Currency Reform.

SPEECH

OF

HON. JAMES McMILLAN,

OF MICHIGAN,

IN THE SENATE OF THE UNITED STATES,

Monday, October 2, 1893.

The Senate having under consideration the bill (H. R. 1) to repeal a part of an act, approved July 14, 1890, entitled "An act directing the purchase of silver bullion and the issue of Treasury notes thereon, and for other purposes"—

Mr. McMILLAN said:

Mr. PRESIDENT: Those who now have in charge financial legislation have given assurance that the monetary system of the United States is to be changed in several particulars. The repeal of the silver-purchasing clause of the Sherman law, they say, is to be but the beginning of a monetary reform. Just what is proposed they are careful not to tell. Vague intimations as to legislation favorable to silver and as to the repeal of the tax on State bank circulation are in the air; and the tax repeal is said, on definite authority, to find favor in Administration circles. Doubtless the promises of a change are induced by the knowledge lately forced upon the people that some change is necessary to bring our currency system out of its present condition of unstable equilibrium.

It has been argued with great spirit that the Government can, and, on the other hand, that it can not by mere legislation create value in the form of money. Yet all nations do create value in otherwise valueless paper, merely by giving to that paper the legal-tender quality. On the other hand, experience has shown clearly that when the amount of Government issues exceeds the uses created for them by the Government, that currency declines in value when compared with the universal standard. So, too. mankind has learned that the only way in which any one nation can maintain gold and silver in its currency is by limiting the amount or the availability of that metal which is cheapest in the world's markets.

To-day this nation has essentially the same kind of a mixed currency that is in use in France, Germany, Holland, Belgium, Italy, and Austria. Each of these nations is on a gold basis: each uses silver coins which are legal tender to any amount and which are kept at par with gold by limiting the quantity; and each makes a large use of paper money issued either by the state or by banks chartered by the nation. England alone has both a gold standard and a gold currency. The amount of her bank-note issues is comparatively small and both law and policy tend to make them smaller.

By a process of natural selection this country has reached the

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point in currency evolution that the great majority of the commercial nations have reached. Our people do not favor a gold currency such as England has; they do favor the use of silver as a currency basis to the utmost extent consistent with the retention of a gold standard. Nor is there any objection raised on any side to the use of the present amount of greenbacks, so long as their convertibility is maintained. It is only to the small and necessarily diminishing issues of national-bank notes that any objection is made; and the sure approach of the day when such issues must cease, for want of a basis, makes the discussion of national-bank notes pertinent only in connection with schemes to broaden the basis of issue, or to give to State banks also the privilege of putting forth notes.

On the whole, therefore, it may be said that the people are content with the nature of their currency. The present discussion is as to the enlargement of one or the other of its elements. It is admitted that the constant increase in business calls for fresh supplies of money. The question is as to which element—the gold, the silver, or the paper—shall be increased; and in what manner this increase shall be brought about.

Perhaps it is not strictly correct to say that there is no objection to the use of gold as a constituent part of our currency. Every person who advocates the free coinage of silver by this nation alone is an opponent, by implication at least, of the use of the gold basis, for the inevitable result of the free coinage of silver must be silver monometallism. It is maintained by some that the power of the United States is so great that were this nation to open its mints to the silver producers other nations would speedily do the same, and that the result would be international bimetallism.

A careful reading of the report of the Brussels conference must satisfy any person that so long as England refuses to use silver as an unlimited legal tender, no European nation will again open its mints to free coinage. And, if by reason of Mr. Balfour's utterances on the currency question in an address delivered by him at the Mansion House, London, August 3, 1893, any are so optimistic as to put their faith in an immediate change of policy on the part of England, such an illusion must be dispelled by the recent reply of the present chancellor of the exchequer to Mr. R. C. Everett, M. P., in which letter he says:

> But it is of the highest importance in the interest both of this country and of other governments that we should not encourage expectations which we are not likely to fulfill. * * * Her Majesty's Government entirely adheres to the declaration made in the House of Commons, that any interference with the single monetary standard now by law established in this country is open to the greatest of objections. (See article in London Economist reprinted in New York Sun, September 17, 1893.)

After such an expression, international bimetallism must be postponed to the indefinite future; and this fact must be regarded in all currency legislation.

Forced to give up, for the present at least, the idea of international bimetallism and the free coinage of both gold and silver, we still have left the refuge of national bimetallism and the use of silver as unlimited legal tender within wide limits. Silver will be used to a greater extent than gold can be in the currency of each individual nation; and after the production of the white metal shall reach a normal basis, the value of silver will again increase, the supply being regulated by the demand, and the value being established by the cost of production.

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The use of silver in the arts: the demand for it as the only money used by the nations of the far East; the need of it to replenish the coinage of our own and European countries; all these causes will in time insure its constant production and give it a stable value, whereas the artificial stimulus given by the Bland or the Sherman laws tend to produce such wide fluctuations in value that thereby silver becomes unfitted for a standard.

II.

