government.

Senator Bristow. Now, Professor, I suppose you and I have very different opinions as to the control of the banking system of the country by a few men in New York. I think they practically will control it under the system that is proposed in this bill much more than they do now, and I think they control it too much now. I am perfectly willing to say this: That I do not propose to favor any reserve bank system that permits the banks of the country to control it. If we are going to have an independent banking system and preserve it now is the time to do it. And if it is insisted that we are to have these regional banks instead of a bank of the people, which has been suggested, then I think the Government should appoint the officers that administer the reserve banks. There is no more reason for appointing the Federal board by the President than appointing the administration of the regional bank by the President, because that is actually the operating force that does the business.

Now, do you think it would be better to have the regional banks, or the branch banks—whichever system may be adopted—governed by appointees of the President, or the board, regardless of the stock—that is, would you prefer to have the banks own the stock and have nothing to do with its management, or to have the people own the stock and have the management. I will put that differently. Would you prefer that the banks own the stock and the Government manage it, the branches as well as the central bank; or would you prefer that the people own the stock and the Government manage it? Which would be the best?

Prof. Jenks. I should prefer in any case that the banks own the stock.

May I comment a little upon what you suggest? I do not believe that under this system as it stands the banks in New York are going to control the system. As a matter of fact, the Federal reserve board is entirely appointed by the President, so there is no question about that. So far as the Federal reserve banks are concerned, the regional banks or the branch banks under the system proposed here, two-thirds of the directors are really absolutely under the control of the Federal reserve bank; so that while, as I say, under the system that is proposed in this bill as it passed the House, we can be sure of skilled supervision, we can also be sure that the Government prevents any abuse by private bankers. Now, I do think that the bankers in New York and the other bankers throughout the country are going to have a good deal to say about the management of the system, not because they have any power, not because they will be permitted to exploit the system for their own ends, but because they are men of training, men of character, men of weight in the community, and men that people would be glad to consult with because they are persons of that type. But, in either case, I should prefer they own the stock.

Senator BRISTOW. Of course, I differ with you very radically as to that. Now, in connection with Senator Reed's question that he asked a while ago as to maintaining the gold reserve, I can not see why Mr. Vanderlip, and I simply carry on the illustration which he gives, could not now come down here and demand $10,000,000 in gold for national-bank notes, and the Government would have to give it, because we are pledged to maintain the gold standard. But it is not done. To my mind there is no more danger of it being done under the new system of notes than under the present system. We have no gold reserve at all now except against national-bank notes, and we have a reserve against the greenbacks. Now, they could deplete that gold reserve any day if they wanted to, but the banks do not do it. But to avoid the danger, as suggested by Senator Reed, should we not provide that the banks that were the beneficiaries of this system should maintain a gold reserve and replenish it whenever it is depleted?

Prof. JENKS. I do not quite see what you mean, Senator. We could make the provision now, of course, if we wanted to, that a certain proportion of this reserve that the banks are required to keep shall be held in gold. Is that what you mean?

Senator BRISTOW. Say we had a 50 per cent gold reserve behind the notes that are issued, and there should be a run on that gold reserve through these notes. Now, of course, if they could get enough notes together they could run the gold reserve out, but can we not make a provision that as these notes are redeemed the banks that are the beneficiaries of the system shall maintain a certain gold reserve in the Treasury and put the burden on the entire banking system of the country to maintain the gold reserve?

Prof. JENKS. As I understand the matter, that is done now under our present law, and it is provided in this bill. It is provided in this bill that each bank shall keep 5 per cent of its note issue in gold in the Treasury, and as fast as that is taken out it shall be renewed. The consequence is that under the present circumstances, supposing they present $100,000,000 of these new bank notes, as fast as they come in the Government would itself provide that the amount be supplied by the banks by calling upon them to make good the sums paid out.

Senator BRISTOW. Why could not the same provision be carried in here to protect the gold reserve of this Federal reserve bank?

Prof. JENKS. I understand it is carried.

Senator BRISTOW. That being the case, the suggestion of Senator Reed, it seems to me, falls to the ground.

Senator REED. I am talking about the Vanderlip plan, which was a central bank owned by the people, the gold reserve to be maintained in that bank, without any provision in the bill, as I recall it, that the banks of the United States should in any way contribute.

Senator BRISTOW. But we can put such a provision in the bill as will remedy that defect.

Senator REED. In other words, your idea would be that the banks should keep on deposit in this Federal bank a certain percentage of gold?

Senator BRISTOW. Yes.

Senator REED. And when they drop below a certain amount they must replenish it? And if they do not replenish it, what then?

Senator BRISTOW. Then there would be penalties. I do not know what penalties we have now, but we could fix a penalty.

Prof. JENKS. You could put them into liquidation.

Senator BRISTOW. Yes.

Senator REED. It is perfectly clear to me that we have to impose upon the member banks the duty of helping to maintain this reserve.

Senator BRISTOW. I agree to that. Perhaps they are——

Senator O'GORMAN (interposing). I do not want to interrupt this conversation, but a good deal of this talk is naturally what will very often come up at our executive conferences, and perhaps if Prof. Jenks has concluded his observations we may resume the work we intended to take up.

Senator CRAWFORD. He has not answered this question I brought up in connection with these questions by Senator Bristow. Now, I want——

The CHAIRMAN (interposing). I think the questions ought to be put to the witness and he be allowed to answer them.

Senator CRAWFORD. The question I had in mind is, What objection is there to letting this bank, under the system provided in this bill, or any other that may be created, discount for individuals as well as for member banks?

Now, this whole propaganda has been put before the people as adopting banking practices of the old country, on the ground that our system is not up to date and is inefficient and all that, and every one of these banking systems after which we are copying, or from which we are expecting to take the best, contains a provision that this Government bank, or central bank, can do business with individuals, and it does. Now, I do not see why, in building up a system here, we should rest it alone upon the theory that it is to be an accommodation to the member banks. It may be a very great accommodation to an American citizen that has prime commercial paper of the class described here that he can go to this reserve bank or central bank and discount his paper; it may be a mighty wholesome check upon the banks of the country to give him that privilege as they have done it in the other countries. What objection is there to allowing him that privilege?

Prof. JENKS. I think there are two objections that can be made. In the first place, unless I am entirely misinformed, in none of these European countries where the central national bank does this work have they anything like so widely developed a system of local banks all through the country as we have here. We have built up a system of something like 25,000 small national banks all through the country, to say nothing of the private banks. At any rate, we have enough of them so that the business is pretty well looked after now. They are rendering a good service to the country as a whole, and there is not the need for it that there is there where they have not any such system as that developed. Our present local banks, in my judgment, are serving the people, and serving them fairly well. I think that with the control that is put in this bill, there is no danger of their abusing their powers, and it is a much wiser policy for the managers of these reserve banks to devote their energies strictly to seeing to it that the paper which comes in from these different banks is of the right type. As a matter of fact, if we gave that privilege of discounting for individuals to our reserve banks, it would mean that the only persons who would go to the reserve banks to get accommodations directly would be the large corporations that wanted large sums; and the other people would be more likely to go to their small banks, anyway, for the small banks are really the only ones that can look into the individual credit of the small borrower.

Senator CRAWFORD. I do not suppose if the reserve bank had that power it would, to any great extent, rediscount paper, and I do not think they have in the other case of which you speak, but it seems to me that it might be a wise thing to let them have that power for use in emergencies, as we are linking together all the banks of the country—that seems to be the purpose of this bill—practically bringing savings banks, and State banks, and trust companies, and national banks into one system, and tying them all together.

Prof. JENKS. That is right.

Senator CRAWFORD. And if this system becomes unified, they are practically going to be one big banking trust.

Prof. JENKS. That is right.

Senator CRAWFORD. It may be a good thing for the country, but it may also be a good thing for the country to allow this reserve bank to have the power, in emergencies, to discount the paper of individuals. How would it hurt them if this bank had such power?

Prof. JENKS. I think the being hurt would be in the public sentiment in connection with the matter.

Senator CRAWFORD. Would it not be better for the public?

