

FEDERAL RESERVE BOARD
WASHINGTON

X-3169
July 18, 1921.

SUBJECT: Remarks of Bank Official Against Wisconsin
Non-Par Bill.

Dear Sir:

I enclose herewith for your information mimeographed copy of a portion of the remarks made by the Cashier of a state bank in Wisconsin before a joint committee of the Wisconsin Legislature, against a bill seeking to provide for the payment of exchange on checks and prohibiting notaries from protesting for non-payment in cash checks presented by agents of the Federal Reserve Banks. This bill was defeated in the Wisconsin Legislature.

Very truly yours,

(Enclosures)

G o v e r n o r .

TO ALL F.R. AGENTS.

X-3169-A

EXCERPTS FROM ARGUMENT MADE BY W. H. DOYLE, CASHIER
STATE BANK OF PLATTEVILLE, WIS. BEFORE THE JOINT COMMITTEE OF
THE WISCONSIN LEGISLATURE AGAINST AN EXCHANGE BILL KNOWN AS
375 S.

Mr. Chairman and Gentlemen of the Committee:-

This bill is one of the most contemptible measures that has come before this session of the legislature in that it attempts by law to do the following things:

To secure a tariff, or a redemption fee on checks;

To demonetize bank checks of a portion of their monetary value;

To repudiate cash payment of checks;

To destroy their negotiability;

To exact tribute from innocent holders of checks;

To make it a misdemeanor punishable by fine or imprisonment for noting on such items the fact of their repudiation;

To make it impossible for a right of action, either in law or in equity, to be maintained against any bank that refuses to pay its obligations, except in exchange, and for a stipulated fee, if presented through the Federal Reserve Banks or its agents.

In addition to this bill of particulars I charge that it is an attempt to defeat, to discredit and to nullify, in so far as it is possible, the operation of the Federal Reserve Check Collection System.

The men who have appeared here today for this bill are clamoring for the Legislature to give their ideas on these matters the sanction of law. The question at issue in this bill is whether or not a certain coterie of Bankers in this country - for their own private gain, to be derived from the continued penalization of bank checks offered for redemption by helpless and innocent holders thereof, shall be able to defeat and undo a great nation-wide system of check clearance inaugurated by the Federal Reserve Banks -- devised not only to give us the most perfect currency in existence, but also to provide for its expeditious and economic redemption. We talk about service to depositors of banks -- there is no service that we can possibly give them that can be of greater usefulness than the means whereby their personal checks can circulate freely

thruout the length and breadth of this country without deduction for redemption -- and that necessarily means without deduction for exchange by drawee banks. It should be conceded by all fair minded men -- by men with any regard for economic law -- that the facilities for the transportation of credit, and for its redemption should be the very best obtainable. No one will question the need of converting the great mass of check liabilities always existent in this country, into service as bank reserves in the shortest possible time. No one should contend that this great mass of credit should be penalized for the privilege of circulating thruout the confines of this nation -- and least of all should the punishment be inflicted by the drawee banks who have profited most by reason of its circulation. If our commerce is entitled to freedom of the seas -- then bank checks, which constitute 95% of the circulating medium of the country, should enjoy the right and privilege of sailing the high seas of trade and commerce without being demonetized of a portion of their value for that privilege. An exchange charge by a drawee bank on a check coming home to it for redemption, filches in the last moment of that check's existence, a portion of its value that the drawee bank never warned its community it should suffer if it dared to depart from the community on a mission of service for its maker. There is no more justification for subjecting the Bank Check Circulation of this country to a charge for redemption than there is justification for subjecting the Bank Note circulation to a redemption charge -- indeed, there is less reason -- for is it not an undeniable fact that checks are an economic necessity in this day and age of our development; is it not an indisputable fact that they are the greatest economizers of credit which human ingenuity have devised -- performing a service that cannot by any stretch of the imagination be performed by Bank Notes, coin or currency? Notwithstanding the fact that checks in this country have reached a greater development than anywhere else in the world, constituting as they do a circulating medium that transacts 95% of the business and commercial transactions of the country, rendering in that degree a greater economic service than any bank note circulation could possibly provide, effecting, daily, an economy of credit impossible to compute, functioning where currency or coin could not be provided or accepted -- in the face of these undeniable economic truths, there has developed a school of thought propounding the idea or propaganda that the Federal Reserve System has no business to be concerned about the check collection system of this country; that the scientific collection of bank checks, the economic redemption and the price paid for the privilege of having them redeemed, is an unnecessary function of any reserve system and should be outside and beyond the control and jurisdiction of that system.