It is necessary here to note the difference between gold monometallism, such as England has attained, and national bimetallism, which is the condition of the other nations. The distinction is easily made; and the difference is very great. Monometallism, either of silver or gold, requires a currency in which the given metal plays the controlling part. Monometallic England is forced to keep a gold currency; but a nation may be on a gold basis without having any portion of its currency made up of gold, as is the case with Canada.* France is on a gold basis with a currency consisting of one thousand three hundred and sixty millions of silver and paper and only eight hundred and fifty-five millions of gold. Holland is on a gold basis with but twenty-five millions in gold and one hundred and thirty-five millions in silver and paper.

If a gold basis required a gold currency, then there would not be gold enough in the world to allow either France or the United States to replace its silver and paper money with gold money without bringing all other nations to bankruptcy. The essential condition of a gold basis, however, is that persons having a foreign debt to pay shall be able to convert the national currency, be it gold, silver or paper, into the international currency, which is the commodity gold. The United States should maintain its finances on a gold basis, because, as compared with other nations, it gets gold cheap. Not only is this country one of the great producers of gold, but the normal condition of our trade with other nations is such as to draw gold from them, both by trade balances and by importing capital.

There is a world of wisdom in the summing up made by that experienced and clear-headed financier, Mr. Bertram Currie, in his remarks at the Brussels conference.

The real desideratum for a nation—

Said he—

is to maintain a surplus of revenue over expenditure, and thereby fully establish and extend its credit. When that has been accomplished, it may command as much gold as it can profitably use, and failing such credit its monetary system can never rest on a safe foundation.

The revenues of the United States, until the recent depression set in, have shown a surplus, and doubtless they will do so again when business shall revive. If they do not, then it should be the first duty of Congress to establish such a balance. With a surplus in the Treasury and the authority given to the Secretary of the Treasury to issue bonds to insure the parity of gold and silver and paper, the United States may maintain a gold standard with a comparatively small stock of gold.

III.

As the Senator from Iowa [Mr. ALLISON] has well pointed out, neither of the great parties in this country has called for the

* Report of the Indian Currency Commission, p. 30.

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free coinage of silver, at the expense of the gold standard. At the same time there is a widespread belief that the struggle of the nations to obtain gold has made the use of that metal expensive to the nations, and that some mitigation should be found for the condition of affairs so aptly stated by Mr. Goschen to the House of Commons, when he said:

I feel a kind of shame that, on the occasion of two or three millions of gold being taken to Brazil or any other country, it should immediately have the effect of causing a monetary alarm throughout the country

He might well have said, throughout the commercial world.

What is the remedy? The ideal remedy is the free coinage of both gold and silver at such a ratio that either one may be used to pay a debt anywhere in the world. For that remedy we should continue to strive. In the meantime, the best way to reduce the difficulty to a minimum is the plan suggested to the Brussels conference by Mr. Van den Berg, the delegate of the Netherlands, and the head of the great chartered bank of his country.

Is there not a more effective means—

He asks—

for protecting ourselves against "the struggle for gold" which is to be seen to-day in a more intense form than ever, and which, it seems, must assume a far more acute and serious character still if the present conference should lead to no result? For my part, I believe that this means is already discovered. * * * In my opinion, a great step in advance would be taken if all the great central banks which are subject to the "limping standard" were to be guided by the example of the Bank of the Netherlands in the policy which they pursue with reference to the stock of gold they hold.

The Bank of the Netherlands is very miserly with its gold when it is demanded for home circulation, being of opinion that the coins of 1 florin and 2½ florins, together with the state notes for 10 and 50 florins, with the notes of the Bank of the Netherlands for 25 florins and upward are sufficient for internal exchange. Holland, which has not exactly the reputation of being a poor country, accommodates herself well enough to the lack of gold coins in her circulation. * * *

If the Bank of France, the Bank of Belgium, and the other banks could follow our example, they would see their stock of gold grow much larger than it is at present, and they would be able, with no inconvenience, to liberate as much as at any given moment would be asked of them for export, with the certainty of seeing it return to them shortly, as we have so often observed in the case of Holland. If no impediments were put in the way of the free circulation of gold, if it were allowed to come and go at the bidding of the temporary needs of the money market, we should see the course of business assume an entirely different aspect and calm would reign where, too often at present, a feverish and unreasonable agitation turns men's minds and business out of their proper courses.

I have made this lengthy quotation to show that the problem which disturbs us also weighs upon the minds of foreign financiers; for commerce, the great civilizer, has united all nations in a common peril and has brought them all into council for mutual help. Trade means commercial friendship, not warfare. We have friends, not enemies, across the Atlantic.

IV.

The amount of currency in any country depends on the stock of money multiplied by the rapidity of its circulation, which is another way of saying that "A nimble sixpence is better than a slow shilling." If some means can be found by which the rapidity of the gold circulation can be increased, the result will be the same as if the amount were increased.

Adopting Mr. Van den Berg's argument that gold should be reserved for international uses, let us see if some feasible plan can not be suggested for giving wings to gold, as we have given wings to silver, by the use of the certificate and Treasury note. I believe that it is not only possible to issue an international cur-

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rency based on gold; but that, before many years shall pass, the inventive genius of the world s financiers will overcome the present slow, tedio s, and waste ul methods of carting gold about the world. Within the year past over three hundred tons of gold have been transported across the ocean at an absolute waste of hundreds of thousands of dollars.