Prof. JENKS. I question if it would. Under the system provided by this bill the public can get its accommodation directly from their local banks, and the rate it can charge can be practically controlled by the central bank anyway. I do not see that there would be any very special harm done, to be frank about the matter, but on the whole I think it would not help the system to turn public sentiment against it.

Senator CRAWFORD. It seems to me it is difficult to find a parallel.

Prof. JENKS. I think there is no exact parallel.

Senator CRAWFORD. Because when we created the first bank in Philadelphia, and the Bank of North America was created a State bank, and those two banks competed with each other, they got along very well together?

Prof. JENKS. Yes.

Senator CRAWFORD. We are creating this big combination of banks and giving them exclusive control over rediscounts in taking that power away.

Senator WEEKS. I think you will find that that statement is not quite justified, that they got along well together.

Senator CRAWFORD. The Bank of North America and the First Bank in Philadelphia got along well together, although there were disputes, political disputes. They got along well together.

Senator POMERENE. There was mismanagement.

Senator CRAWFORD. There was mismanagement, but I am speaking of the reciprocal relations.

Senator HITCHCOCK. Congress is very probably justified in going in and organizing a great concern for the purpose of caring for the reserves of the banks it has created to distribute currency to the people, but Congress has no more business to go in and establish a bank any more than it has to start a railroad or start a bakery or undertake any other line of private enterprise.

Prof. Jenks. You are referring in your remarks to the fact that it is not politically expedient?

Senator Hitchcock. It is not desirable, but it is the function of Congress to provide a means of safeguarding the reserves of the banks it has authorized. It is legitimate for it to provide against panics and to provide a means of supplying currency to the banks which it has recognized.

Senator Crawford. But we have a novel proposition here, not of the Government or Congress establishing a purely governmental bank; it is creating a bank through the capital stock of other banks. It is taking no stock in it itself; it is excluding the public from having any stock in it; it is securing its capital from member banks and limiting its business to the business it transacts with those banks. That is unique.

Senator Hitchcock. That is not the point I was referring to.

Senator Crawford. No; I suggested that as distinguished from the statement made by Senator Hitchcock.

Senator McLean. Did you, Prof. Jenks, retain in your amended bill the provision in the Glass-Owen bill that these notes shall be the obligation of the Government?

Prof. Jenks. Yes; the obligation of the Government. But, as I understand it, under the provisions of this bill the Government, after all, is so little likely to be called upon that it is only practically a guaranty that is certain never to be asked to meet.

Senator McLean. In your opinion there is no objection to that?

Prof. Jenks. In my opinion there is no practical objection to that, though I would prefer to see bank notes. I think it is a good deal a matter of sentiment.

Senator McLean. Do you look upon it as a matter of sentiment, purely?

Prof. Jenks. Practically so; yes.

Senator Nelson. I call your attention to a section of the bill on page 31, and I will read to you the paragraph upon which I want light. You have not touched upon it in your amended bill. [Reading:]

> Whenever Federal reserve notes issued through one Federal reserve bank shall be received by another Federal reserve bank they shall be returned for redemption to the Federal reserve bank to which they were originally issued, or shall be charged off against Government deposits and returned to the Treasury of the United States, or shall be presented to the said Treasury for redemption. No Federal reserve bank shall pay out notes issued through another under penalty of a tax of 10 per cent upon the face value of notes so paid out. Notes presented for redemption at the Treasury of the United States shall be paid and returned to the Federal reserve banks through which they were originally issued, and Federal reserve notes received by the Treasury otherwise than for redemption shall be exchanged for lawful money out of the 5 per cent redemption fund hereinafter provided and returned as hereinbefore provided to the reserve bank through which they were originally issued, etc.

Now, the point that has been troubling me is this: After these notes have been returned to the bank that issues them and have been redeemed, after they are redeemed have they a right to put those notes into circulation again, and if they had such a right would it not lead to endless inflation? Ought not those notes to be canceled when they are redeemed?

Prof. JENKS. As I understand the bill, when the notes are brought in and redeemed they are legally canceled.

Now, if they are paid out again, they are paid out just as if a new note was issued, and it is simply a question as to whether you shall reprint the notes and put other numbers on them.

Senator NELSON. Have they not got to, based upon new security?

Prof. JENKS. They have to be based upon new security; that is why I say when they are redeemed I should consider them canceled. If, instead of tearing them up, the Federal reserve agent puts them aside into a separate pile, and when there comes in some more security he takes those same notes instead of asking for newly printed notes; it is really a new issue.

Senator NELSON. It is really a new issue. That is, after they have been returned and redeemed their function is ended. Unless you take that course it would lead to an endless inflation of currency?

Senator POMERENE. And the collateral was surrendered.

Senator NELSON. If they are issued, they must be issued as new notes, and the mere cost of printing would be a mere bagatelle in relation to the question of safety. Those notes ought to be destroyed and those new notes printed.

Prof. JENKS. May I add a word there? If the suggestion you make is carried out, it would also be practically an absolute bar against counterfeiting them.

Senator NELSON. And the mere cost of printing would be a bagatelle compared with the question of safety. We would be sure that there could not be any inflation of the currency. To get new currency they will have to put up new securities, and they will have to go through the process again. If you leave that the other way, there is great danger of inflation.

Now, another question, and then I will have finished.

Senator HITCHCOCK. I want to ask another question on that same line.

Senator NELSON. I would like to ask one more question, and then I will be through.

Senator HITCHCOCK. The question I would like to ask is in line with the very questions you have been asking, Senator Nelson.

Senator NELSON. Very well.

Senator HITCHCOCK. Suppose, Prof. Jenks, a bank in your town discounts paper with a reserve bank in New York and receives notes, currency, and these notes are put up as collateral security or segregated as collateral security for the other notes; I believe that is the process.

Prof. JENKS. Did I understand you to say that the bank in my town puts up personal notes?

Senator HITCHCOCK. We will say it rediscounts $100,000 of commercial paper with the reserve bank in New York City. It receives notes, currency of the Government, through the reserve bank?

Prof. JENKS. Yes.

Senator HITCHCOCK. The notes which it has discounted and which have been, as a matter of fact, due for 90 days, have been segregated and turned over to the Government. The bank in your town takes this currency home, and within 10 days they get back to the reserve bank in New York City. Must those notes be retired 80 days before the collateral security matures?

Senator NELSON. Your proposition involves this: You assume the notes come back to the reserve bank in New York City, and it is the duty of the reserve bank to present them for redemption; they must not hold them.

Senator HITCHCOCK. The collateral is there.

Senator NELSON. They would not hold those notes.

Senator HITCHCOCK. The reserve bank has invested its funds in these notes, which do not mature for 90 days, but the currency may come back in 10 days.

Senator NELSON. Come back where?

Senator HITCHCOCK. To the reserve bank.

Senator NELSON. The bank that issued them?

Senator HITCHCOCK. Yes.

Senator NELSON. That is all right.

Senator HITCHCOCK. The collateral security of $100,000 which the reserve bank has invested in the 90-day notes will not remain in those notes for 80 days.

Prof. JENKS. I should say, so far as that matter is concerned, that that example which you cite will never happen in actual practice. If it should happen, what you say will be true.

This would be the situation: These notes—that is, the personal notes that have been put up as collateral—represent loans to private individuals. They have had the use of the money, and those notes, when they are collected, would be collected by the Federal reserve bank through the local bank that took them to begin with.

The chances are 100 to 1 that before the 90-day notes are paid off finally, the local bank that has taken them and deposited them in the Federal reserve bank will have made a good many more loans, and have others it can substitute for these if it wishes. The process will thus go on indefinitely. But in case, we will say, at the end of the 90 days the local bank, instead of loaning $100,000 more, has loaned, we will say, $80,000, and then when the commercial paper is paid off the currency will be contracted by that $20,000.

If, however, it has been able to loan $120,000, when it substitutes the new commercial paper for the $100,000, it will probably ask for more circulating notes.

And in this continuous process of the substitution of these local personal notes the collateral, continuously, the Federal reserve bank will adjust itself and the currency to the needs of the country. Whenever the amount of circulating notes which come back to the Federal reserve bank from its district in the course of any 90 days is less than it issued 90 days before, it means there has been a slackening of business and the currency has been contracted as much as it ought to contract.

