approval, and the case is now being considered preparatory to a report to Congress thereon.

A history of these State stocks and bonds may be found in House Doc. No. 263, Fifty-fourth Congress, second session.

PUERTO RICO.

An important question, which will no doubt demand consideration in Congress at an early day, is the money situation in Puerto Rico. The existing currency of that island consists of silver coins known as pesos and centavos. The peso is of the weight and fineness of the Spanish piece of 5 pesetas and corresponds in both respects to the 5-franc pieces of the Latin Union. Its bullion value, compared to the bullion value of the American dollar, is as 93.5 is to 100. The centavo is one-hundredth of a peso, and the smaller coins consist of pieces of 20 centavos and 40 centavos, these being the exact counterparts in weight and fineness of the Spanish pieces of 1 and 2 pesetas and the French coins of 1 and 2 francs.

The Puerto Rican coins bear no fixed relation to gold, not being anywhere redeemable in the yellow coin. They were introduced into the island by Spain in 1895, and by a forced exchange were substituted for Mexican coins, which had previously constituted the principal money medium. The best estimates obtainable place the volume of this silver money now circulating in Puerto Rico at 5,500,000 pesos. The fact that the Spanish Government put the same quantity of fine silver into the peso as it did into the 5-peseta Spanish coin indicates a purpose to have maintained the two on a parity. If so, the purpose was not accomplished; the Puerto Rican coins quickly fell below the value of the coins of the home government, and have since had no established relation in value to them. The oscillation in value as related to gold coin has been constant, rising and falling, as affected by the state of exchanges between Puerto Rico and its foreign markets.

It is unnecessary here to point out at any length the general evil results upon industry and commerce of a currency medium so out of harmony with the world's money as to induce a widely fluctuating rate of exchange. It may be instructive to consider them as illustrated in Puerto Rico. Situated as that island now is, with a circulating medium void of any established relation to the world's money of commerce—gold—it is exposed, to the fullest extent, to such evil results. A brief statement of facts will make this apparent. Dating back to 1894, the peso has oscillated in its power to buy sterling bills on London, or bills on New York payable in American money, as follows: In 1894 the average value of the peso, thus tested, was 65.76 cents; in 1895 it was 60.38; in 1896 it was 63.95; in 1897 it was 60.10; in 1898 it was 58.70. But these averages by no means represent steady, continuous values. Each year, each day of the year, the fluctuation has been wide. The limit of this fluctuation was, in 1894, 18 per cent; in 1895, 20 per cent; in 1896, 10 per cent; in 1897, 11 per cent.

Upon this wavering, uncertain, variable money medium the commercial and industrial affairs of the island have been conducted. The determining influence upon the value of Puerto Rican money seems to have been the state of the foreign exchanges. When exports of island products—sugar, tobacco, and coffee—were large, the desire to convert the value of these products, realized abroad, into the domestic money, creating as it did an extra demand for it, caused the peso to rise, or, what is equivalent, it caused exchange to fall. From whatever point viewed, the result was the same in its effect upon the producer—he was deprived of a just realization on his products. This unfortunate currency condition was a tax upon his enterprise and industry.

Contrariwise, when foreign bills were not in supply, because crops had been marketed, and when those engaged in importing wares and merchandise from abroad were under necessity of settling their accounts in London or New York, the offering of domestic money to the bankers and brokers in exchange for drafts on London or New York increased in volume, exchange rose in price, or, what is equivalent, the peso fell in its power to exchange for the world's money.

Whichever way looked at, the effect was the same in raising to the merchant, and through him to the consumer, the cost of all products purchased abroad. The domestic and the wage-worker were the unconscious but the real victims of these financial derangements. The only beneficiaries were the speculator and the exchange dealer, for to these two it is an axiom that the wider the range of fluctuation, the greater the range for possible profits.

It is highly important that American capital should find no obstacles in its transfer to and from Puerto Rico, if the United States and the island alike are to reap the benefits which ought to flow from their proximity, their new relations, and from the enterprising commercial spirit of our people. A wide difference in the rate of exchange, occasioned by the use of a differing and unrelated currency, is a serious obstacle to the transfer of capital, as it is to legitimate industry. The obstacle can and ought to be removed.

It is therefore suggested that, at the proper time, action be taken by Congress to assimilate the currency of Puerto Rico to that of the United States, so far and so rapidly as this can be done without unduly disturbing existing conditions and contract relations in Puerto Rico. This, it is believed, can be accomplished by making customs dues in the island payable in American money, yet receiving the silver pesos and centavos at a fixed relation to our dollar. The limited amount of Puerto Rican money would thus find an important avenue where a uniform value on the basis arranged would be realized. This avenue would probably be broad enough to give the assurance needed to keep the peso and its minor subdivisions current through the island at the custom-house valuation. If any doubt should arise as to the sufficiency of such a provision, it could be made the duty of the Secretary of the Treasury to give American coin in direct exchange for the Puerto Rican coin at the custom-house ratio whenever in his opinion it should be necessary so to do in order to maintain the ratio established.