The cost to the Government in transporting gold from Washington to New York during the gold exodus a few months ago was $500 a day, the amount of the daily shipments being a million dollars. Within our own country it costs 50 cents to transfer $1,000 in gold, whereas the same amount of currency is shipped for 15 cents. The cost of sending a million dollars in gold across the Atlantic, including freight, insurance, interest, etc., is about $900. Add to this $500 for transportation from the Treasury at Washington to the subtreasury at New York, and the total sum required to deliver $1,000,000 in gold in London is $3,500. Moreover, during the time required for shipment this million dollars is absolutely withdrawn from the currency and locked up.

Mr. Baghot, in discussing the gold movement between Paris and London, well says:

> The expense of sending gold to and fro having been reduced to a minimum between the two cities, the difference can never be very great; but it must not be forgotten that, the interest being taken at a percentage calculated per annum, and the probable profit having (when an operation in three months' bills is contemplated) to be divided by four, whereas the percentage of expenses has to be wholly borne by one transaction, a very slight expense becomes a great impediment. If the cost is only one-half per cent, there must be a profit of 2 per cent in the rate of interest or one-half per cent on three months, before any advantage commences; and thus, supposing that Paris capitalists calculate that they may send their gold over to England for one-half per cent expense, and chance their being so favored by the exchanges as to be able to draw it back without any cost at all, there must nevertheless be an excess of more than 2 per cent in the London rate of interest over that in Paris before the operation of sending gold over from France, merely for the sake of higher interest, will pay.—*Lombard Street*, page 182.

If "a very slight expense becomes a great impediment" in the flow of gold between two cities where "the cost has been reduced to a minimum," how infinitely greater must be he impediment to the transportation of hundreds of tons of gold between New York and London, where for every hour require l in transit between the French and English capitals a full day is required for the transportation across the Atlantic, with the oce n risks added.

I have called attention to the waste and the difficulties incident to the transportation of gold between nations for the purpose of suggesting a method by which that cost may be reduced indefinitely, and at the same time gold may b made more quickly and mo e widely av ilable f r the payment of international balances.

Suppose the holder of gold bars were able to deposit them at a subtreasury of the United States and rec ive therefor a registered certificate of deposit payable at the United States subtreasury in New York (or any other subtre sury) in gold certificates of such denominations as the New York (or other holder) of the certificate of deposit might find most convenient. These gold certificates would at once become part and parcel of the currency of the country and could take the place of gold coin in bank reserves, while the actual gold rem ined in the subtreasury in which it was originally deposited.

Extend the operation one step further and pass from national to internation l certificat s. Suppose the own r of gold or gold

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certificates were able to deposit his holdings at the subtreasury in New York and receive therefor registered certificates calling for gold or its equivalent at the Bank of England, the Bank of France, the Bank of Amsterdam, or the Reichsbank of Germany. A small charge might be made to compensate for such shipments of gold as might be required to pay annual or biennial balances between the nations. These international registered certificates would at once pass current in every country which participates in the movement of gold, and would form an absolutely safe means of transfer not only among European nations themselves, and between those nations and the United States, but also with the politically unsettled nations of South and Central America.

From February 13, 1891, to April 1, 1892, the exports and imports of gold were over $113,000,000; the net loss of gold to the United States was $40,680,137. The minimum amount in shipments saved by the use of certificates would have been $72,346,714. It is not the actual saving in transportation that counts, although this is no inconsiderable item. The main saving would be found in the freedom with which gold representatives would circulate, and the ease with which debts between nations could be paid through an international clearing house, if once an international currency, based on actual deposits of gold, and guaranteed by the issuing nations were to be established.

The plan outlined is neither new nor original. A plan for international clearing was presented to the London Institute of Bankers on November 18, 1885, by Mr. Henry Chevassus,* who advanced the proposition that warrants based on gold and silver should be issued, these warrants to be legal tender and capable of transfer by telegraph. Under such conditions, Mr. Chevassus maintained, there need be no greater fluctuations normally than half a centime above or below the metallic par between England and France.

Warrants would flock from all financial centers instantly on any monetary pressure occurring in any one of these. By this means, he maintained, the scramble for gold would come to an end and the reluctance of France to part with gold for export and the prohibitive measures of Germany would come to an end.

Substantially the same plan was advocated in the London Economist of December 14, 1889, by Mr. Ottomar Haupt, of Paris, who contends that by means of certificates the real par of exchange would at the same time be the gold point and the remitting rate of exchange through a certificate. He says:

> The very highest aim of several economists—the continuance of the gold bar or the value thereof, of one nation in the money of another, without any deduction for coinage expenses, and so on—would then, indeed, have been attained.