Senator HITCHCOCK. Suppose, instead of coming back in 90 days they do not come back for six months?

Prof. JENKS. That is all right. The implication would be that the business demands have been enough to keep those out, and, quite likely, still more. Under those circumstances there will be more commercial paper deposited, and there would have been a call for more notes.

As I understand it, that is one of the most valuable features in the entire bill—that by depositing securities in the form of commercial paper with the reserve bank we can expand the currency to meet the demand, whenever the business demand increases, and it will, of itself, normally contract as the demand lessens.

Just along that line, I would like to suggest——

Senator HITCHCOCK (interposing). The reserve bank has really no control over its outstanding currency?

Prof. JENKS. The only control the Federal reserve bank has is this: It has the right to determine whether the commercial paper offered is good or not. It has also the right to determine, subject to the review of the Federal reserve board, what rate it shall charge to the local bank. If it feels that the local bank, when it comes and asks for this $100,000, is trying to push out more than the demand warrants, it will put up its rate of discount.

Senator NELSON. Note this expression in the bill——

Senator POMERENE (interposing). I was going to offer this suggestion. Assume that there is $100,000 of new notes issued. That means, of course, that $100,000 of commercial paper has been hypothecated. Now, assume that that $100,000 of notes was sent to the reserve bank and canceled before any of the collateral was matured. Necessarily, it would seem to me, the collateral would all be returned, if part of it is——

Senator HITCHCOCK (interposing). The Senator from Ohio misunderstands the situation. That is the loan to the bank; that is the paper that is rediscounted, and those notes are now owned by the reserve bank absolutely, and the bank can not get the money on the notes until they mature.

Senator O'GORMAN. Then, what difference does it make whether they are redeemed in 10 days or not?

Senator NELSON. The bill says:

> Notes presented for redemption at the Treasury of the United States shall be paid and returned to the Federal reserve banks through which they were originally issued, and Federal reserve notes received by the Treasury otherwise than for redemption shall be exchanged for lawful money out of the 5 per cent redemption fund hereinafter provided, and returned as hereinbefore provided to the reserve bank through which they were originally issued.

Why should they not be canceled? What right have they to issue them? Would that not be a most dangerous power?

Prof. JENKS. I think they are canceled under the law. Whether they should be reprinted or not is another matter. My own judgment is that——

Senator HITCHCOCK (interposing). I misunderstood Senator Pomerene's question. What he meant was that when the notes came in the reserve bank would then take down the notes which it had placed as collateral. I did not understand what he meant.

Senator NELSON. The country banks at the Boston meeting adopted some resolutions, and among others they recommended this substitute for the clearing-house provision of the bill—I call it the clearing-house provision. Here is what they recommend as a substitute for that provision:

It shall be the duty of every Federal reserve bank to receive the deposits at par and without charge for exchange or collection of checks and drafts drawn by any of its depositors upon any other depositor and checks and drafts drawn by any depositor in any other Federal reserve bank upon funds to the credit of such depositors in said reserve bank last mentioned.

That is what the country bankers want as a substitute for what is in the bill. Can you see any objection to that matter?

Prof. JENKS. My impression is they have left out of this the collection of the local checks of one bank upon the bank of another region. I think the clearing-house provision ought to be broader than it is put in here.

Senator NELSON. You do not favor this?

Prof. JENKS. No.

Senator HITCHCOCK. I wanted to ask you what provision you make in your substitute for the retirement of national-bank currency?

Prof. JENKS. I made no change beyond the provision that is made in here.

Senator HITCHCOCK. You have left the bill as it is?

Prof. JENKS. Yes.

Senator HITCHCOCK. Then, I want to ask you what you would think of the idea, in addition, of having a standard rate of discount charged from day to day, available to the banks of the country, equal in all parts of the country? What would you think of a provision providing that any bank, as a matter of right, should be entitled to discount paper up to the amount of its capital stock at the minimum rate of interest?

Prof. JENKS. What do you mean by the minimum rate of interest?

Senator HITCHCOCK. The lowest rate established. And also a provision that any bank requesting more than the amount of its capital stock should be subject to a higher rate of interest, in order to equalize, to some extent, at least, the volume of discount available to each bank?

Prof. JENKS. I think, as regards the discount rate, that that should be made dependent only upon the reserve. I think that by making it dependent upon the reserve only you would give the elasticity that the system would not have otherwise.

Senator HITCHCOCK. You mean the reserves of the reserve banks?

Prof. JENKS. Yes.

Senator HITCHCOCK. That is all right, so far as the total volume of discount is concerned, but it makes no provision for equalizing the discount among the various applying banks. The reserve bank might discriminate against one bank, and my object was to try to devise this as a means of equalizing the discount, to put the brake on against their getting an excessive amount.

Prof. JENKS. I had understood by the bill that the directors of the Federal reserve banks were to make a uniform rate of discount in their own district.

Senator HITCHCOCK. Exactly.

Prof. JENKS. And the Federal reserve board had a right to recognize the fact that it was different in different districts, but otherwise they had the right to change it under the bill. As I have seen it, the

Federal reserve board would not make only one uniform rate of discount throughout the country unless the local Federal reserve board could give some valid reasons for so doing.

The CHAIRMAN. I think the Senator from Nebraska intends to make this suggestion, that in extending accommodations to member banks, that when a member bank has received a certain amount of accommodation at the lowest rate of interest, then if it desires additional accommodation a rule might be imposed to increase the rate of interest upon such paper, to keep one bank from being too greedily disposed to get accommodation at the expense of other banks.

Prof. JENKS. My opinion on that is that is not necessary. I think it is within the power of the board of this Federal reserve bank to say whether a bank shall have accommodation or not, and I think also it has the power to pass upon the quality of the paper. It seems to me that it might very well happen that, within one Federal district, there would be very large demands in some one region—say, perhaps, some farming region—while in another region 100 miles from there the demand would be less. It would be desirable, if the demand came in that way, that the loans be made in the region where the demand was greater, at just as low rates, or even lower rates than in the other place, and I do not think the amount of loans there should be fixed rigidly according to the amount of capital.

I think you had better leave that to the districts competing.

Senator HITCHCOCK. Take two men in the banking business on opposite sides of the street; they have the same amount of capital and practically the same volume of deposits. One man wishes to swell his business, and he makes loans with the idea that he can discount a large amount of paper with the reserve bank, and the other man across the street is more conservative in his disposition and more careful with his loans, and he may, when he applies for rediscounts, find that the reserve bank is not disposed to rediscount his paper. He may get none.

Prof. JENKS. I think, so far as that is concerned, we shall have to trust the board of directors of the Federal reserve bank. The chances are, I should say, that if one bank is enterprising enough so that it wants to discount more of its paper, as long as it can satisfy the board as to the quality of its security, it ought to be given the privilege. Why shall we say that one man shall be penalized for his enterprise?

Senator HITCHCOCK. Is that not going to tend to inflation?

Prof. JENKS No; I do not think so. It depends upon the quality of his paper. If the quality of the paper is right, there is no danger of issuing too much.

Senator HITCHCOCK. That is a matter of judgment?

Prof. JENKS. Yes.

Senator HITCHCOCK. It seems to me a bank should be guaranteed equal treatment.

Prof. JENKS. Surely, if we do not make any further provisions.

Senator HITCHCOCK. One bank may be refused discount. One bank may come in for rediscounts after another has discounted a large volume of paper and the rate may have been raised, and the conservative man is discriminated against because he has been conservative and careful.

Prof. JENKS. That is, I should think, a condition of affairs that we ought to encourage.

If a man who is a business man chooses to be rather overconservative and go a little more slowly than his competitor, he ought to take a penalty for his conservatism. The other man, as long as he can keep up the quality of his paper—and that can be inspected by the Federal reserve bank—ought to have the benefit that comes from that enterprise. I do not think it is necessary to penalize him. It seems to me the principle is wrong.

If you say the more enterprising a man is, as long as he keeps up the quality of his paper, the more he shall be compelled to pay as he asks for more discount, I think the principle is wrong. I think the test ought to be the quality of the paper.