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The doctrine is advanced that the Federal Reserve Bank shall be denied the right to accept from its member banks, either for deposit or collection, checks on any non-member bank. (Gentlemen; I want you to note that). Whatever a few individual banks may think about it, the fact remains that the Federal Reserve System was established that we might have a monetary system dedicated to the interest of the general public; a system that should provide us with an elastic currency; a system that should create and summon credit not only into being but into service -- provide for its mobility -- control its redemption and provide for its retirement. These were the aims and objectives of the greatest piece of financial legislation ever enacted in the public interest. Shall the non-member State Banks be placed in the inconsistent position of holding the Reserve System to a strict accountability for an inexhaustible supply of currency to meet the nation's requirements -- for a volume of bank credit that shall sustain the entire credit structure -- and at the same time contend that these same Federal Reserve Banks shall by law be prohibited from handling for collection or deposit from its member banks any checks representing funds on non-member banks, thereby effectively preventing them from converting a great mass of member-banks' funds into Bank Reserves? Think of such a preposterous, monstrous proposition and ask yourselves whether or not the great progressive State of Wisconsin should lend itself to any such infamous cause or aid its advancement by the enactment of this vicious bill known as 375 S.

Every Bank's check liabilities, which we must not forget are the liabilities that we have prayed for and worked for -- should by every inherent right and act of justice -- be redeemed at 100 cents on the dollar. We who have profited and prospered thru efforts to popularize the use of checks -- we who have coveted these liabilities and have risen to strength and power in our communities as their volume increased -- shall prove ourselves ungrateful beneficiaries if we insist on a system of check clearance that shall make it possible for Banks to exact tribute from the innocent holders of these items. It is unthinkable that Bankers should desire to perpetuate a system of check clearance that may levy such tribute and thereby discredit the country bank circulation of this land.

Why should the country bank check circulation of this country be denied the privilege of discharging debts and commercial obligation as effectively as City Checks? Are the country bankers going to permit that injustice and discrimination to be practiced against their checks? Are the country banks willing to see their checking accounts flow into the city banks where this par service may be available? The Country Bankers are the men who should decry the infamies of the old exchange system which the defenders of this bill are trying to resurrect.