Again—

> all the charges incidental to the forwarding of gold bars or coins, as freight, insurance, nay, even loss on the standard bars, would henceforth be done away with, and even the postage of the letter would not be increased, seeing that in case of loss an indorsed certificate could not be trifled with. In one word, the procuring and forwarding of the certificate would involve no expenses whatever, and consequently the price paid for it will find its immediate and absolute expression in the rate of exchange itself.

Even though the advantage of the plan should prove much less than is claimed for it, our own experience with paper as a substitute for coin will readily convince an American that the

*London Economist, December 21, 1889.

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use of international currency based on gold would enable one dollar's worth of gold bullion to do the work of many dollars as at present utilized.

Since the movement of gold across the Atlantic is mainly between New York and London, the present Administration could not do a greater service to the business interests of this nation than would be done by opening negotiations with the British Government for a commission to arrange for cashing, at either the subtreasury at New York or the issue department of the Bank of England, of certificates issued against actual deposits of gold, and for such periodical clearings as might be found necessary. This would be the first step to an international currency, portions of which would, in time, be furnished by all countries having a gold basis.*

V.

It is contended that the appreciation of gold is one of the causes of the general fall of prices which has been going on the world over. Admitting that gold has somewhat advanced in value on account of its increased use among nations, the fall of prices is due mainly to competition brought about through improvements in production and the resort to more productive soils. Congress should never lower the standard of value for the benefit of the comparatively few debtors who years ago incurred debts measured in money of less value, when by so doing the result will be to lower the real wages of labor, and to reduce the standard of living among the great mass of the active and productive people of the nation.

The striking fact brought out in the report of the Senate Finance Committee on Wholesale Prices and Wages (see volume 1, pages 15, 179, 180) is that while there has been a considerable fall in the price of commodities, there has been an advance in the price of labor. Investigations carried on in other countries show that this advance is not confined to the United States, but that in every commercial nation the condition of the wage-worker has steadily improved and that his standard of living has advanced. Moreover, David A. Wells has shown that when measured in commodities, the real wages of the laboring man during what are called the "flush times" that followed the war really suffered a decline as compared with 1860. (Recent Economic Changes, page 417.) It is a sufficient objection to the free coinage of silver that it will raise general prices in this country, since in that rise the laboring man, as experience shows, must suffer.

We should ever strive to keep the standard of value steady and uniform: but better a slight fall in prices than a rapid rise in which the speculator and a comparatively few debtors shall reap the advantage at the expense of the man whose welfare is measured by his daily wage.

VI.

After all is said about the increased value of money, the chief reason for that increase is to be found not in the scarcity of money, but in the improvement of production, in the decline in cost of transportation, and the linking together of the markets

*The international certificate presents no greater difficulties than have been overcome already in the case of the international postal money order, whereby money deposited in any money-order office in the United States may be transferred by an order payable in one of twenty-nine foreign counties or colonies, at a cost of 1 per cent.

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of the world. The farmer in the middle United States has experienced a decline in the price of wheat, due to the fact that the Indian and the Russian farmer have become his competitors in the world's markets, while at the same time the resort to new lands in the West has increased home competition.

But the invention of farming machinery and the extension of railroads have decreased his cost of production, and every dollar that he has received has enabled him to command more of both the necessaries and the luxuries of life. He has seen his rate of interest decline from 10 or 12 per cent to 6 or 7 per cent; and at the same time facilities for the education of his children and the means of enjoyment have vastly increased for him. It is only when he comes to pay the principal of his debt, if he happens to be a debtor, that he is somewhat the worse off; and in the long run even the farmer would be the loser by reason of the free coinage of silver or any other method of creating a general rise in prices. It is true that he might get more dollars for his products, but he would also pay more for clothing, groceries, and those other commodities with which he has to supply himself. The only thing that will really benefit the farmer is to have his products rise in price while other commodities decrease. So long as his foreign and home competition in raising wheat increases, no decrease in the value of money will give him real benefit.

The farmer has suffered by reason of the fall in the prices of his products. The manufacturer and the trader have also suffered from the fall of prices of manufactured articles and commodities generally. Every mile of railroad that England has built in India has helped to reduce the price of wheat in America. The Suez Canal has reduced the value of wheat lands in Kansas. The competition of the Pacific ports with those on the Atlantic has become so keen that about one-third of all the wheat sent from the United States to England goes around Cape Horn.

What is the remedy for the farmer? Surely not a rise in general prices which would enhance the cost of everything he buys, while at the same time the value of his products is regulated by the demand and supply in foreign markets. His future prosperity depends, first, on the building up of cities to supply which he can diversify his products and thus in part escape from the effects of competition in wheat; and, secondly, in the fact that according to the best authorities the wheat acreage of the world can not be extended much beyond the present limit. When the ultimate limit shall be reached the value of food products must rise as compared with manufactures, and the farmer will then be able to command a larger share of commodities.

The argument that this country should continue the purchase of silver for the sake of the silver-mining and kindred industries will not stand. Silver has declined in value for the same reason that iron has. Taking the price of best refined bar iron as 100 in 1860, the tables submitted by the Finance Committee show that the price advanced until in 1864 it was represented by the index number 249.3. From that year there has been a pretty steady decline, so that in 1891 the price was 27.6 points below the price in 1860, and 176.9 points below the price in 1864.