Senator HITCHCOCK. That is a mere matter of judgment, and there is no standard. I am thinking that something ought to be put in there to avoid favoritism. You propose a plan by which it is left to the judgment of the reserve board.

Prof. JENKS. That is the way it is in the bill.

Senator HITCHCOCK. What is the objection to having a provision in there guaranteeing equal treatment?

Prof. JENKS. The objection is this: I do not think it is equal treatment, because I think the people who could ask for the loans are people of the same type.

Senator HITCHCOCK. Do you not think it would be safe to say that any bank entering this system shall at all times be entitled to discount good paper to the extent of its stock?

Prof. JENKS. I should have no objection to putting that minimum. I should say I would have an objection to putting on a penalty.

Senator HITCHCOCK. What other brake are you going to put on the expansion of bank credits except by raising the interest rate?

Prof. JENKS. That is all, except the quality of the paper.

Senator REED. If you do not put any provision in there, he might get $100,000,000.

Prof. JENKS. If the board would let him.

Senator REED. I would allow him the amount he would get, and give everybody an equal chance, and if the demand is strong the rate of interest will rise.

Prof. JENKS. That is already provided for as regards the reserves.

Senator CRAWFORD. Do you think there will be always available in this banking system money enough to give to each member bank an amount equal to its capital stock?

Senator HITCHCOCK. No; that would be 1,000 million dollars if all the national banks came in, but it is unthinkable that all the banks would want it at the same time. The demands are seasonable and they are regionable, but I think a bank must be assured that if it goes into this system it is going to get something; that it has something definite, and that it is sure, in time, to get a certain amount, and there is no power to refuse it. I do not want to give discretionary power to a board of directors anywhere to say to a country bank that they can not have discounts.

Prof. JENKS. As regards the minimum rate, I am inclined to agree with that, but I do not think I would agree in regard to the maximum.

Senator CRAWFORD. Would you have a minimum as large as that suggested by the Senator?

Prof. JENKS. His suggestion was that any bank making a demand would get loans equal to its capital at a minimum rate.

Senator CRAWFORD. Equal to its capital.

Senator HITCHCOCK. To discount paper equal to its capital.

Prof. JENKS. I do not see any objection to that. If the demand is too strong the rate of discount will have gone up.

Senator HITCHCOCK. What do you think about making the notes legal tender?

Prof. JENKS. I think they should not be legal tender.

Senator HITCHCOCK. Why?

Prof. JENKS. Because if they are made legal tender it is going to be a very strong influence toward preventing their rapid redemption. If you make them full legal tender it would be difficult to exclude them from the right to be held as reserves.

Senator HITCHCOCK. Suppose we did that arbitrarily and made them legal tender?

Prof. JENKS. I think it is better not to have them legal tender, because it is a very desirable thing that there be a prompt and ready redemption continually. Unless you can secure that promptly you are almost sure to get an expansion of your currency system, so that it will expel gold from the country. In fact, I should be inclined to make them poorer in desirability than they are now, in the provisions of this bill, by putting other penalties on them.

The principle of Gresham's law is one that always works. The poorer you keep the quality of the notes, as long as they are good enough so that people will take them, the more certain you are of getting a prompt and ready redemption, and that, I think, is a very desirable thing.

Senator REED. Now, about the matter of retirement; that is the main thing with you. The method now is that when the notes of one region get into the Federal reserve bank of another region they are retired. What is the matter with this proposition? I will ask you about this.

Prof. JENKS. I believe you questioned me in regard to this before, and I did not give you a very satisfactory answer in regard to that plan.

Senator REED. My plan was that when a bank came to a regional bank and rediscounted paper, that it had to pay within a certain time, and that it must then bring gold, greenbacks, national-bank notes, or its paper at the end of that time and absolutely wipe out its obligations.

Prof. JENKS. I should add this: "Unless it can substitute other commercial paper that is equally as good in the minds of the directors of the Federal reserve bank."

Senator REED. Would that work the retirement?

Prof. JENKS. That would make no difference as regards the retirement, I think.

Senator REED. That would be a new loan?

Prof. JENKS. That would be a new loan.

Senator REED. Then there is no use in using this substitute paper, because it has the right to rediscount again.

Prof. JENKS. If it substitutes other paper it amounts to the same thing. The objection I see to this—I should say it need not pay off its obligations as they come due in cash, as has been suggested, if it can substitute satisfactory paper or a substitute. Your proposition the other day, I think, was this: That the Federal reserve bank itself must turn over to the Federal reserve agent either the notes themselves or the lawful money to an equal amount.

Senator Reed. That is the other end of it.

Prof. Jenks. The objection to that is this, that it is not going to be possible, if the business of that region is going on continuously in a normal way, with new loans made from day to day for the Federal reserve bank to turn back from day to day in cash or in those circulating notes all its obligations that are due, without calling loans; that would be a very undesirable thing to do. I should say here is the situation: You are loaning out through this regional reserve bank, an amount, possibly, three times the amount it is holding in a gold reserve. It holds a certain amount in gold in reserve, and it loans three times as much in notes. And when you do that, if there comes a day when there is rather more due than the usual amount it has to return either an equivalent amount of those notes or the gold, and it must contract the circulation, and it must contract credit by so doing.

Senator Reed. That is the very thing you propose.

Let us assume that a Federal reserve bank gives to the First National Bank of Omaha, we will say, $100,000 of money it issues upon the securities of that bank. That money is applied for and issued for 90 days. Thereupon the First National Bank of Omaha deposits with the Federal reserve bank of that region $100,000 of promissory notes, due on or before 90 days. The president of the reserve bank goes across the aisle to the Federal reserve agent and secures from him $100,000 in currency and loans it to the First National Bank of Omaha. Ninety days come around. The money is due.

The First National Bank of Omaha must pay that money. I would make it its duty first to pay it. At the end of that 90 days the reserve bank pays the reserve agent $100,000. I would provide that they should pay it out of these notes, and if they did not have enough of these notes on hand I would provide that then they should pay it in lawful money, and further provide that as rapidly as possible it should substitute the circulation for lawful money. That makes an absolute retirement, I think.

Prof. Jenks. As a matter of practical business, it is impossible for them to do it. That is for this reason: When the regional reserve bank turns over this $100,000 in circulating notes it sets aside a part of that amount in lawful money as reserve so those notes are covered, in the first place, by the full amount of collateral and by the one-third reserve in gold. At the end of 90 days the bank has been doing business, and it has other commercial paper, and when this commercial paper becomes due, it ought to be allowed to substitute other paper and keep those first circulating notes out in circulation.

If it has to pay those circulating notes off, either in gold or by the full amount of notes, then it has got to stop its loaning process, because what it has is simply the $100,000 in commercial paper, and a third or a half in gold. It can not pay it all off without contracting loans, and if business is going on regularly, it must not contract loans.

Senator Reed. Of course, if they wanted to substitute new paper, it would all be merely a matter of bookkeeping.

Prof. JENKS. That is it exactly.

Senator REED. In that event the purpose is to keep $100,000 out——

Prof. JENKS (interposing). Yes.

Senator REED. In that event, the process would be this: At the end of 90 days they would send down $100,000 of new commercial paper, and thereupon the entry upon the books would be that this first $100,000 was paid. The entry upon the books would be also that the $100,000 had been paid through a reserve agent and paid in money of this character, and that another $100,000 had been issued, and you would simply keep your books, and in that event you do not want to retire that $100,000 of circulation at all?

Prof. JENKS. Of course, you do not.

Senator REED. And that provides a circulation, certain and absolute. This other method provides a currency which circulates from Omaha and finally gets to Kansas City. Ordinarily, that bank must not pay that, but send it for redemption. I do not see any reason for that. I confess I may be very dull, but I can not see the reason for that.

Prof. JENKS. The objection to your plan is this, that it is absolutely a business impossibility for the regional reserve bank to turn over to the Federal reserve agent at the end of that period either the notes or the cash, provided business is going on.