The intradistrict clearings of the Federal Reserve Bank last year (1920), without duplication, amounted to \$157,000,000.00. If the theory of the defenders of this bill is correct and just, then this plan ought to be universally adopted; we ought to abandon the present par clearance or nation-wide clearance program for all banks and inaugurate their system allowing all banks to reap the benefits of this 1/10 of 1% for the service of clearing checks. If a fee of 1/10 of 1% had been applied to the 1920 intradistrict clearings of the Federal Reserve Banks alone, it would have cost the public and the business interests of this country \$157,000.00 for exchange on those items alone, not to say anything of what it would have cost for the items that were cleared outside of these banks. They handled 450,000,000 checks aggregating this vast sum for the benefit of member and non-member banks without the cost of a dollar to any bank or the general public. If the Federal Reserve Banks had been obliged to pay every bank 1/10 of 1% on this amount of clearings, their entire earnings from every source, would have been insufficient to cover this exchange item alone. If the present system of clearance and collection is abolished, then the public is confronted with the duty of absorbing a tax of approximately \$250,000,000 as has been estimated. Who shall provide the clearance system when you have destroyed the Reserve system of clearance now operated by the Reserve Banks without cost to the Banks or the public? The City correspondent banks will be expected to provide free par facilities for all banks including these men who are here today clamoring for exchange. The City Banks cannot -- will not -- and should not be expected to render this service without cost, and the result will be that city banks will require a collection fee on every check they collect, and every bank will be obliged to assess their customers and all depositors with a fee for every check collected on an outside point. Thus, the usefulness of bank checks as a circulating medium will have been materially destroyed. No business concern outside your community will accept, if this bill goes into effect, a Wisconsin Check because of the fact that its negotiability will have been practically destroyed. Who would accept a check that may be repudiated and which by statutory law has been robbed of the rights of a negotiable instrument? The result would be confusion in the business world -- the return of checks -- great embarrassment to the drawers of checks, the business houses who accepted them and the Banks who attempted their negotiation. They passed this infamous bill in North Carolina recently and the Banks in the Clearing House centers are refusing to accept items drawn on banks in North Carolina that cannot be collected thru the Federal Reserve Banks. Business houses in that territory are refusing to accept checks, at all, and are demanding payment in Post Office Money Orders, Express Orders and drafts that will not be penalized, repudiated and subjected to the infamies of such a law as this Committee is asked to recommend for enactment.

Its defenders would have you believe that they are the victims of injustice at the hands of the Federal Reserve Banks, yet they do not hesitate to resort to policies of reprisal which would subject the general public and the business interests of this country to the grossest kind of injustice. They are clamoring for special and autocratic privileges. At the present time, they do not want to pay their checks in exchange; they do not want to pay them by shipping currency without cost; they do not want to pay them over their counters in cash, when received from the Federal Reserve Banks. Since when has it become a crime or illegal for any holder of checks to present them for redemption in cash at the counters of a bank? They would like to adopt a scheme that would have the color and sanction of law to enable them to carry their contemptible theories into practice; they ask the cooperation of the legislature in assisting them to defeat the payment of checks in currency when presented by the Federal Reserve Banks or their agents. They seem to think it would be ethical, economic and constructive banking if the Legislature would lend itself to this scheme for repudiating cash payments on checks payable on demand in the hands of innocent holders. They would go a step farther and ask the legislature not only to legalize the suspension of cash payments in such instances, but to legalize the exchange penalty they would exact from the victims who, under the guise of law, would be compelled to accept exchange instead of cash. Realizing that their plans would run counter to the Negotiable Instruments Law, they do not hesitate to ask you to suspend the operation of that law as it relates to the protesting of checks for non-payment, taking it for granted that you will allow no such insignificant thing as the Negotiable Instruments Law to stand in their way in the enforcement of this ingenious clearance jugglery. They have the audacity to ask you to oblige them in making it a misdemeanor, punishable by a fine of not less than \$200 or 30 days imprisonment in the County Jail for anyone indiscreet or bold enough to indicate in words on the repudiated instruments the fact of their repudiation. To exempt themselves from all liability in the exercise of these autocratic powers they appeal to you to protect them by law from any action, either in law or equity, that might develop as a result of such high-handed tactics.

Under the Federal Reserve Par Clearance plan, millions of dollars in the form of checks, that formerly cavorted around the country that were constantly being shifted from one side of the continent to the other -- North -- South -- East -- West -- thru every conceivable channel to escape the deadly exchange tolls to which they were subjected under the old system, are now being expeditiously liquidated into credit and made available for service as bank reserves in one-half the time required under the old method of clearance. Is it an abuse of power to