With every fall in price the iron manufacturers were su e they could not maintain themselves, and profits have been cut down

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enormously: but improvements in machinery, the decrease in the cost of transportation, and the discovery of richer mines have all tended to a reduction in the price of iron, just as the same causes have reduced the value of silver. I venture to say that in the whole silver-mining section of the country the repeal of the silver-purchasing clause of the Sherman law will not work so much suffering as the panic of this year has already worked in the iron-mining regions of Michigan, Wisconsin, and Minnesota. One of the most experienced and most successful silver-mine owners in Colorado writes me as follows:

I believe in the repeal of the purchasing clause of the Sherman law. I believe that supply and demand should regulate the price of silver, and that the miners should regulate the supply. I believe that silver should be a legal tender up to $5, and used as a circulating medium. Let it be coined to supply the demand, and when redeemable in silver bullion the demand will regulate the supply.

The result of closing the silver mines has been to start work in the gold mines. The reports which come to the New York Sun from Colorado, Idaho, New Mexico, Oregon, and California show that capital and labor are now fast turning to the production of gold: that instead of men clamoring for work, they are combining to raise the price of their labor, and that during the present year the production of gold will be enormously increased.

VII.

One of the most common objections to the use of gold and silver and one of the arguments most relied on to justify an expansion of the paper currency is that there is not enough money in existence to pay the debts of the world. This is an argument much in vogue with men who claim to be friends of labor. How fallacious it is may readily be seen by examining the daily routine of business that is carried on through the various clearing houses. On September 1, 1893, the interest-bearing debt of the United States, exclusive of the $64,623,512 of bonds issued in aid of the Pacific railroads, amounted to $585,037,590. The bank clearings in seventy-seven cities for the week ending August 31, 1893, as reported by Bradstreets, amounted to $661,152,209.

In other words, in the leading commercial cities of this country during one week an amount of indebtedness in excess of the bonded debt of the nation was liquidated without the use of one dollar in money of any sort, kind, or description; and this, too, when the exchanges showed a decrease of about one-third of the normal amount. There is no greater fallacy than that which insists that debts are paid in money rather than in credits. And, further, in estimating the amount of currency it is necessary to take into consideration credits as well as cash.

The Treasury statement shows that the currency of the United States on September 1, 1893, was $25.01 per capita, and that the per capita in France was about $44; but the probability is that the use of banking facilities in this country so far outstrips those of France that doubtless we have in circulation a greater amount of currency per capita than has France or any other country on the globe. Even in London, the clearing house of the world, the sum of the weekly exchanges through the Bankers' Clearing House of that city fall hundreds of millions below the aggregate of those of the clearing houses in the seventy-seven reporting cities of the United States.

Whatever may be the evils of a scarcity of money the evils of an overabundance of money are still greater. When money be-

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comes so plenty that the persons to whose keeping it is temporarily intrusted use it to promote purely speculative schemes; when it is used to bolster up stocks and bonds of little or no intrinsic value; when, in a word, money is so plenty that it can be obtained readily to prepare the materials for a panic, then the evils of an oversupply become destructive beyond all calculation or conception. I believe that this country has suffered a hundred times more from the effects of an oversupply of money than it has suffered from a scarcity in the circulating medium.

VIII.

The chief use of money is as a basis of credits. At the present time 92 per cent of the world's business is conducted on credit, and only about 8 per cent is transacted with money. It needs no argument to prove that the most disastrous thing which can happen to the monetary affairs of a nation is to have its currency impaired. Better by far lose a portion of the money outright than have suspicion cast on the value of the currency as a whole.

While I believe that the money of the country should be maintained at a stable value for the sake of protecting the credits which furnish the lifeblood of commerce, manufactures, and business of every kind, I can not overlook the fact that bank credits are every day being impaired by other means than the impairment of the currency; and that while the banks appeal to Congress to protect them, and through them the people, from the evils of a debased standard, it is equally the duty of Congress to protect people and banks alike from certain vicious practices which some banks have adopted deliberately and others have been drawn into—practices more destructive to credits than the Sherman law has ever been. I refer particularly to the practice of the national banks in parting with the control of their reserves in order to secure interest on deposits made in other banks.

Congress undertakes to control national-bank credits by certain regulations to which every such bank must conform. I propose to show by the testimony of the most experienced bankers that the present regulations must be extended if the national banks are to do the duty which the people have a right to expect of them. I believe that the man of business, the manufacturer, the laborer, and the farmer—in a word, every member of the industrial system—has a right to demand of Congress that it shall legislate with regard to the national banks so as to prevent, or at least greatly mitigate, those sudden collapses of bank credits which with alarming frequency prostrate every kind of business, causing widespread distress and carrying destruction throughout the land.

The safety of banking depends on the size and the nature of the reserve. Unfortunately it is impossible to lay down any exact rule as to how much money it is necessary for the banks to hold in their vaults in order to make their depositors safe. The law does require a minimum reserve of 15 per cent for banks outside of the reserve cities, and of 25 per cent for all other banks, and it provides for closing any bank which allows its reserve to remain below the required amount.