Senator REED. Provided the notes are renewed, and their obligations——

Prof. JENKS (interposing). Of course, if they renew their obligations, and do it by bookkeeping, then I agree with you; I agree with that fully. If, however, you say they have to pay in actual circulating notes, or else in gold, then I should say you can not do it without contracting the credits, and that would hurt——

Senator REED (interposing). Then suppose you said as often as any member bank shall pay to the regional bank the moneys it has obtained by way of discounts or advancement, the regional bank shall retire out of its own vaults an equal amount of the circulation?

Prof. JENKS. That, I understand, is provided in the bill now.

It will do that, as a matter of fact, in order to keep its books straight with the Federal reserve agent.

Now, the other point is with reference to their sending back the notes which come in from other regions. Under those circumstances, if you have one central bank, as I have provided in this bill, that would have to be eliminated, I should think.

Senator REED. What is the use of it, anyway?

Prof. JENKS. The use of it is this, I think: I do not think it is absolutely essential, but it would tend to encourage the different banks to call those notes in. The reason is this: Under the present bill there is a possibility of one regional reserve bank making more profit than another regional reserve bank, and it will be making those profits, to a considerable extent, by the circulation of its own notes.

Now, if it follows that it can make more profit by getting its rivals' notes out of the way and getting more of its own notes outstanding, it will, of course, do that.

Senator REED. And that will be not because you demand it, but because they want to do it?

Prof. JENKS. Yes; because they want to do it. It is more desirable, so far as you can, to make the banks want to do what you want them to do. On the other hand, if you make a central bank like this I have suggested, it will not make the slightest difference to them what notes are out.

Then, I think, along that line it is more important that you leave the legal-tender feature out, and make these notes less desirable than lawful money—I should not allow the bank to hold them as reserves; and I think you should do everything that you can to encourage the State banks and the trust companies to come into this system, so that they will not be using these notes for their reserves, and make those notes relatively more undesirable than "lawful money." Then the bank will put these notes out, to be returned if it wants to contract its circulation, and it will hold in its own vaults always the gold and the lawful money and the greenbacks or the silver certificates, and things of that kind, and these will be sent back—and that is desirable.

Senator REED. You would not provide for some legal tender besides gold?

Prof. JENKS. We have now. The silver certificates are legal tender; the gold and the gold certificates and the silver and silver certificates.

Senator REED. Well, gold certificates are not legal tender.

Prof. JENKS. Oh, yes; that is true. I spoke carelessly. I could put in here [indicating] a provision allowing the gold certificates to stand for gold.

Senator NELSON. Gold certificates are not legal tender. The only legal-tender money we have now is the gold and greenbacks and national-bank notes.

Prof. JENKS. And silver dollars. Yes; I think you are quite right.

Senator HITCHCOCK. Is the silver dollar a legal tender to an unlimited amount?

Prof. JENKS. I believe it is at the present time.

Senator REED. Here is what it says on one of these gold certificates:

This certifies that there has been deposited in the Treasury of the United States twenty dollars in gold coin, payable to the bearer on demand.

Prof. JENKS. Well, that is not legal tender. I would make them available for reserves in these banks.

Senator REED. You would?

Prof. JENKS. The gold certificates; I would accept them instead of gold, surely. I think that in drafting this bill I did not cut out, as I should have done, the provision with reference to the different banks, and I will do that to-night.

Senator WEEKS. There is every reason for doing that.

Senator REED. Yes. Now, suppose we set up a system; we are anxious to get all of the banks of the country into it. We provide a currency which is not receivable as reserves in our system of banks; but the States allow it to be used as reserves in the State banks. Now, is there not a reason for a bank not to come in?

Prof. JENKS. I do not think that is a material thing at all. I think that the additional safety and the additional excellence would far more than offset any disadvantage that might be in the minds of the good bankers that are expected to come into the system.

Senator REED. I want to ask if there would be anything done under this bill that would make it impossible or impracticable for this system to go to the aid of another system, thus forcing the banks that are not in—or preventing them from getting the aid of this system through a member bank?

Prof. JENKS. I do not know of any way by which that can be absolutely done; no. As a matter of fact, I think that the feeling that they had to do it secondhand and through a memebr bank—I think a member bank would hesitate a little, in many cases, to give the accommodation like that to those who are not in the system.

Senator REED. Perhaps the fact that there would be an additional "rake-off" to member banks would make a difference.

Prof. JENKS. Yes; I think so.

Senator NELSON. Prof. Jenks, you understand that the Bank of England intends to regulate the inflow and outflow of gold by its rate of discount, do you not?

Prof. JENKS. Yes.

Senator NELSON. Now, do you think we could do the same thing, in a measure, in this country?

Prof. JENKS. Yes; I think so.

Senator NELSON. But could we not do it better—could we not regulate the inflow and outflow of gold better if we had one central institution?

Prof. JENKS. I think so. I think we could do it much better.

Senator NELSON. By one central bank we could come nearer regulating the inflow and outflow of gold, could we not?

Prof. JENKS. Much better, I think.

Senator NELSON. That is the way it looks to me.

Senator HITCHCOCK. Prof. Jenks, under the plan you propose, what would be the size of the New York branch, say?

Senator NELSON. He proposes one bank only.

Senator HITCHCOCK. I know; but there are different branches. I want to get some idea of the relative size of these different branches.

Prof. JENKS. I think I have the figures made out in my portfolio that I could look up and give to you.

Senator NELSON. These branches would have no capital.

Prof. JENKS. No; not necessarily.

Senator NELSON. Not under your plan.

Prof. JENKS. Well, in the plan I propose it will be left to the Federal reserve board to determine how much of the reserves should be in every one of these regional banks, and of course none of those branches would have any separate capital.

Senator HITCHCOCK. Your Federal reserve board would order currency shipped from branch to branch or gold shipped from branch to branch, would it not?

Prof. JENKS. If necessary; or it would, in most cases, simply arrange by a matter of bookkeeping, giving credit and charging. But, whenever necessary, they would actually transfer the gold.

Senator HITCHCOCK. It would be necessary to make actual transfers from time to time, would it not?

Prof. JENKS. From time to time, it would; yes.

Senator HITCHCOCK. For instance, the New York branch might be required to redeem many of these notes outstanding?

Prof. JENKS. Probably it would.

Senator HITCHCOCK. And when it made a redemption it would use the gold in its own vaults to do so, I suppose?

Prof. JENKS. Yes.

Senator HITCHCOCK. And then it would send those notes to Washington, would it not?

Prof. JENKS. It would send those notes to Washington, or wherever the Federal board directed it to send them, if those notes were redeemed the country over at the same time, so that it would not contract the currency. The probability is that, in most cases, it would depend upon whether they followed Senator Nelson's suggestion as to the absolute destruction of those notes. If so, those notes would be sent to Washington, to the Federal reserve board, and then be destroyed. Otherwise they would be required to report from day to day how many of the notes they had redeemed; and those would be set aside and they would be credited accordingly. If they used up their gold reserve to a certain extent in that way that would have to be replenished, either from Washington or from other banks that were not redeeming notes to so great an extent.

Senator HITCHCOCK. The Federal reserve board would have telegraphic reports each evening from all of the branches all over the country indicating the condition of the branch, would it not?

Prof. JENKS. Presumably it would.

Senator HITCHCOCK. And it would itself be advised of the ebb and flow of exchange in various parts of the country, would it not?

Prof. JENKS. Yes.

Senator HITCHCOCK. And it would know the amount of paper rediscounted at any branch?

Prof. JENKS. Absolutely.

Senator HITCHCOCK. And the number of notes redeemed at any branch?

Prof. JENKS. Yes.

Senator HITCHCOCK. And the amount of cash on hand at any branch, and the character of that?

Prof. JENKS. Yes.

Senator HITCHCOCK. So that it would have under its control the absolute disposition of the exchanges of the country and the money of redemption?

Prof. JENKS. Absolutely; yes.

Senator HITCHCOCK. I understand that you advocate the idea that the capital of this bank should be subscribed for by the various banks?

Prof. JENKS. That is, they should be given the first choice. If they did not take $100,000,000 of the stock I would open it up to private subscriptions.

Senator HITCHCOCK. Would it be of advantage to this country to prohibit banks from subscribing to this capital and having it subscribed outside of the banks, so that $100.000,000 would actually be added to the banking capital of the country?