The rate or ratio to be adopted should be determined by the fair average of the Puerto Rican coins during the last three or five years in their power to purchase bills of exchange on London or New York. If the information necessary for fixing the fair ratio be lacking, the subject might be referred to a commission of experts, who, after hearing testimony from merchants, bankers, and wage-earners in Puerto Rico, could undoubtedly fix the ratio based upon the specific facts presented to them.

From information fairly to be relied upon, it appears that the island coins have had a value in domestic exchanges and in the purchase of sterling bills considerably above their bullion value, measured by the world's price for silver. It would seem just and wise to adopt this local value in the establishment of a fixed ratio to the United States standard. To adopt the bullion value of the currency in fixing such a ratio would seriously disturb existing conditions in the value of wages and work injustice to contract relations between debtors and creditors.

If a laborer's wages be 1 peso per day, and the average power of that coin to purchase what his needs require be equal to 60 cents gold, then to reduce the value of the coin in which he is paid to 40 cents would by so much destroy the reward of his labor, although his nominal compensation should remain the same. On the other hand, to raise the value of the peso to the value of our dollar (though the disparity in weight and fineness between our silver dollar and the peso is small) would operate to increase the labor cost to the employer to a point where the product obtained might not justify by its market price the cost of producing it. This, of course, would depress industry and throw labor out of employment.

Again, the relations between debtors and creditors call for equitable and just consideration. It is estimated that in the form of mortgages, etc., there is an indebtedness of some twenty or twenty-five millions, and that the current shorter-time credit obligations aggregate about the same in amount. The average value of the peso for some time past is the best measure of the value that was transferred when these evidences of debt were issued. To make an arbitrary change so as either to enhance or reduce its general average value would therefore work hardship and injustice. The average power of the peso, while widely fluctuating between the two limits, has ranged from 160 to 190—that is to say, at times 160 pesos were as effective in paying a debt or buying goods in London or New York as 100 American dollars; at the other extreme, it has required 190 pesos to be as effective as 100 American dollars.

Subject to correction from a better knowledge, I think all interests would meet in giving a fixed value of 166⅔ to the peso—that is to say, the peso shall be maintained at the value of 60 cents, first by receiving it in payment for customs at that price; second, by giving for it, when required, American money at that rate of exchange. It is by a similar process that our own silver money has been kept on a parity with our gold coins.

It is not contemplated in the considerations here presented to retire the Puerto Rican coins—certainly not until the coins of the United States have become familiar and acceptable to the people. There are three things to which a simple people cling with tenacity—their language, their religion, their money of account. The peso and its fractional part, the centavo, are terms made familiar, by use, to the laborer and the tradesman. These coins, valued and fixed as above suggested, would no doubt for some time be preferred to the American coin, which to their minds would present the apparent contradiction of a coin of the same material, possessing less bulk and weight, yet carrying with it a higher exchangeable value. They would doubt at first, refuse to believe, and cling to the terms "peso" and "centavo," rather than adopt the really effective ones, "dollars" and "cents." Therefore the peso, if received through the custom house or for other taxes, or if received in exchange for American money at the Government agency, should be again disbursed or reexchanged as demand from the people might require. In fact, it may be necessary, in order to give absolute steadiness to the peso, not only to receive or redeem it at a fixed price to be again disbursed at the same price, but it may also be necessary to coin at our mints an additional amount of pesos and their fractional parts for use in the island. If, as suggested, customs dues be made receivable in American money and the peso be received as equal to 60 cents, there is little or no danger that it will fall *below* that value anywhere in the island. Being effective at 60 cents for customs dues, it will not be exchanged elsewhere for less. But this would not prevent its rising *above* that value.

It is now apparent that the influx of American money is having the effect to give the peso a higher value. The peso being the domestic money, familiar to all the people of all classes, it becomes desirable to exchange American money for the domestic, and the pressure to do this raises artificially the exchangeable price of the peso. The broker and the money changer know how to make the most of the opportunity. To counteract this operation, which tends to repress the introduction of capital in the form of money, it may be necessary, as before stated, to coin on Government account an additional stock of the domestic money, which shall be freely offered in exchange at the uniform price, this new supply, together with the old stock, to be received at the custom house or otherwise redeemed at the same price.