Admitting that the law provides for a sufficient amount of reserve, provided that reserve were actually at the disposal of the bank, it can readily be shown that the law as it now stands

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permits the banks outside of the central reserve cities to part absolutely with from one-half to three-fifths of that reserve; and that by the payment of interest on the deposits made by other banks the national banks in the reserve and central reserve cities have built up a vicious system of banking, by which system panics are encouraged.

In making these strictures I have no fault to find with the bankers of this country as individuals. They are first of all business men, who give what attention they may to their duties as directors of banks, and in the evils which a bad system precipitates they as men of business are the first and sometimes the only ones to suffer. More than this, the practice of paying interest on deposits finds its most strenuous opponents among the bankers themselves, many of whom resort to it only when their dwindling deposits give warning that their interest-paying competitors are outstripping them in the race for commercial success.

IX.

Under the acts of 1887 and 1877 respectively, New York, Chicago, and St. Louis have become central reserve cities and some twenty-four others have become reserve cities. Of the three central reserve cities, New York far outstrips the other two.

The practical result of interest paying is to draw money to the central reserve cities, and particularly to New York. It has been estimated that as high as $80,000,000 of the reserves of the interior banks is often held by the New York banks. Hence it happens that the whole monetary system of the United States depends for its stability on the solvency of the New York banks. If at any time they are unable to meet their liabilities the whole banking system collapses. They are the link which determines the strength of the monetary chain.

Take for example the state of the reserves on October 2, 1890. The country banks, so-called, then held a reserve equal to 26.2 per cent of their deposits, or nearly twice the amount required by law. This reserve was divided as follows:

	Millions.
Specie and other lawful money	92.0
Due from agents	128.5
Redemption fund	5.2

In other words the country banks with an apparent reserve of more than double the amount required by law, really had control of but 10 per cent of their deposits. Manifestly their solvency depended absolutely on the ability of the reserve city banks to pay their debts; for nobody will contend that 10 per cent of cash is a sufficient basis to sustain a bank when even a rumor of trouble is abroad.

On the same date the banks in the reserve cities held reserves equal to 28.3 per cent of their deposits. They were 3.3 per cent above the legal requirements. Their reserves were distributed as follows:

	Millions.
Specie and other lawful money	68.0
Due from agents	61.0
Redemption fund	.7

In actual cash the reserve city banks held an available reserve of but 12.6 per cent of their deposits, and their solvency depended

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on the repayment of their deposits in the central reserve cities of New York, Chicago, and St. Louis.

On that date the St. Louis banks held in available cash less than 21.3 per cent of their deposits. The Chicago banks were 5 per cent above the limit required by law and the New York banks were 2.8 per cent above the limit.

A month later, on November 12, 1890, the banks of New York confessed their inability to pay their obligations in cash, and resorted to the device of issuing clearing-house loan certificates, which were not retired until February 7, 1891. The collapse of speculations in our own country and the Baring troubles in England precipitated a crisis that was prevented from becoming a panic only by the timely action of the Government, which between July 19 and November 1, 1890, emptied the Treasury of $99,000,000 of surplus spent in the purchase of bonds. During the present year no such surplus was available for the purchase of bonds, and the panic came with full force.

X.

The point to be observed is this: If the national banks, when supplied with the reserves called for by law and distributed as the law provides they may be, are unable to sustain themselves without the intervention of the Secretary of the Treasury, it is an imperative duty, now that the Treasury is no longer able to afford relief, to provide by law for larger reserves and more available ones. That duty is one which Congress owes to the people. The banks protect themselves by the issue of clearing-house certificates, which are in themselves a confession af temporary insolvency on the part of the banks as a body; but in their struggle for existence loans are curtailed, stocks are sacrificed, and the army of industry is put to rout.

Hon. Edwin S. Lacey, in the report of the Comptroller of the Currency for 1891, says:

> The monetary stringency culminated on the 15th of November, 1890, and its effects within thirty days thereafter had to a considerable extent passed away, so far as could be observed in the larger cities. Its effect on the country at large, however, still continued. Inability to place securities and to borrow money had arrested the operations of a great multitude of corporations scattered all over the country, and insolvency and failure had in a large number of cases ensued. Where failure did not take place new work was stopped, all credits were curtailed, and business in its various forms became greatly depressed. The growth of cities and villages was in many cases arrested, and the prices of city property, especially of a suburban character, became greatly reduced.

Mr. Lacey calls attention to the fact that under the present system of banking a general monetary stringency is felt first and most seriously by banks located in the larger of the reserve cities, in part because banking associations in those cities pay interest on bank balances in order to accumulate loanable funds.

Attention has been called to the dangerous condition of the bank reserve, even when they meet large requirements—a condition which demands prompt and effective treatment at the hands of Congress. I say at the hands of Congress, because the banks, while fully conscious of the source of danger, are powerless, in and of themselves, to work a remedy. I believe that the time has come when the New York bankers should maintain a much larger reserve than 25 per cent of their bank deposits, and that legislation should be enacted to put a stop absolutely to the payment of interest on deposits of banks. Occupying a position analogous to that of the Bank of England, and yet being

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weaker than that institution in times of stress, because both of divided responsibilities and also because of not being able to replenish their reserve by a rise in the rate of discount, the New York banks should not be content with a 25 per cent reserve when the Bank of England needs from 33 to 44 per per cent, and at times even more.