Prof. JENKS. I have heard that suggested, but I do not think that is necessary or desirable.

Senator HITCHCOCK. Would it not actually strengthen the banking situation of the United States and improve the security of every depositor if we added one-tenth to the banking capital of the United States?

Prof. JENKS. I do not think it would do so materially. I think there is plenty of capital now to secure those deposits. I think what secures deposits is not the amount of capital that might be subscribed that way, which would be money taken out of other banks, and money taken out of other business. What secures deposits is good management and the proper disposition and handling of the reserves.

Senator HITCHCOCK. Well, if you take, say, $5,000 in capital out of a small community, where it is earning perhaps 10 per cent, and send it to a center, where it would earn 5 per cent, have you not destroyed or impaired the efficiency of that $5,000 capital to that extent?

Prof. JENKS. I do not think so; because, in putting it into the central bank in this way you are giving that small locality certain advantages which it does not have—enough to offset any disadvantages that might result.

Senator HITCHCOCK. But suppose you give that small community those advantages by bringing that money from some other place where there is a surplus. The small community does not make the sacrifice and it gets just as much advantage as if the money came from there.

Prof. JENKS. But if that bank in that small community subscribes to the central bank, the presumption is that that bank is now large enough to do its business fairly well, and do it well enough, and there is no reason why you should ask people in that community or elsewhere to draw money out of that bank and send it in to subscribe to the capital of this central bank, or draw money out of other lines of business when you can give that bank advantages enough to make it afford that subscription. If you can not do that, the bank will not subscribe to the central bank.

Senator HITCHCOCK. Well, if you allowed the $100,000,000 to be subscribed outside of the banks, would it not follow that that $100,000,000 would come from other sources, where there is an excess of capital, and where the money is now earning a small rate of interest, and thus, instead of taking it from a place where it is earning a high rate of interest, you would draw it from those sources where it is earning only a small return? You would be getting it from comparatively poor people, who now have no good means of making a good investment, instead of taking it from people who have their capital all actively employed.

Prof. JENKS. It might come very well from that source. I think if you opened it to public subscription it would be to a considerable extent a matter of sentiment that would bring it into the subscription; and I do not believe that any great proportion of it would be taken from poor people who desired to invest small amounts. It might be that some persons would sell Government bonds and put the money into the capital of this bank.

Senator HITCHCOCK. Personally I know a good many people who have a little money to invest; and where a man has only $1,000 or

$2,000 to invest he is afraid to invest in some securities; and he would be the one that would be likely to go into it.

Senator REED. I think it would be snapped up by people who were afraid of banks and by people who have no means of investing; and they have $1,000 that they put in a bank and get 2 or 3 or 4 per cent interest on it. That, of course, would come out of the banks. I believe that $100,000,000 would be subscribed in 30 days by the public.

Senator HITCHCOCK. I think so, too, from the very class of people that we want to get interested in the Government.

Prof. JENKS. My personal opinion of that I have already given. I think it would affect the efficiency of your system materially.

Senator NELSON. It would give a better rate of interest than railroad bonds, which do not pay 5 per cent sometimes.

Prof. JENKS. That is true.

Senator REED. I have not felt satisfied, Prof. Jenks, that anybody yet has answered the objection that I raised, that it is the creation of a bank charged with the duty of maintaining the reserves for the other banks in the vaults of that bank; and the Vanderlip plan was to permit the obligations of the United States to be thrown upon the market for the purpose of maintaining that reserve.

Now, I do not want that burden shifted onto the United States. I do not want the banks of New York to say, or the banks of Kansas City or any other place to say, "We need $10,000,000 of gold." If we do deplete this over there, the Government bonds are there, and under the law this board must put them upon the market. It would be a condition whereby a great bank—and I would like Senator Bristow particularly to listen to this—whereby a great bank that wanted to act in a selfish and mean way could force Government bonds on the market at any time that it wanted to do so.

Senator BRISTOW. Well, if that danger is in the bill, let us take it out.

Senator REED. I am talking this proposed Vanderlip plan.

Senator BRISTOW. I know. If that is there, let us provide against it.

Senator REED. I do not know how you will do it.

Senator BRISTOW. We will do that. We will require the banks to provide the reserves.

Senator REED. In one case you will compel them to tear down their own house if they do this unjust thing and to tear down a reserve which they themselves must help maintain. But in the Vanderlip plan, just as surely as the sun rises, there is this thought:

> The Government creates a bank out of the Government's money and the peoples' money, and they put into that bank Government bonds, and every time the gold gets low those bonds must be used to reinstate that reserve. Therefore any bank can go on and do business to suit itself, and a combination of banks, if they wanted to, could force the issuance of bonds at any minute.

Senator BRISTOW. Well, Senator Reed, of course I do not think there is any danger. But to remove any possibility of it we can put a provision in the bill requiring the banks to maintain the gold reserve under conditions similar to those you describe just the same as——

Senator NELSON (interposing). Mr. Chairman——

The CHAIRMAN. The Senator from Minnesota.

Senator NELSON. I ask that the bill, with the amendments Prof. Jenks has suggested, be printed confidentially for the use of the committee.

Senator HITCHCOCK. It need not be in confidence, need it?

Senator REED. With the parts he has added and the changes he has made indicated in the printing by different type.

Senator NELSON. Yes; in different type. The provisions of the original text of the bill can be printed in roman, and his suggestions can be printed in italics, and what is eliminated can be stricken out.

The CHAIRMAN. Is it the pleasure of the committee that his amendments to the bill be printed in the hearings, or separately for the use of those who desire to have it as a separate bill? The latter would seem to be better.

Senator BRISTOW. That is all right.

Senator NELSON. And that the changes be shown by different type, as I have indicated.

Senator REED. Let us also have the Vanderlip draft printed in the same way.

Senator NELSON. Mr. Vanderlip has not submitted a form of bill.

Senator REED. That is true.

Prof. JENKS. Mr. Chairman, if I may keep this bill with my amendments indicated until to-morrow morning, I should like to put it in better shape.

The CHAIRMAN. Very well, the committee will have it printed when you have corrected it.

Senator NELSON. That bill is imperfect. It does not provide directly the steps by which the corporation is formed.

Prof. JENKS. Mr. Chairman, if there are no further questions by members of the committee, I should like to take five minutes more to suggest one other point that is a little different from this bill as I have read it here.

The CHAIRMAN. What is the pleasure of the committee? In the absence of objection, you may proceed, Prof. Jenks.

Prof. JENKS. What I was going to suggest was this: If, as a practical matter, it should not seem possible or desirable to establish a central bank, I think that many of the same results could be accomplished by increasing the powers of the Federal reserve board in simply two sections of the House bill, with here and there a few verbal changes in other places. There is often a great deal of difference shown in our own mental attitude, even by the use of the terms we use. Now, I am not proposing to put on a central Federal reserve bank here and simply disguising the name; but we can really accomplish many of the results desired by making a few changes in the House bill.

I would suggest, for example, in section 7, where provision is made for the division of earnings, that this be inserted:

In the calculation of surplus and profits the total capital and business of all the Federal reserve banks shall be reckoned by the Federal reserve board as united into one fund, and such surplus and profits shall be distributed among the Federal reserve banks in proportion to their capital stock.

We would then practically unite all of the interests of the different Federal reserve banks as regards their profit. Then in the section that provides the powers of the Federal reserve board, section 12, I would amend paragraph (b) so that it would read in this way. The powers of the Federal reserve would be:

To direct, at their discretion, the administration of the reserves of the Federal reserve banks, all such reserves to be considered as one fund, and to be distributed among the Federal reserve banks by the Federal reserve board so as best to promote the safety of the banking system and the interests of the whole country.

To this end, they may also require the Federal reserve banks to rediscount the discounted prime paper of other Federal reserve banks. The exercise of this compulsory rediscount power by the Federal reserve board shall be subject to such interest charge to the accommodated bank as the board determines.

Then I would add, at the end of section 12, as follows:

The Federal reserve board shall have no dealings with the public or with the member banks except through the supervision and control of Federal reserve banks.