At the risk of prolixity, which the importance of the subject might excuse, I submit this additional thought for such consideration as it may merit. The present Puerto Rican coins carry the emblems of Spanish sovereignty. Whether or not additions to the coinage be made, new coins should be struck, of the same weight and fineness, upon which should be imprinted proper emblems of our new relations, and these should be substituted for the old. By melting up the old as they come in and by paying out the new, such a substitution can be easily and quite rapidly effected. Gradually, custom and use would establish American money, whether of silver, gold, or paper, as the medium of exchange and payment.

Then, it may be expected that the present Puerto Rican money will not be called for, American money and American terms of account and payment having superseded those now in use. Then, upon the Government—either of the island itself or upon the United States Government, as may be determined—the loss will fall resulting from the redemption of the Puerto Rican coins at an overvaluation. If the peso be rated at 60 cents, as herein suggested, and if the bullion in the coin remains at its present value of 40 cents, and, lastly, if the amount of the silver money referred to be correctly estimated at 5,500,000 pesos, the loss would amount to $1,100,000 American money. This would be the ultimate cost of relieving the island from the grievous ills of a bad currency system. The benefits would be immediate, and, it may be hoped, would be continuous for all time. The cost, when it began to be experienced, would be distributed over a series of years, and might easily be covered by proper appropriations from the revenues of the island.

The necessity of securing stability to the peso is fully recognized by all parties in Puerto Rico, although opinions differ as to the ratio which ought to be observed in relating it to American money. Suggestions have also appeared in favor of an immediate and coercive exchange of the insular coins for our money upon a ratio to be determined. While this could be made operative to introduce American money and American terms of account at an earlier period than by the course above recommended, it is open to some objections. It would throw confusion into the minds of the simpler-minded people and excite suspicion as to the purity of our intention. It would create an immediate deficit for the difference between the bullion value of their coins and the price for which they were exchanged. This deficit would have to be faced and provided for at once, while by the slower process that deficit would be spread over a period of years, and could be more easily met.

I have so far spoken as if silver coin were the only medium of exchange in Puerto Rico. Such is not the fact. The Spanish Bank of Puerto Rico, holding a franchise from the Spanish Government, has been privileged to issue its notes to the extent of three times its capital, and the note issues of this bank at one time outstanding have been as high as 2,500,000 pesos. Under the circumstances now existing the notes of the bank are not in favor, and it is not improbable that its affairs will be liquidated. This being so, the function which it has in the past discharged should be assumed and prosecuted, within proper legal limitations, by some one bank organized with ample capital and with the right to establish branches at convenient points, and to issue its own notes to circulate as money. Or, if this should not be favorably considered, then an act extending to the island the rights and privileges of the national banking system might merit approval.

NEW BOND ISSUE.

Under the caption of Loans and Currency, on page XXIV of this report, will be found particulars (in the way of information) as to the issue of $200,000,000 3 per cent bonds, authorized by the act of June 13, 1898. When the bill was reported, which after amendment became the law, some doubt was expressed by those best acquainted with such matters whether bonds bearing so low a rate as 3 per cent could be sold except at a discount. There were substantial facts cited in support of such opinion. The then recent declaration of war with Spain had disturbed the always sensitive conditions of trade and finance. The morbidly timid along our eastern and northern coast were in a state of more or less alarm. The simpler-minded depositors in savings banks made withdrawals of their funds; the commercial banks in the larger cities sympathetically suffered through loss of cash reserves to savings institutions. The rate of interest rose; the price of securities declined. Even old issues of United States bonds fell to a point where they would yield to the investor from 3.1 to 3.25 per cent per annum upon an investment then made. Such was the condition of the financial market in the latter part of April and the earlier part of May last.

There was another factor, however, which operated to insure a successful negotiation of the new loan at 3 per cent, which it is well to note. That factor was the self-interest of national banks. These institutions as a whole then enjoyed an unavailed-of privilege under the law to issue nearly four hundred millions in circulating notes. True, the condition precedent to the exercise of such privilege was the deposit of United States bonds, the price of which in the public market had so advanced as to destroy the motive of profit for the exercise of the privilege. Owing to the feature of the national banking act which restricts the issue of circulating notes to 90 per cent of the face of the bonds deposited as security, a 3 per cent interest bond at par, when used for the purpose indicated, yields better returns to the banks than 4 or 5 per cent bonds at the rate of premium then or now prevailing. It is demonstrable that the 3 per cent bonds at par would afford to national banks the means of obtaining through circulating notes a profit of substantially 1.4 per cent on the amount invested. That this profit would furnish a sufficient motive for the banks as a whole to take up $200,000,000 in bonds need not be argued; it is self-evident. These