I have shown by figures taken from the reports of the Comptroller of the Currency how small the actual cash reserves of the banks in the country and the reserve cities usually are and how these banks, sending a large proportion of their reserves to New York, impose upon the banks of that city burdens which the nature of their loans and the character of the demands liable to be made on their deposits ill fit them to bear.

In the light of what has gone before, let me quote from the report of the Committee of Nine, which was prepared by that experienced and conservative banker, Mr. George S. Coe, and adopted by the New York Clearing House Association in 1873. The evils to which I have called attention, although acknowledged by the New York banks, have not been corrected, but rather have become more widespead.*

Mr. Coe's report applies as well to the crises of 1884 and 1891 and to the panic of 1893 as to the panic of 1873.

Banks—

Says the report—

are the natural depositories of the current capital of the nation passing into and out of active industry and commerce. The balances held by them are for the time specially reserved by their owners from permanent investment and kept subject to immediate control. * * * The custodians of such funds are consequently bound by the very nature of their trust to preserve them in their integrity and to apply them only in such ways as will prevent them from falling into inactivity, and also to hold such proportion in ready cash in hand as long experience has proved to be necessary to meet immediate demands in every possible emergency.

How the banks have recently failed to meet these necessary and reasonable requirements needs no discussion.

Mr. Coe continues:

No institution can, in the long run, purchase deposits of money payable on demand of the owners, and at the same time secure to itself a just and proper compensation for the business, without violating some of the conditions indispensable to the public safety. It must either use them in ways that are illegitimate and perilous or use them in excess. This has been abundantly proved by innumerable instances in years past, and the practice of paying interest for such deposits was unanimously condemned by the bank officers in 1857 as one of the principal causes of the panic at that period.

The panics of 1857 and 1873, as the bank officers themselves confess, were caused by the payment of interest on deposits, and yet the banks suffered the practice to continue until this year for the third time it has culminated in a panic.

A sharp and degrading competition has not only prevailed among banks in this city (New York), but has been excited as a necessary consequence in other places, where the far-reaching enterprise of some of our associates has led them in the pursuit of business. * * * Banks throughout the country have been aroused to enlist in the same destructive practices toward each other and in defense of their various localities. A premium has unnecessarily been given for business which, left to itself, would fall without cost into its natural channels, and adjust itself to such localities as the convenience of the people and the best interests of the country require.

Just here the report makes a most important point. It is the complaint of the West and the South that New York drains away their money. In so far as money naturally flows to the

* See New York Financial Chronicle, November 15, 1873.

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place where it is most needed, this complaint is unfounded. But in so far as the central reserve cities or the reserve cities create a dangerous and unnatural demand for money, the complaint is one that deserves not only the negative consideration of bankers, but also the positive operation of restrictive legislation.

Without such rivalry—

Says the report—

the resources of the nation would be so diffused among the banks as to give increased financial strength and stability to every part, and not only remove a great cause of irritation, but add to the comfort, efficiency, and profit of all.

Since the report was written this nation has escaped from an irredeemable currency, but we are still afflicted by the lesser ills which attend an inelastic currency. Like an irredeemable currency, it is superabundant in summer and scarce at the crop-moving season. At times money accumulates in New York. As the report says:

Legitimate commerce does not then demand it. It is still subject to instant call. There is consequently no resource but to loan it in Wall street upon stocks and bonds, in doing which so much of the nation's movable capital passes for the time into fixed and immovable forms of investment, and its essential character is instantly changed. Loans are made with facility upon securities which have no strictly commercial quality, new and unnecessary enterprises are encouraged, wild speculations are stimulated, and the thoughtless and unwary are betrayed into ruinous operations. The autumnal demand finds the resources of the nation unnaturally diverted from their legitimate channels and they can be turned back only with difficulty and public embarrassment.

Such has been our well-known experience year after year. Interest upon money has, as a consequence, fluctuated widely from 3 or 4 per cent per annum in summer to 15 or 20 per cent in the fall and winter upon commercial paper, and upon stock to one-half to even 1 per cent a day. Vicissitudes like these are utterly destructive to all legitimate commerce, and institutions whose operations tend to such results are enemies to the public welfare.

These are strong words to be printed over the signatures of nine of the leading bankers of New York City, but the facts show that they are none too strong. When the panic of 1873 began twelve interest-paying banks held about one-half the total deposits in New York, and the other forty-eight banks held the other half. The active demand for currency came first, as it always does, from that portion of the deposits due country banks, made timid by failures among their New York correspondents. The deposits were loaned largely in Wall street "on call." The banks, on undertaking to call these loans to fill their depleted reserves, not only shut off the borrowers from every resource, but also made stocks unsalable. In twenty-four days the legal-tender reserve dropped from thirty-four millions to five and eight-tenths millions. The interior banks, whose resources consisted mainly of debts due from other banks, found themselves unable to meet the demands of their depositors. For a time the whole monetary system of the country was in disorder; and it was not until the strong banks of New York came to the aid of their weaker brethren that the finances once more assumed shape.