Then add, at the end of section 13, the following:

4. The chairman of said advisory council, or, in his absence, the vice chairman, may attend any and all meetings of the Federal reserve board and take part in its proceedings, but without vote.

The first two amendments I have just suggested would give the Federal reserve board the two powers that seem to me most essential. It gives to them the absolute immediate control of the reserves, just as the central bank would have. And it would also unite the interests of all the different Federal reserve banks as regards the handling of the capital and as regards the profits.

Those two things would in themselves go a long way toward the central-bank idea. I should prefer the central-bank idea, other things being equal. But if that should be impracticable, I think these amendments would be desirable.

Senator Reed. Will you, Prof. Jenks, add at the end of the amended bill which you have first suggested, these amendments?

Prof. Jenks. I will put these in also.

The Chairman. You can put that in as an alternative suggestion at the end of the bill you first suggested.

Prof. Jenks. Yes; as an alternative suggestion.

The Chairman. And when you have finished your copy showing your proposed amendment, we will have it printed.

Senator Hitchcock. I move that we adjourn until 10.30 o'clock to-morrow morning.

Senator Bristow. Mr. Chairman, Senator Shafroth, Senator Reed, and myself have a very important committee meeting to-morrow morning, which we have postponed for a month now, and it is necessary for that committee to meet in order to provide funds to run this committee. It is the Committee on Audit and Control of Contingent Expenses of the Senate.

Senator Pomerene. Prof. Jenks, we were discussing the question of a graduated discount rate, and in answer to a question by Senator Hitchcock you made a statement somewhat to the effect that you would make the discount rate dependent upon the reserves?

Prof. Jenks. Yes.

Senator Pomerene. What do you mean by that; by what rule?

Prof. Jenks. As the reserves grow lower—for example, suppose your reserves have been running at 50 per cent and there has been not so much call for money from these different banks.

Senator POMERENE. Do you mean, now, the cash reserves?

Prof. JENKS. The reserves in the regional reserve bank, yes; and, of course, they know what the conditions of all of the other banks are—the member banks. Suppose now their reserves have been running at 50 per cent, there has not been much demand for money, and the banks that come in for rediscounts have not demanded much. So they let them have rediscounts for 3 per cent. Then business gets stimulated. The reserves drop to 40 per cent; they are getting toward 35 per cent; and the business demands of the country are such that the banks are eager to get accommodations and the regional bank has lower reserves; it would then push up the discount rate to 4 and 5 per cent and even more.

Senator POMERENE. That is, making your discount rate depend upon the amount of money you have on hand, rather than the demand there may be for money?

Prof. JENKS. No; it amounts to this: The amount of money you have on hand is dependent almost entirely on the demand outside for it. If a bank wants to strengthen its reserves, what does it do? It discourages people from taking loans, and it "salts" its reserves down in its vaults.

Senator POMERENE. Oh, yes; I think I catch your point on that now.

(The chairman of the committee presented the following documents for insertion in the record:)

A. T. BOWEN & CO., BANKERS,
New York, October 18, 1913.

Hon. ROBERT L. OWEN.

DEAR SIR: I attended the monetary conference at Earl Hall, Columbia College, October 15, and heard Mr. Joseph T. Talbert, vice president of the National City Bank, talk about the receipt and collection of bank checks. He said that it cost the New York City banks more than $2,000,000 a year to col-collect country bank checks, and that it was honest, just, and fair to make a charge to the holders of these checks—at least as much as it cost the banks; that these checks were generally sent out to avoid the premium charged by country banks for drafts on city banks; that if the drawers of said checks wanted to make remittances they should go to their country bank and buy drafts on city banks. That the charge for exchange on drafts and checks and for collecting country checks, was as just and fair as the charge for interest on money loaned. That there was just as much reason to say that banks should loan money without interest, as that they should collect country checks without charge.

Now, I don't doubt, but Mr. Talbert believes what he said. He has been trained that way, he has expressed his opinion that way so often that he really believes it is the truth. It is the same old song, but it is a very poor one. It seems to me that anyone who looks at the check business with an unbiased mind from all sides, will see that Mr. Talbert is wrong.

Delphi, Ind., is my native town, where my father had been transacting a banking and other business for 53 years prior to his death in 1890. I came to New York in 1892, but still continue the banking business at Delphi.

Soon after coming to New York I was in the Ninth National Bank and conversing with H. H. Nazro, the cashier. He said: "Why, people come in here with $10,000, $15,000, and $20,000 worth of country-bank checks and want us to give them credit for them; no bank can afford to run that way; why, we have $500,000 of our money in country-bank checks all the time." I said, "You just look at that from one side, Mr. Nazro; you have some $8,000,000 or $9,000,000 of the people's money on deposit all the time, perhaps one-half of it drawing no interest and the other half not to exceed 2 per cent; why is that money kept on deposit with you for so little interest when it could readily be loaned at 5 to 6 per cent? It is because the depositors can draw their checks against such deposits and send them all over the United States and pay their bills with them without cost or expense or friction, and these checks are taken up by the banks throughout the United States with their own money, usually at par, and sent back to New York and deposited. Now, if it were not for the bankers and the people receiving your checks, instead of demanding the money due them, and keeping the checks afloat, you would not have half the deposits you now have. Now, out in Indiana we have been taking checks on New York banks at par for more than 40 years and sending them back to New York for deposit, and the New York banks have never furnished us one dollar of money to help do such business." He replied, "Well, you find your New York exchange when you get it very available, don't you?" I answered, "Well, we find it about this available: We have sold New York exchange to our customers at par for more than 20 years. Whenever there is a large corn, wheat, oats, or hog crop to be sold it is largely paid for in New York exchange, for a large part of which the money is wanted by the holders of the New York exchange, and we soon run out of money and have to send New York exchange away and have money shipped in by express at not less than 40 cents per $1,000. Then, after losing our time, trouble, interest on our money, and express charges, we are just back where we started from. Then when our checks are presented (in volume less than one-fourth of the New York checks presented to us and handled by us without charge) to New York banks, instead of treating them in the same courteous manner, they tell the holders they can not afford to handle them without pay, although we are at all times willing to pay them in New York exchange at par on presentation." He made no reply.

Now, Mr. Talbert estimates that the banks in the United States having $17,000,000,000 on deposit would have $850,000,000 of checks constantly outstanding. He estimates it costs the banks $8,675,000 a year to handle these checks, which he thinks would be a great burden unless they got paid for it. Now, what does $850,000,000 of checks constantly outstanding mean? It means that the banks, at least, have constantly the use of $850,000,000 of the people's money (worth 5 per cent interest, or $42,000,000 per year) on which they pay little or no interest. It really means they have the use of a much larger amount at a very small rate of interest. Paying and collecting the checks and keeping account of same is the principal part of the work the banks do for the depositors. If it costs $8,675,000, or even twice that sum, to get the constant use of $850,000,000, worth even, say, 4 per cent, or $32,000,000 a year, is it not a good paying business? But it means much more profit than that; it means that the banks have $17,000,000,000 of deposits, on which (if I remember correctly the statement compiled by the Comptroller of the Currency a few years ago for the Monetary Commission, which report I have in Indiana, but not here) they pay interest to the depositors averaging less than 1½ per cent. Can not the banks well afford to do $8,675,000 worth of work for said depositors in handling their checks, or two or three times that amount of work if necessary?

I believe debts should be paid at 100 cents on the dollar and not at 99¾ cents, or any other fraction of a cent less than 100 cents. If debts are to be paid at 100 cents on the dollar, then the medium of exchange in which they are paid, whether it be currency and coin or checks, must be handled by the banks and the people without charge or immediate profit. Checks can be handled by the banks at par at less expense and with more profit in the way of increased deposits and interest on same than currency or coin. All checks can be paid by banks in New York exchange at par with less expense and less liability of making mistakes, and more chance of getting same corrected when made, and with more profit than with currency or coin.