make available for commercial uses these tremendous sums that under the old check clearance system performed no such meritorious service, but on the other hand were responsible for a fictitious, padded, pyramided and dangerous reserve? They tell us that it is a usurpation of authority and an abuse of power on the part of the Federal Reserve Banks to compel us to remit in exchange at par! Uniform and Universal par Clearance can only be brought about by the redemption of checks in Exchange at par, or currency. No non-member bank has been compelled by the Federal Reserve Banks to remit in exchange at par. Every bank has been given the option of remitting for its own checks in exchange at par or currency. No par clearance system can be made effective or possible without these requirements. Is it a usurpation of authority or an abuse of power on the part of any bank to require redemption of checks in currency? If we raise our puny hands and refuse to serve in making nation-wide clearance possible, then we desire to bear in silence and alone any grief or anguish suffered in redeeming checks in currency over our counters. Is it an abuse of power for the Federal Reserve Banks at great expense to themselves, to place this equitable, this reciprocal, this nation-wide service at the disposal of both member and non-member banks alike, without cost, giving them the option of remitting in exchange or currency? Is it an abuse of power to perform this economic service which enables the General public as well as Banks, to participate in its benefits, and that enables the drawer of every good check to know that the check of his bank is worth its face value anywhere in the discharge of debts and commercial obligations? I ask, will not that service -- made possible only thru the cooperation of all banks -- give checks on banking institutions an appeal they have never heretofore enjoyed? Is not that a service that will redound to the benefit of every bank? Is it not a service that will reflect credit on every bank whose cooperation made it possible? Facing a period of reconstruction in the world's finances when the observances of economic law is the bounden duty and obligation of every banker; when every ounce of our great banking power must be made available for the highest degree of service and the greatest possible usefulness, it ill becomes a minority body of Bankers to band together for the purpose of resisting and defeating the operation of an equitable, scientific, constructive and economic check clearance system, designed to serve as a unified transportation system in the mobilization of credit and banking reserves thruout the nation. There never was a time when sound methods and correct banking practices were so necessary. If bankers will not in these perilous times of reconstruction and readjustment, stand for the enactment and enforcement of economic laws; if they will not make some contributions to a system of banking inaugurated to eliminate economic wrongs, and to eradicate unsound and indefensible banking methods and practices, then they have defaulted in an obligation to their country and to their profession.

It took a world situation to demonstrate the worth and saving grace of the Federal Reserve Act. No one will attempt to deny that the commercial and industrial stability of the nation and its banks was preserved by the Federal Reserve Banking System, and that without it there would have been panic and disaster thruout the land, from which no bank could have escaped, and yet, notwithstanding the great service that the system rendered every bank, we witness the refusal of a relatively few banks (and let that be thankfully said) who are seeking to discredit, to obstruct and embarrass by every conceivable method, the system that in the hour of peril saved them from destruction. Why this sudden exhibition of ingratitude? -- Simply because the Federal Reserve Banks have asked them to remit in Exchange at par, or currency, for their own items only. Refusing to give their cooperation to a method of check clearancé which will make it possible to redeem checks everywhere at 100 cents on the dollar, and by their refusal to cooperate, putting themselves on record as being opposed to the redemption of their own checks at par -- at the same time asking and compelling correspondent banks to provide par facilities for their own selfish use, this same minority body of bankers ask that an indictment be drawn against the Federal Reserve Banks for usurpation of authority and abuse of power. I ask you, gentlemen, against whom should the indictment be drawn -- the accusers or the accused?

This bill is the old, old question of selfish and personal interest exemplified. Economic plans and scientific systems, sound principles and safe banking practices, always have and always will be opposed by those who think their own selfish interests may be affected by new or modernized methods. Must banking evils be tolerated; must the expeditious transportation and redemption of vast sums represented by bank checks be impeded and delayed; must checks be denied the right of travel thru all the avenues of commerce, without being scalped of a portion of their value for that privilege; must the public forego and be denied the incalculable benefits which par clearance would give us, in order that the selfish, private gain, the personal interests of a few banks may be perpetuated? If we believe that the rights and interests of the greatest number are paramount, we cannot fail to endorse the par clearance plan of the Federal Reserve Banks. If we feel that we are under no obligations to make any contribution to plans inaugurated to give our country every banking facility possible under modernized methods -- if we maintain that we are under no obligation to eradicate indefensible banking methods, and dangerous banking practises, then, indeed, limited is our conception of the duty we owe the public and the Banking profession.