On asking themselves what reforms are required in the operations of the banks with each other and the public to increase in security of their business, the committee "*first and most prominent recommend that the banks entirely discontinue the payment of interest upon deposits, whether directly or indirectly.*"

Unfortunately, the New York Clearing-House Association,

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while admitting the evil, took no effective steps to remedy it. So it remained to breed another panic.

Mr. FRYE. Is that limited to deposits made by other banks?

Mr. McMILLAN. Yes, deposits of other banks—country and reserve city banks.

In my judgment, the time has come for Congress to say that no national bank shall pay interest, or procure interest to be paid, on deposits, and the penalties for the violation of the law should be sufficiently stringent and sufficiently simple in their application to insure obedience. In this way each bank would seek uses for its money at home, the reserves would become more widely diffused; rates of interest on local loans would be less and money would be more available for domestic purposes; Chicago and St. Louis would increase in importance as money centers, and probably New Orleans and San Francisco would become central reserve cities. In this way the annual drain of money from New York for crop movements would be lessened, and the exchanges of the country would be put on a more conservative basis.

The objection to a law which should prevent the national banks from paying interest on deposits is that State banks, not being subject to such a provision, would gain enormously at the expense of the national banks, and that there is no hope of securing restrictive legislation in the various States.

The late John Jay Knox, in the report of the Comptroller of the Currency for 1873, recognized the force of this objection and proposed that a tax be imposed on all deposits which either directly or indirectly are placed with other banks, whether national, state, or private, with the offer or expectation of receiving interest.

Such legislation—

He says—

if rigidly enforced, would have the effect not only of reducing the rate of interest throughout the country, but at the same time would prevent the illegitimate organization of savings banks, which organizations should be allowed only upon the condition that the savings of the people shall be prudently and carefully invested, and the interest arising therefrom, after deducting reasonable expenses, distibuted from time to time among the depositors and to no other persons whatever.

Mr. MANDERSON. I should like to ask the Senator whether that course in savings banks has not led throughout the country to this remarkable condition: That profits have accumulated; that depositors have passed away, ceased to be depositors either by death or transfer of accounts or what not, and we have a condition such as obtains, we will say, in the saving institution or association of Cleveland, where there is an accumulation, I understand, of $15,000,000 or $20,000,000 that does not seem to belong to anybody.

Mr. McMILLAN. It is a pretty good security for depositors' any way.

Mr. MANDERSON. Exactly——

Mr. McMILLAN. I am only quoting John Jay Knox, who is an expert in banking, and who gave it as his opinion that that would be the wisest course. I understand that in New York State there is a law to the effect that the interest and profits of savings banks, after deducting reasonable expenses, shall be distributed among the depositors.

Mr. MANDERSON. There is, but would it not be better than

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the New York law or the suggestion of Mr. Knox to establish in this country the English system of postal savings banks?

Mr. McMILLAN. Possibly it would.

XI.

It may be that the simple prohibition of the payment of interest on deposits would not be sufficient to place the reserves on a basis of safety. If experience shall show such to be the case, the next step should be to increase the percentage of reserve to deposits. The average reserve of the New York banks is about 28 per cent. Those banks might be required to keep a reserve of 40 or even 50 per cent of the deposits of other banks. Even then the element of flexibility is absolutely wanting. The New York banks are restrained by the usury laws from adapting the rate of discount to the demands for money, and in this manner drawing cash from abroad or from the market.

In times of panic or crisis we have no method of filling the depleted reserves other than the harsh and dilatory one of forcing a fall of prices and so increasing exports of commodities in exchange for gold. The business community has great need of some means of turning securities into cash at will, and thus quickly and effectively preventing a crisis from developing into a panic. I believe that such a means would be supplied by giving to any holder of United States bonds the option of presenting them at any subtreasury of the United States as a special deposit and receiving for them legal-tender currency redeemable only in bonds.

The only objection to such a plan is to be found in the encouragement it gives to bank officers to throw off a part of this responsibility for prudence; but with proper legal safeguards to protect the reserves, the elasticity in the currency to be secured by the convertible-bond plan seems to me the best that can be devised to secure relief from the financial storm and stress that no amount of human prudence can at all times foresee.

There are other reforms which can be invoked to make banking more serviceable to the people; but by far the greatest part of the journey towards a sound monetary system will have been taken when Congress shall do three things:

First, provide for a currency every part of which shall always be maintained at par with the world's money;

Secondly, provide for adequate banking reserves distributed throughout the country as nearly as may be in accordance with the local business necessities; and,

Thirdly, provide a ready means of converting securities into cash and cash into securities according to the need for a more expanded or a more contracted currency.

These things accomplished, the quantity of money may well be left to natural business causes, which, in the long run, do determine the value of money in spite of all hindrances devised by man.

518

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