I believe banks have a right to charge a premium for New York exchange if they so desire; I believe banks have a right to receive money on deposit and charge exchange or discount or a premium for paying checks drawn on same, providing there is a clear understanding to that effect when the deposit is made, but I do not believe it is an honorable business for a bank to receive money on deposit and inform the depositor that his checks are worth par or can be used any place, and then when presented by mail refuse to pay them at par in exchange which the holder can use at par. I believe that whenever the banker receives deposits and makes such representations to the depositor he is in honor bound to see that the party or parties receiving such checks lose nothing in so doing.

About 9 or 10 years ago we got all our certificates of deposits and checks for the bank at Delphi printed payable in New York exchange and a contract printed on the pass books that the deposit should be paid in New York exchange, giving no option to the depositor to demand payment in money. There were then two other banks in Delphi and they both refused to take New York exchange for the checks they received on our bank or to give New York exchange for the checks received by us on them. I tried various methods to try to give and receive New York exchange instead of money for several months. I had talked with several bankers before as to whether it would hurt the business to get obligations printed payable in New York exchange and then refuse to pay money for them; some thought it would, others that if we did we would lose a lot of deposits, and others didn't know. Well, after trying it for several months and making no headway, both the cashier and the assistant cashier of our bank said, "Well, you might as well give that up; you will never get either of those banks to either give or take New York exchange, as they are too stubborn." But I said, "Well, it don't look very encouraging, but I will try it a little longer." It was but a few months longer when they were both giving and receiving exchange with but little friction. That greatly reduced the amount of money necessary to be kept in our safe. We have kept up the practice ever since, and for the past 7 or 8 years have generally carried less than 1 per cent of our deposits in idle cash in our safe, instead of about 8 or 9 per cent carried by the average country national bank.

We have given our depositors what we have saved by the more economical use of idle money, in the way of increased interest on deposits. Our deposits have increased in the past 8 years as much as those of all the other 12 banks and trust companies in the county combined.

Our deposits now (in a town of a population of 2,161) are larger than those of any other private bank in Indiana, larger than any private, national, State, or savings bank or trust company in any town in Indiana with not more than twice the population of Delphi.

I believe the part of section 17 of the proposed new bank law requiring Federal reserve banks to receive checks on deposit at par will, if it becomes a law, do much good, And if it brings about the result of inducing all banks in the United States to receive at par all checks which can fairly be used at par and refuse to receive at any price those which can not be fairly used at par, in a few years those bankers who met in Boston a few days ago will have their deposits so increased that they will be well satisfied with the change.

If you read this letter and are interested in it, please let me know and, if you desire it, I can give you many more details in the same line, and if you think these ideas are of no value, please also let me know by return mail, and oblige,

Very truly, yours, ABNER T. BOWEN.

[Extracts from the Boston Journal, October, 1913.]

THE CURRENCY BILL.

To the Editor of the Boston Journal:

Senator Owen, at the City Club last evening, presented the spectacle of a magnificent, splendidly magnetic, and supremely skillful avoider of issues. His side-stepping was superb. When he was asked where the gold was to be found to secure the proposed currency he not only confused gold reserve with gold certificates and asserted that the existing gold reserve constitutes an idle and useless fund, but made the astonishing statement that there is on deposit in the banks of the United States 1,100 million dollars in gold.

When one of the most eminent, if not the most eminent, of New England financiers, a man whose advancing years only add to his already amazing record of public service and testimony to his great mental and moral equipment, asked the Senator from Oklahoma why it would not add to the admitted value of the currency measure to put the Federal reserve board on a plane similar to that of the Supreme Court, the members of which are appointed by the President for life, Mr. Owen replied with deplorable flippancy, "Men live too long." He elaborated this remark by a fatuous statement that age brings infirmity, and each failing that he mentioned in his enumeration was only saved from being an insult because it was ludicrous in contrast with the brilliancy of the venerable questioner. He did not specify which of the mature minds which do honor to the Supreme Bench is so afflicted. He admitted with be-coming humility the excellence of that body for its purpose, without calling attention to the interesting fact that the Supreme Court is composed of lawyers to interpret law, whereas the proposed reserve board is to present the edifying spectacle of supreme power in American finance administered by political appointees who may or may not have had, with one exception in seven, any previous experience in the intricate and delicate business.

Mr. Owen cogently deposed that although one bank may and does handle with reasonable efficiency the business of a Germany, a Great Britain, or a France, yet any of these nations could be set into the Empire State of Texas without causing a tightening of its boundaries. There was, of course, no mention of the comparative volume of business handled.

It is small wonder that the sober business minds of America are brought to a pause when matters of so great and vital importance are intrusted to men who bring to their stupendous task flippancy when they see, charged with the mission of defense and explanation, an artful dodger.

X. Y. Z.

BOSTON, *October 24, 1913.*

THE CURRENCY BILL.

TO THE EDITOR OF THE BOSTON JOURNAL:

Perhaps I may be permitted to illumine the subject of the currency discussion at the City Club and the issue raised by your correspondent in Saturday's paper who signs X. Y. Z.

While statements can not be made too strong in protest against political control of all our commercial credits and banking and currency issues, I think it is due to Senator Owen to say that the question I presented to him at the City Club as to where the gold was to come from to back up the proposed currency scheme was more embarrassing than would appear on the surface.

Gold discount markets are very little understood. England has maintained her financial supremacy and her gold base by an international discount market, in which between 2,000 and 3,000 millions in short-term bills are always in London as the financial center of the world, and these can command gold, or the cotton, coffee, and other merchandise behind them can be sold right out of the warehouse for gold, in any quarter of the world.

It is this gold base in the international bill market that gives London command of the gold without having it either in the Bank of England or even in the island of Great Britain. In the past few years Berlin, Paris, and Vienna have started to set up discount markets of their own to rival England, but altogether, outside of London, they can not get in Europe one-half, and possibly not one-third, the strength of England. Indeed, the Reichsbank of Germany is continually buying bills in London in the vain hope of being able to command the London supply. But she makes little progress in getting the gold into her own country, for the moment she calls for gold in payment of bills London demands the gold from South America or some other quarter doing business with Germany, and there is an immediate offset.

Now, the question I put at the City Club to Senator Owen was: "Where are you to get your gold upon which to bank your currency legislation? You do not command it of the banks. The United States Treasury has not more than $100,000,000 of free gold and the discount market from which you expect to get it is yet to be established. Whence, therefore, will come your gold basis?"

Senator Owen responded most eloquently that there was a billion of gold in the United States Treasury. Of course, everybody knew that this was warehouse gold, but most people do not know that $700,000,000 of the warehouse certificates are in the pockets of the people. In fact, anybody carrying $25 and $50 in his pocketbook will usually find a majority of it gold certificates. Not one person in a hundred ever notices that the majority of his pocket money is in reality gold, title to which he holds through a warehouse certificate instead of a banking certificate.

Senator Owen further claimed that the banks will put in gold and that the ability of the Government to command gold should not be questioned.

This is what your correspondent calls "side-stepping."

Senator Owen could not, of course, explain from that platform that he has in mind a plan for the issue of Treasury gold notes to take up both the greenbacks and the gold certificates, which he later explained to me and which, if it were inaugurated by the Congress of the United States in connection with its currency legislation, would put a back-log of gold under our banking discount and currency system that would make the United States invincible before all the world in any expansion that might be projected from such a gold base, for under Senator Owen's plan more than one-sixth of all the money gold in the world might find free lodgment in the United States Treasury to be used only in stress or necessity, when the Treasury might have to come, in the form of gold notes or gold metal, to the support of the national banking system.

In England the first thing the governor of the bank does in time of financial peril is to get the authority of the prime minister to suspend the bank act, which means power to issue unlimited Bank of England notes upon the existing reserve, to stay the hand of panic or financial fright.

I write this in justice to Senator Owen, to whom the members of the City Club should be doubly grateful for his acceptance of Mr. Winship's invitation to address them and discuss any problems in connection with the proposed currency legislation they might present.

Very truly, yours,

CLARENCE W. BARRON.

BOSTON, *October 27, 1913.*

(Thereupon, at 4.35 p. m., the committee adjourned until to-morrow, Tuesday, October 28, 1913, at 10.30 o'clock a. m.)

(The further proceedings of the committee were had in executive session.)

INDEX.

[Roman numerals indicate volume of hearings.]

○